



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 168
June 19, 2007; 8:00am – 10:00am*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order ISO meeting	C. Karnei	8:00am
2.		Adjourn to Executive Session		
	Decision required	2a. Approval of minutes (Vote) (04/18/07) (Vote) (05/04/07) (Vote) (05/16/07)	C. Karnei	8:00am
	For discussion	2b. Internal Audit status report	B. Wullenjohn	8:05am
	Informative	2c. EthicsPoint update	B. Wullenjohn	
	For discussion	2d. ERCOT credit review	C. Yager	8:25am
		Reconvene to General Session		
3.	Decision required	Approval of minutes (Vote) (05/16/07)	S. Vincent	8:35am
4.	Decision required	Vendor credit review	C. Yager	8:36am
5.	Decision required	Finance & Audit Committee Charter approval (Vote)	S. Vincent	8:40am
6.	For discussion	6a. 2007 Year-end financial projection	M. Petterson	8:45am
	For discussion	6b. Capital Project portfolio status	D. Troxtell	
7.	Informative	Briefing on preliminary 2008 budget schedule and assumptions	M. Petterson	9:05am
8.	Informative	Update on debt financing	C. Yager	9:15am
9.	Informative	Report of external auditor pre-approval status/limits	M. Petterson	9:20am
10.	Informative	Review the procedures for handling reporting violations	M. Petterson	9:25am
11.	Informative	Committee briefs (Q&A only)	All	9:30am
12.	Informative	Future agenda items	S. Byone	9:35am
		Adjourn ISO meeting		9:40am

*** Background material is enclosed or will be distributed prior to meeting. All times shown in the agenda are approximate. The next Finance & Audit Committee Meeting will be held Tuesday, July 17, 2007, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 168.*

Decision required
For discussion

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

7:30 A.M.

May 16, 2007

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 7:30 A.M. on **May 16, 2007**. The Meeting was called to order by Clifton Karnei, who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present
Miguel Espinosa, Vice Chair	Unaffiliated Board Member	Unaffiliated Board Member	Present
Nick Fehrenbach	City of Dallas	Consumer	Present
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Not Present
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member	Present
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Not Present
William Taylor	Calpine Corporation	Ind. Generator	Present
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Steve Bartley	CPS Energy	Municipal	Present
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present (For Mr. Gahn)

ERCOT staff and guests present:

Ashley, Kristy	Exelon
Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Day, Betty	ERCOT
Delenela, Ann	ERCOT
Fournier, Marguerite	Competitive Assets
Garcia, Diana	Maxwell Locke & Ritter, L.L.P.
Greer, Clayton	J. Aron
Grimm, Larry	ERCOT
Hancock, Misti	ERCOT
Jones, Liz	TXU - Austin Regulatory
Kolodzies, Eddie	Customized Energy Solutions
Lester, Suzanne	ERCOT
Maslon, Sharon	ERCOT
McElfresh, Brandon	ERCOT
Moseley, Cheryl	ERCOT
O'Desky, Amy	ERCOT

Petterson, Mike	ERCOT
Porter, Lea Anne	ERCOT
Schumate, Walt	Schumate & Associates (??)
Troxell, David	ERCOT
Twiggs, Thane	Direct Energy
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT
Westbrook, Susan	ERCOT
Wullenjohn, William	ERCOT
Zimmerhanel, A.J.	Maxwell Locke & Ritter, L.L.P.

Executive Session

At 7:32 AM, the Committee meeting was adjourned and the Committee went into Executive Session until approximately 8: 20 AM, when the Committee returned to Open Session.

Approval of Previous Minutes

Dan Wilkerson made a motion to approve the minutes of the April 18, 2007 and May 4, 2007 Committee meetings; Mr. Fehrenbach seconded the motion. The motion passed unanimously.

Confirmation of Approval of Internal Audit Committee Charter

Michehl Gent made a motion to approve the Internal Audit Committee charter as proposed by Mr. Wullenjohn, as attached hereto as Exhibit A; Robert Thomas seconded the motion. The motion carried by a vote of six to one, with Mr. Fehrenbach abstaining, due to his absence during the discussion of the Charter.

Approval of Finance & Audit Committee Charter

Susan Vincent noted that the only outstanding issue pertaining to the Finance & Audit Committee charter was the description of the Committees duties with respect to credit administration and oversight. The Committee discussed the differences between the language previously proposed and discussed at the March and April Committee meetings (included in the materials as Option 1), which provided a detailed list of the tasks to be performed by the Committee, and the alternative language submitted by Mr. Taylor (included in the materials as Option 2), which outlined the Committee's credit responsibilities in more general terms. Mr. Taylor explained that he preferred the language in Option 2, because Option 1 appeared to embody or create policies for ERCOT, a function which normally is inappropriate for the Committee charter and inconsistent with general business practice. Mr. Thomas concurred, noting that Option 2 is more consistent with common corporate practice. He also noted that a detailed list of duties could provide fuel for plaintiffs' lawyers.

Mr. Wilkerson noted that ERCOT is an unusual business entity – a nonprofit corporation whose role is to oversee the operations of customers who are also its "owners". He observed that the Committee's struggle with language might be the result of its defining its role to meet the expectations of customers as well as the PUC.

Mr. Thomas observed that a general charter would not preclude detailed action by the Committee, and Mr. Espinosa noted that the charter can set the tone, while details can be handled elsewhere.

Miguel Espinosa made a motion to accept the Finance & Audit Committee Charter, including the language included in Option 2 as set forth in Exhibit B; Mr. Fehrenbach seconded the motion. The motion passed by a vote of 5 to 2, with Clifton Karnei and Dan Wilkerson opposed.

Mr. Karnei requested that staff prepare a clean copy of the Committee Charter for the Committee's final review and recommendation to the Board for vote at the June 19 Board meeting.

Approval of Credit Work Group Charter

Cheryl Yager presented the revised Credit Work Group Charter, noting that the only change was to the first paragraph under "Qualification Guidelines for Credit Work Group Membership". Mr. Karnei confirmed with Ms. Yager that the Credit Work Group elections for chair and vice chair would be scheduled to be consistent with the elections of other ERCOT workgroups.

Dan Wilkerson made a motion to approve the Work Group Charter as presented and attached hereto as Exhibit C; Michehl Gent seconded the motion. The motion passed by a vote of 6 to 1, with Nick Fehrenbach opposed.

Update on Credit Review RFP

Ms. Yager indicated that, in response to the Credit Review Request for Proposal ("RFP"), she had received nine notices of intent to bid from acceptable vendors (a number of which were recognizable, knowledgeable firms). Ms. Yager presented the RFP schedule to the Committee, informing the members that the date for presentations by the short list vendors would be moved out by a week in order to accommodate the Memorial Day holiday. In response to questions by William Taylor, Ms. Yager informed the Committee that she had received approximately 90 clarifying questions from the potential bidders, with the primary substantive questions inquiring regarding the amount of detail of risks that ERCOT wanted reviewed. Ms. Yager told the Committee that she had notified the vendors that ERCOT wanted to have analysis of key risks only. Mr. Karnei asked Ms. Yager if the RFP asked the vendors to submit their proposals in phases or with components, so the Committee could select the desired components, based upon the available bids. Ms. Yager confirmed this was the case and told the Committee that the bidders had also been requested to bid on both a fixed and a time and materials basis.

In response to Miguel Espinosa's inquiry regarding the anticipated cost of the review, Mr. Byone stated that staff wasn't certain of the cost range to expect, and Ms. Yager added that, although the New York ISO had obtained similar reviews, the cost of the review would depend on the range of services and products (such as software tools) offered by the vendors. In response to a question from Mr. Espinosa, Ms. Yager indicated that the bidder's warranty was included in the criteria to ensure that any modeling tool provided by the bidder functions as intended.

Ms. Yager reviewed the proposed RFP selection criteria and noted that an ability to meet the scope of the RFP and the bidder's previous record of performance, services, and references appeared to be most important. She solicited the Committee members' input as to any other weighting factors they thought appropriate. Mr. Taylor requested that the bidders comment on the standard mitigation strategies and the potential for credit impact on the marketplace by such strategies. Ms. Yager confirmed that the bidders were requested to provide recommendations to quantify and mitigate risk.

Mr. Gent asked whether the selection criteria included consideration of the bidders' relationship to any Market Participants. Mr. Byone noted that membership in ERCOT would disqualify a

bidder. Ms. Vincent told the Committee that the RFP and ERCOT's professional services agreement both require the bidder to disclose any relationship with Market Participants.

Mr. Karnei requested a list of deliverables from each bidder, for the Committee to review at the June 19th meeting, and Ms. Yager responded that the RFP calls for a sample report to be included in the proposals. She also indicated that she was seeking metrics and recommendations specific to ERCOT, not just generic "best practices" recommendations. Mr. Karnei requested that at least one-half hour in Executive Session be set aside for the discussion on the RFP proposals at the June Committee meeting.

Authority for Additional Debt Financing

Mr. Karnei noted that, at the May 4, 2007 Committee meeting, the Committee had voted to recommend Board approval of (a) \$300 million debt financing, which is in addition to the 2002 Senior Notes, using bank financing, and (b) interest rate derivative products for up to \$130 million of the financing. However, Ms. Vincent noted that, because the meeting had occurred partially via teleconference, the Committee needed to either confirm this May 4th vote or take a new vote on the financing request and options.

Nick Fehrenbach made a motion to confirm the vote taken by the Committee at the May 4, 2007 Committee Meeting; William Taylor seconded the motion. The motion passed unanimously.

Final Money Purchase Plan Financial Audit

Lea Anne Porter introduced A.J. Zimmerhanzel, the audit partner assigned to the ERCOT account by Maxwell, Locke & Ritter LLP ("ML&R") and Diana Garcia, also from ML&R, who had conducted the final audit of the ERCOT Money Purchase Plan ("MPP"). Ms. Porter pointed out that this audit covered only the time period from January 1, 2006 through the March 31, 2006 termination of the MPP.

Mr. Zimmerhanzel noted that the short audit period resulted because the MPP was merged into ERCOT's 401(k) Savings Plan, effective April 1, 2006, and that the financials of the 401(k) Savings Plan for the entire year 2006 would be available later in the year. Mr. Zimmerhanzel informed the Committee that ML&R was issuing a "clean" audit opinion. Mr. Zimmerhanzel explained that the opinion provided by ML&R includes a disclaimer with regard to the information certified by the ERCOT plan custodian, Metropolitan Life Insurance Company; however, the ERISA disclosure rules do not require the independent auditor to examine information pertaining to a plan's investment income or assets held by a custodian or transactions executed by a custodian, if such custodian certifies the accuracy of such information. Mr. Zimmerhanzel confirmed to Mr. Karnei that the previous PricewaterhouseCoopers audits of the benefits plans had also relied upon the confirmation of the plan custodian and that Metropolitan Life Insurance Company had provided a clean SAS 70 report for the 2006 audit period.

William Taylor made a motion to recommend that the Board accept the audited financials for the MPP, for the period ending March 31, 2006; Mr. Fehrenbach seconded the motion. The motion passed unanimously.

Briefing on Preliminary 2008 Budget Schedule and Assumptions

Consideration of this item was deferred to the Board Meeting.

Update on Texas Regional Entity 2008 Budget

Prior to the arrival of Mr. Grimm, and in response to questions by the Committee, Ms. Vincent indicated that the materials provided by Mr. Grimm contained a new slide describing the process flow for handling NERC violations, but little other new material.

Upon Mr. Grimm's arrival at the meeting, Mr. Gent pointed out a provision in Mr. Grimm's presentation stating that the TRE will not use contractors or industry volunteers to assist with compliance and readiness audits, and asked whether this was a self-imposed limitation or was required by NERC or other regulatory authorities. He also questioned whether the current TRE employees have the expertise to conduct a compliance audit. Mr. Karnei joined Mr. Gent in questioning why the TRE plans to exclude contractors or volunteer experts.

Mr. Grimm indicated that the restriction was self-imposed and not required by NERC or FERC, as a result of doubts about the ability of volunteers or certain contractors to be truly independent, and he confirmed that other regional entities would use contractors and volunteers. Mr. Fehrenbach agreed, indicating that he had personal experience dealing with problems created by non-neutral contractors. Mr. Grimm also noted that he anticipated that using employees would ultimately be more cost effective than using contractors.

Steve Bartley inquired whether staffing for the anticipated workload and workflow would accommodate unexpected items like investigations. Mr. Grimm stated that he anticipates 30 to 40 audits next year along with participant self-certifications and other administrative work. He indicated that it might be possible to use contractors to perform investigations, but cautioned that the tight notice and report deadlines mandated by the PUCT may limit the availability of contractors.

Mr. Byone then inquired whether the exclusion of contractors and industry volunteers was intended as an operating policy, or merely a budget assumption. Mr. Grimm responded that was a budget assumption, and the TRE would be able to use contractors if appropriate.

Update on Nodal Surcharge Filing

Mr. Byone informed the Committee that the Public Utility Commission of Texas ("PUC") had ruled on ERCOT's requested Nodal surcharge, granting a fee of \$0.127 per MWh, effective June 1, 2007, which fee did not include the \$37 million in costs for Zonal/Nodal interdependent projects. Mr. Byone told the Committee that the PUC, ruled, by a vote of 2 to 1, that the \$37 million in costs for Zonal/Nodal interdependent projects would be paid for from the base system administration fee. Mr. Byone explained that ERCOT is required to file a surcharge actualization within one year of the "go-live" date, to adjust, if necessary, the surcharge to reflect significant variation in actual expenditures, and to provide a full reconciliation after the surcharge expiration, to confirm that the Nodal Surcharge enabled the recovery of only those costs incurred by ERCOT to implement and finance Nodal Program activity, excluding interdependent projects.

Committee Briefs

In response to a question from Mr. Karnei, Ms. Yager explained that the reason the Market Credit Status report showed a significant reduction in the number of QSEs was because the list had been recently updated to eliminate QSEs that were no longer involved in the market.

Mr. Troxtell reported that the PMO expenditures were currently about \$2.3 million under budget. The reduced spend was the result of timing issues caused by work on the Nodal project and other resource constraints. He noted that his group was trying to identify other projects that

could be completed this year, given resource constraints, but told the Committee that any excess funds would be rolled to the next budget year. Mr. Byone stated that he anticipates that the list of projects planned for 2007 likely will not be entirely completed because of the Nodal Project's drain on resources. Mr. Byone informed the Committee that he will provide an updated 2007 forecast, including anticipated project completions, at the June meeting.

Future Agenda Items

William Taylor suggested that the Committee schedule a special meeting to review the proposals submitted in response to ERCOT's Credit Review RFP. Mr. Karnei suggested a teleconference executive session meeting on June 14 or 15, if ERCOT staff could compile information from the RFP proposals by then. Ms. Yager agreed that she could compile the materials for the short-list candidates and notify the Committee members of the meeting time.

Adjournment

At 9:26 AM, the Committee meeting was adjourned and the Committee went into Executive Session until approximately 9:58 AM.

The next regular Committee meeting will be held on the morning of Tuesday, June 19, 2007.

Susan Vincent, Secretary



Internal Audit Department Charter (Exhibit A)

MISSION AND SCOPE OF WORK

The mission of the Internal Audit Department is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the Internal Audit Department is to determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- The systems of internal control established to ensure compliance with ERCOT's policies, plans and procedures, laws, and regulations are adequate and functioning as intended.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control process.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed properly.

Opportunities for improving management control, profitabilityeconomy, and the organization's image may be identified during audits. They will be communicated to the appropriate level of management.

ACCOUNTABILITY

The Director of Internal Audit is the Chief Audit Executive at ERCOT. The Chief Audit Executive (CAE), in the discharge of his/her duties, shall be accountable to management and the Finance and Audit Committee of the Board of Directors to:

- Provide annually an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

INDEPENDENCE

To provide for the independence of the Internal Audit Department, its personnel report to the CAE, who reports administratively to the Chief Executive Officer and functionally to the Finance and Audit Committee of the Board of Directors in a manner outlined in the above section on Accountability. It will include as part of its reports to the Finance and Audit Committee, a regular report on internal audit personnel.

RESPONSIBILITY

The CAE and staff of the Internal Audit Department have responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Finance and Audit Committee for review and approval.
- Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the Finance and Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Establish a quality assurance program by which the CAE assures the operation of internal auditing activities.
- Perform consulting services, beyond Internal Audit's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the Finance and Audit Committee and management summarizing results of audit activities.
- Keep the Finance and Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Finance and Audit Committee.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Finance and Audit Committee of the results.

- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

AUTHORITY

The CAE and staff of the Internal Audit Department are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the Finance and Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.

The CAE and staff of the Internal Audit Department are not authorized to:

- Perform any operational duties for the organization or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any organization employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

STANDARDS OF AUDIT PRACTICE

The Internal Audit Department will meet or exceed the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors.

William G. Wullenjohn Sr.
Director, Internal Audit Department
Chief Audit Executive

~~Thomas F. Schrader~~ Sam R. Jones
President and Chief Executive Officer

Clifton Karnei
Finance and Audit Committee Chair

Dated



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

Purpose

The Finance and Audit ~~committee~~Committee (the "Committee") of the Board of Directors of ERCOT (the "Company") shall:

1. ~~oversee~~Oversee the Company's budget process and adherence to budget, ~~and providing;~~
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 the Company's credit policies~~Review and make recommendations to the Board of Directors ~~re same; regarding investment and financial standards for the Company;~~
4. ~~ensure that the Company's financial statements are properly and effectively~~Review and make recommendations to the Board of Directors regarding credit standards, procedures, governance, ERCOT Protocols and other market rules which impact credit risk;
5. Ensure that the Company's financial statements are timely audited by qualified accountants who are independent;
6. ~~assist~~Assist the Board of Directors in fulfilling its oversight responsibility with respect to the Company's maintenance of an effective internal audit function;
7. ~~perform~~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 ~~or~~ to make any determination that the Company's financial statements are complete ~~and~~ accurate and in accordance with generally accepted accounting principles, and ~~it shall not be to assure compliance with laws, regulations and the Company's ethics policies. It is~~ the responsibility ~~or duty~~ of the Committee to conduct investigations, ~~and~~ resolve disagreements regarding financial reporting, if any, between management and the independent auditor ~~or to assure compliance with laws and regulations or the Company's ethics policies.~~

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 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 ~~one~~two or more of which must be ~~an~~ 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~~Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") 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~~CEO of the Company and shall have accounting or related financial management expertise.

The Committee may request that any officers or employees of ~~ERCOT~~the Company, 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. 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.

The Director of Internal Audit is the Chief Audit Executive at the Company. The Company's ~~senior internal auditor~~ Chief Audit Executive shall report directly to the Committee.— For administrative purposes, the ~~senior internal auditor~~ Chief Audit Executive shall report to the CEO.— The Committee shall approve an Annual Internal Audit Plan prepared by the ~~senior internal auditor~~ 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.

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

~~Three~~ 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~~ CFO, 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.

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

1. Establish standards by which the Company will invest 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 the Company's credit ~~policy~~ policies and standards:

1. The Committee shall review ~~staff's recommendations concerning changes to the the Company's credit policy established to ensure creditworthiness of market participants.~~ policies to consider:
 - a. ~~Following the Committee's review of staff's recommendations, the Committee shall~~Appropriateness of credit practices and creditworthiness standards established for market participants;
 - b. Compliance with existing creditworthiness standards by market participants;
 - c. Compliance with credit-related Protocols and market rules; and
 - d. Development of appropriate methods to evaluate and mitigate credit risk;
2. The Committee's review shall consider the recommendations of staff and the Credit Work Group and the decisions of the appropriate stakeholder groups, including the Technical Advisory Committee.
3. Following each such review, the Committee may, in its discretion, recommend to the Board of Directors any proposed changes to the previously approved credit ~~policy~~policies.

With respect to the independent auditors:

1. Annually, the Committee shall recommend to the Board of Directors the selection and ~~employment~~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.

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 ~~internal auditors~~ 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.

With respect to periodic reviews and reports:

1. Periodically, the committee shall meet separately with senior management, ~~internal auditor~~ 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.

~~5. The Committee shall discuss with the Board of Directors the matters discussed at each meeting of the Committee.~~

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 CFO, 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 Company's 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 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.~~

3. The Committee shall establish the Company's hiring policies for employees who are former employees of the Company's independent auditor's ~~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.~~
4. ~~Meet~~The Committee shall meet at least biannually with the independent auditor, ~~the chief financial officer~~ and the ~~senior internal auditing executive~~CFO 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 shall report to the Board the results of its evaluation, including recommended charter, membership and other changes, if any.



Electric Reliability Council of Texas, Inc.

ERCOT Credit Work Group Charter **(Exhibit C)**

I. Purpose and Authority

The Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) established the ERCOT Credit Work Group (CWG) as a group of credit professionals to help ensure that appropriate procedures are implemented to mitigate credit risk in the ERCOT Region in a manner that is fair and equitable to all Market Participants.¹

The CWG will review all sections of the ERCOT Protocols that impact creditworthiness requirements or collateral calculation and provide recommendations to the Finance and Audit Committee of the Board, with a copy to the Chair and Vice Chair of the TAC. The CWG will provide comments to the TAC subcommittees when PRRs, NPRRs or other actions have credit implications.

II. Reporting Relationships

- The CWG reports to the Finance and Audit Committee of the Board.

III. ERCOT Credit Work Group Functions

The functions of the CWG include, but are not limited to:

- Providing input to PRRs and NPRRs that impact credit in accordance with this Charter and Board approved credit policies
- Providing input to the ERCOT Creditworthiness Standards

¹ Capitalized terms used in this document shall have the meanings ascribed to them in the ERCOT Protocols unless otherwise noted.

In addition, the CWG may, from time-to-time, make recommendations to existing or proposed systems, projects, plans, Protocols and policies and procedures of ERCOT impacting credit issues.

The CWG shall not engage in any activities that conflict with or violate ERCOT Protocols or the ERCOT Ethics Agreement.

The CWG shall at all times comply with the Antitrust Guidelines for Members of ERCOT Committees, Subcommittees and Working Groups.

The CWG shall not have direct responsibility or authority over ERCOT Staff. Although the CWG will recommend courses of action, the responsibility for implementation of policies or procedures shall rest with ERCOT Staff.

In carrying out its responsibilities, the CWG shall be guided by industry best practices.

IV. Credit Work Group Administration

Each Corporate Member of ERCOT may designate one employee that meets the Qualifications Guidelines for Credit Work Group Membership as a voting member to participate in the activities and attend meetings of the CWG. The Consumer representatives on the ERCOT Board may each designate one person, that meets the Qualifications Guidelines for Credit Work Group Membership, as a voting member to participate in the activities and attend meetings of the CWG.

All designations of CWG members must be sent to ERCOT's Credit Manager.

The Chair and Vice-Chair of the CWG shall be elected annually by the CWG membership and confirmed by vote of the Finance and Audit Committee.

The CWG Chair shall report at least semi-annually to the Finance and Audit committee regarding the state of credit policy within the ERCOT Region. In addition, the CWG Chair shall notify the Finance and Audit Committee Chair of significant credit issues as they arise.

In order to discharge its responsibilities, the CWG may form temporary or ad hoc task forces. The CWG Chair, with CWG approval, shall appoint the chair for each task force for a term of one year or the duration of the task force which ever is less. Each task force chair may serve in that role for no more than two consecutive one year terms. The CWG shall direct these task forces and make assignments as necessary.

All task forces are responsible for reporting planned activities/projects and results to the CWG for review. All task force actions are subject to CWG review.

V. Meetings

A. Quorum

In order to take action, a quorum must be present. At least one CWG member from four of the seven market Segments listed below must be present at a meeting to constitute a quorum: Independent REPs (and Aggregators), Independent Generators, Independent Power Marketers, Municipals, Cooperatives, Investor Owned Utilities, and Consumers.

Each CWG member or CWG member's company represented on CWG may designate, in writing, an Alternate Member or proxy who may attend meetings and vote on the member's behalf. Alternate Members must be employees of same company as the CWG member designating them or may be agents with a contractual obligation to represent the interest of the Company designating them. Proxies shall not be counted toward establishing a quorum at a CWG meeting. If a CWG member wishes to designate an Alternate Member or proxy, the CWG member must send to ERCOT notification of the designation of such Alternative Member or proxy in advance of any meeting and the designation shall be valid for the time period designated by the CWG Member.

B. Meeting Schedule and Notification

The CWG shall meet at least quarterly to review credit policy. In addition, the CWG shall meet as needed to address issues as they arise such as PRRs or NPRRs as they are proposed or needed. Meeting notices and agendas shall be sent to the CWG distribution list and posted on the ERCOT website at least one (1) week prior to the CWG meeting unless an emergency condition requires shorter notice. Meeting notices for

emergency meetings shall be sent to the distribution list and posted on the ERCOT website and shall clearly identify the condition requiring the shorter notice. Except in cases of emergency, all agenda items requiring a vote of CWG must be published at least one week prior to the meeting at which the vote will take place. In the case of an emergency, all agenda items requiring a vote of CWG shall be published as soon as possible prior to the meeting at which the vote will take place and the need for the emergency vote shall be clearly identified. All CWG meetings may be attended by any interested observer.

C. Voting

Votes: At all meetings, each Segment shall have one (1) vote. CWG members present at the meeting and participating in the vote shall receive an equal fraction of its Segment's vote.

Abstentions: In the event that a CWG member abstains from a vote, the Segment vote shall be allocated equally among the members casting a vote.

Voting: In matters determined by the CWG Chair to require a vote of CWG or when any CWG member requests a vote on an issue, each CWG member shall have one (1) vote except that a CWG member holding a valid proxy for another member shall have one (1) vote plus one vote for each proxy held. A motion passes when (A) a majority of the aggregate of the fractional Segment votes are: (i) affirmative, and (ii) a minimum total of three (3) and (B) a minimum of 67% of voting individuals meet Qualification guidelines.

Any dissenting party shall have the right to present its position to the Finance and Audit Committee if such dissenting party chooses to do so.

E-mail voting: An e-mail vote is permitted provided a Notification is distributed to the CWG distribution list. An e-mail vote is subject to the same Notification requirements as other votes unless it is procedural only or has been designated as an urgent vote. A Notification must include a detailed description of the issue or proposition on which the vote will occur. A request for an e-mail vote shall be initiated only by the CWG Chair. A quorum of CWG members must participate in the e-mail vote.

Participation requires casting a vote or abstaining. Votes shall be submitted to ERCOT for tallying by the close of two (2) Business Days after ERCOT staff circulates the Notification of the vote. Votes are tallied

in the same manner as a regular meeting. The final tally shall be distributed to the CWG distribution list and posted on the ERCOT MIS.

D. Conduct of Meetings

The CWG Chair, or Vice-Chair in the Chair's absence shall preside at all meetings and is responsible for preparation of agendas. In the absence of the CWG Chair or Vice-Chair, another CWG member shall preside at the meeting. The CWG members shall be guided by Robert's Rules of Order in the conduct of CWG meetings. ERCOT staff shall be responsible for recording minutes of CWG meetings and distributing and posting on the MIS the minutes and other communications to all CWG members and any other parties who express an interest in receiving such information. ERCOT staff shall endeavor to distribute and post the minutes of each meeting within seven days after the date on which the meeting took place. Generally, at the beginning of a CWG meeting, the minutes of the prior meeting shall be reviewed and approved by CWG.

CWG members and Alternate Members must meet the qualifications as identified on the attached Qualifications Guidelines for Credit Work Group Membership. The Finance and Audit Committee shall review the requirements for membership in the CWG annually.

This Charter shall be reviewed and ratified at least annually by the Finance and Audit Committee.

Additional Questions on the ERCOT Credit Work Group

For additional questions on ERCOT's Credit Work Group and creditworthiness requirements, please contact the ERCOT Credit Manager, Vanessa Spells at (512) 225-7014 or by email at vspells@ercot.com.

Effective on May 16, 2007

Qualification Guidelines for Credit Work Group Membership

Other than a CWG member appointed by a Consumer Board member, each CWG member must be an employee of a Corporate Member of ERCOT (as defined in the ERCOT By-Laws) in good standing. All CWG members and alternate members representing a Corporate Member must be actively engaged in or responsible for the credit activities of such Corporate Member.

All CWG members and alternate members must have experience in at least one or more of the following fields:

- Risk management (preferably credit risk management)
- Credit management and analysis
- Development and/or execution of credit risk policies and procedures
- Establishment and control of credit limits and terms
- Finance and/or loan administration
- Credit ratings analysis
- Commercial credit analysis
- Financial analysis

CWG members are encouraged to be active participants on the CWG.

❖ **Timeline** (updated)

- ✓ April 30 – RFP released
- ✓ May 4 – Notice of Intent to Bid received
 - ✓ Received notice from 9 entities of their intent to bid
- ✓ May 11 – Clarifying questions received from bidders
- ✓ May 17 – ERCOT responses to questions
- ✓ May 23 – Eight (8) proposals received
- ✓ June 4 & 5 – Presentations by selected Vendors
- June 4-15 – Checking references
- June 19 – Update for F&A
- June 22 – Vendor presentations to interested CWG members and input from those members
- Date for special F&A meeting to review bids?

- ❖ **Narrowed from 8 vendors to 4 vendors**
- ❖ **Four finalists represent a range of possible solutions (and prices) from more simple to more complex**

4. Update on Credit Review RFP Cheryl Yager

- **Discussion**
- **Next steps**



Finance and Audit Committee Charter

Note:

*Redline version - Items in Red, as reviewed and approved from
May 2007 F&A meeting.*

*New insertion in Blue - As final change recommended for
submission of Charter for Board adoption.*

Clean version – Final recommendation for Board adoption.

Item #5



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

Purpose

The Finance and Audit ~~committee~~Committee (the "Committee") of the Board of Directors of ERCOT (the "Company") shall:

1. ~~oversee~~Oversee the Company's budget process and adherence to budget, ~~and providing;~~
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 the Company's credit policies~~Review and make recommendations to the Board of Directors ~~re same; regarding investment and financial standards for the Company;~~
4. ~~ensure that the Company's financial statements are properly and effectively~~Review and make recommendations to the Board of Directors regarding credit standards, procedures, governance, ERCOT Protocols and other market rules which impact credit risk;
5. Ensure that the Company's financial statements are timely audited by qualified accountants who are independent;
6. ~~assist~~Assist the Board of Directors in fulfilling its oversight responsibility with respect to the Company's maintenance of an effective internal audit function;
7. ~~perform~~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 ~~of,~~ to make any determination that the Company's financial statements are complete ~~and,~~ accurate and in accordance with generally accepted accounting principles, and ~~it shall not be to assure compliance with laws, regulations and the Company's ethics policies.~~ It is the responsibility or duty of the Committee to conduct investigations, ~~and~~ and resolve disagreements regarding financial reporting, if any, between management and the independent auditor ~~or to assure compliance with laws and regulations or the Company's ethics policies.~~

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 free and open communication between the Committee and the Company's independent auditors, internal accounting personnel and management and to ensure management maintains suitable evidence of compliance.

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 ~~one~~two or more of which must be ~~an~~ 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~~Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") 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~~CEO of the Company and shall have accounting or related financial management expertise.

The Committee may request that any officers or employees of ~~ERCOT~~the Company, 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. 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.

The Director of Internal Audit is the Chief Audit Executive at the Company. The Company's ~~senior internal auditor~~Chief Audit Executive shall report directly to the Committee.— For administrative purposes, the ~~senior internal auditor~~Chief Audit Executive shall report to the CEO.— The Committee shall approve an Annual Internal Audit Plan prepared by the ~~senior internal auditor~~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.

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

Three—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~~CFO, 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.

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

1. Establish standards by which the Company will invest 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 the Company's credit ~~policy~~ policies and standards:

1. The Committee shall review ~~staff's recommendations concerning changes to the the Company's credit policy established to ensure creditworthiness of market participants.~~ policies to consider:
 - a. ~~Following the Committee's review of staff's recommendations, the Committee shall~~ Appropriateness of credit practices and creditworthiness standards established for market participants;
 - b. Compliance with existing creditworthiness standards by market participants;
 - c. Compliance with credit-related Protocols and market rules; and
 - d. Development of appropriate methods to evaluate and mitigate credit risk;
2. The Committee's review shall consider the recommendations of staff and the Credit Work Group and the decisions of the appropriate stakeholder groups, including the Technical Advisory Committee.
3. Following each such review, the Committee may, in its discretion, recommend to the Board of Directors any proposed changes to the previously approved credit ~~policy~~ policies.

With respect to the independent auditors:

1. Annually, the Committee shall recommend to the Board of Directors the selection and ~~employment~~ 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.

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 ~~internal auditors~~ 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.

With respect to periodic reviews and reports:

1. Periodically, the committee shall meet separately with senior management, ~~internal auditor~~ 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.

~~5. The Committee shall discuss with the Board of Directors the matters discussed at each meeting of the Committee.~~

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 CFO, 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 Company's 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 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.~~
3. The Committee shall establish the Company's hiring policies for employees who are former employees of the Company's independent auditor's ~~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.~~
4. ~~Meet~~The Committee shall meet at least biannually with the independent auditor, ~~the chief financial officer~~ and the senior internal auditing executiveCFO 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 shall report to the Board the results of its evaluation, including recommended charter, membership and other changes, if any.



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

Purpose

The Finance and Audit Committee (the "Committee") of the Board of Directors of ERCOT (the "Company") 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;
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 free and open communication between the Committee and the Company's independent auditors, internal accounting personnel and management and to ensure management maintains suitable evidence of compliance.

Membership

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 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 ("CEO"), Chief Financial Officer ("CFO") 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 CEO of the Company and shall have accounting or related financial management expertise.

The Committee may request that any officers or employees of the Company, 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. 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.

The Director of Internal Audit is the Chief Audit Executive at the Company. The Company's Chief Audit Executive shall report directly to the Committee. For administrative purposes, the Chief Audit Executive shall report to the CEO. 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.

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 CFO, 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.

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

1. Establish standards by which the Company will invest 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 the Company's credit policies and standards:

1. The Committee shall review the Company's credit policies to consider:
 - a. Appropriateness of credit practices and creditworthiness standards established for market participants;
 - b. Compliance with existing creditworthiness standards by market participants;
 - c. Compliance with credit-related Protocols and market rules; and
 - d. Development of appropriate methods to evaluate and mitigate credit risk;
2. The Committee's review shall consider the recommendations of staff and the Credit Work Group and the decisions of the appropriate stakeholder groups, including the Technical Advisory Committee.
3. Following each such review, the Committee may, in its discretion, recommend to the Board of Directors any proposed changes to the previously approved credit policies.

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.

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.

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



2007 Year-End Financial Projection

Mike Petterson
Controller

Board of Directors
June 19, 2007

6a. Year-End 2007 Financial Projection

Mike Petterson

	2007 Budget	2007 Forecast	\$ Variance
Revenue Requirements			
Base operating expenses (excluding amortization and depreciation)	87,643	82,753	4,890
Principal repayment	26,137	26,137	-
Interest payments	8,031	7,343	688
Revenue-funded project expenditures	14,507	13,600	907
Subtotal - Revenue Requirements	136,318	129,833	6,485
Revenue, Other Income, and Interest Income			
System Administration Fee	130,420	128,859	(1,561)
Wide-area Network Fee	1,945	1,766	(179)
Generation Interconnection Study Fees	230	957	727
Non-ERCOT Load Serving Entity Fees	125	194	69
Membership Dues	250	265	15
Other Revenue	17	28	11
Non-operating Income	-	(8)	(8)
Interest Income	789	906	117
Subtotal - Revenue, Other Income, and Interest Income	133,776	132,967	(809)
Excess of Revenue, Other Income, and Interest Income Over Revenue Requirements	(2,542)	3,134	5,676



PMO 2007 Project Delivery Update

Finance & Audit Committee

June 19, 2007

- **2007 Project Baseline + Changes**
- **Impacts to Projects**
- **2007 Projections**

6b. Project Priority List

David Troxtell

Year to Date Project Priority List (PPL) Status

PPL Iterations	Origination	Project Phases								Deferred Projects	Subtotal	Grand Total
		Not Started	Initiation	Planning	Execution	Closing	Closed	On Hold	Cancelled			
Original 2007 PPL											79	
	PUCT	1			1	1		2			5	
	Market	1	1	1	3		1		4		11	
	ERCOT	20	2	10	9	3	2	1	3	8	58	
	Compliance			3				1	1		5	
	System Maintenance										0	
Unexpected Carry Over From 2006											22	
	PUCT						2				2	
	Market	1				2	2				5	
	ERCOT				7	8					15	
	Compliance										0	
	System Maintenance										0	
New Projects Added (Since PPL Approval in August 2006)											17	
	PUCT			1							1	
	Market		1								1	
	ERCOT	2	2	2	7	1			1		15	
	Compliance										0	
	System Maintenance										0	
2007 PPL totals as of January 31, 2007											118	
	PUCT	1	0	1	1	1	2	2	0	0	8	
	Market	2	2	1	3	2	3	0	4	0	17	
	ERCOT	22	4	12	23	12	2	1	4	8	88	
	Compliance	0	0	3	0	0	0	1	1	0	5	
	System Maintenance	0	0	0	0	0	0	0	0	0	0	
Totals by Project Phase		25	6	17	27	15	7	4	9	8	118	

- **Some projects have not started as part of normal managing of the enterprise portfolio**
 - Some in whole deferred to 2008 (ex. 6 Lawson projects deferred while application hosting is completed this year)
 - Some partially deferred to 2008 (ex. Some unexpected added projects pushed some efforts partially into next year)
 - Some waiting on approvals – (ex. MarketTrak Enhancements – waiting for SCR749 approval from Market)
- **Some projects have not started because of unforeseen events**
 - (see next slide)

6b. Unforeseen Issues/Variables Impacting Project Delivery

David Troxtell

Issue/Risk	Solution/Mitigation
<p>HP Unix to AIX Transition</p> <ul style="list-style-type: none"> -Human and Environment (mainly iTest & some Prod) -Timelines/milestones/windows – “domino effect” 	<p>Continue working with IT to schedule windows of opportunity to get work done.</p>
<p>Data Center Capacity Constraints (especially if AIX transition not on schedule as planned)</p>	<p>Same as above.</p>
<p>Resource Contentions</p> <ul style="list-style-type: none"> -Nodal -Attrition -Production Issues -HP to AIX 	<ul style="list-style-type: none"> •Update resource availability pool to determine demand/availability. •Acquire additional contract staff if appropriate.
<p>Projects on Hold/Not Approved by Sources (PUCT, IMM)</p>	<p>Work with sources to get direction on efforts.</p>
<p>TRE Project Impacts</p> <ul style="list-style-type: none"> -Funding provided by TRE, not ERCOT for Statutory Projects 	<p>As availability of resources allow, evaluate other programs for utilization of funds for critical and high priority projects.</p>

6b. CART Projections as of 5/31/2007

David Troxtell

CART (Executive Sponsor)	Budget	Projection	Difference	Committed to Date
CO (Byone)	6,120,000	6,263,081	-143,081	1,253,727
IO (Hinsley)	14,795,500	14,395,936	399,564	3,080,342
RO/MO (Giuliani)	6,379,000	4,771,913	1,607,087	1,726,506
SO (Saathoff)	16,165,000	15,440,892	724,108	6,432,277
Total	43,459,500	40,871,822	2,587,678	12,492,852

Note: Includes Zonal/Nodal dependent projects

6b. In Summary...

- **Expect to meet majority of PUCT and Market Project commitments**
- **Several ERCOT projects Deferred to 2008**
- **Anticipate total spend for year to be \$34M - \$40M (out of \$44M)**



Questions?



Briefing on Preliminary 2008 Budget Schedule & Assumptions

Mike Petterson

- **Funding**

- Nodal Program

- Costs fully recovered through the Texas Nodal Surcharge and will not be presented in the 2008 budget proposal
 - Inclusion Exception - Zonal/Nodal Interdependent projects funded through the System Administration Fee

- Regional Entity

- Statutory functions funded through NERC assessment
 - ERCOT compliance functions (non-statutory/Protocol compliance) funded through System Administration Fee
 - No change in regional entity organizational structure

- Market Monitoring

- No change in service anticipated
 - Continue to fund through System Administration Fee

- **Expenditures**

- Compensation and Staffing
 - Incorporate conclusions from PUCT workforce study (if available)
 - No change in employee benefit plans anticipated
 - Cost fluctuations to be shared between employer and employee
 - Incorporate merit and promotion funding consistent with market practices
 - Adjust for Contra labor to Nodal and Zonal projects
- Hardware/Software maintenance and support - no significant increases anticipated
- Expense Categories – include inflationary adjustment where appropriate

- **Project Funding**

- Funding ratio restored - 60% debt / 40% revenue
- Identify and prioritize projects through TAC & F&A
- 2008 revenue requirement includes specific funding for only those projects that are expected to be through the planning phase by December 31, 2007
- Remaining projects are on a “candidate list” and will be considered for implementation after planning is complete
- Include Zonal/Nodal Interdependent projects funded through System Administration Fee (if approved by PUCT)

- **Nodal Program**

- All hardware and software necessary to ensure the Nodal market is operational is funded via the Nodal Surcharge
 - Exception: \$37M Zonal/Nodal Interdependent projects
- Personnel resources and staff training required to operate Nodal market are acquired and conducted according to the Nodal Program plan and are funded via the Nodal Surcharge

7. 2008 Budget High-Level Assumptions

Mike Petterson

Date	Task	Status
Monday, Apr. 23	Executive Committee - 2008 Strategic Planning & Budget Discussion	√
Monday, May 7	Executive Committee - 2008 Strategic Planning & Budgeting Assumptions	√
Wednesday, May 16	Board Agenda - Strategic Planning & Budgeting Assumptions <i>(briefing & request for public comment)</i>	√
Friday, June 1	Budget Kick-off Meeting Instructions & Templates Distributed	√
Tuesday, June 5	PUCT Staff - Assumption & Timeline Discussion	
Monday, June 18 - Wednesday, June 20	Departmental Submittals reviewed by Directors/Divisional VPs	
Wednesday, June 20	Submit Departmental Budget Request	
Wednesday, June 20 - Friday, June 22	Calculate & Compile DRAFT Categorical Budget (Budget staff)	
Tuesday, June 19	Finance & Audit Committee Agenda - Budget/PPL Status Update	
Monday, June 25 - Friday, June 29	Preliminary Budget Review by Office-- VP/Director/Manager CFO Review Meetings Budget Revisions (as necessary)	
Monday, July 2	Executive Committee - 2008 Preliminary Budget Review (Company/Divisional levels)	
Tuesday, July 3 - Friday, July 6	Departmental Adjustments Based on Executive Review	
Monday, July 9	Executive Committee - 2008 Budget Final Review	
Tuesday, July 10	Begin Testimony Preparation	
Tuesday, July 17	Finance & Audit Committee Agenda - Preliminary Budget/PPL Presentation <i>(Courtesy copy to all Board members)</i>	
Tuesday, July 17	Public Meeting - Preliminary 2008 Budget Presentation (in conjunction w/Finance & Audit Committee Meeting)	
Wednesday, July 18 - Tuesday, July 31	PUCT Staff Review	
Thursday, Aug. 2	Finance & Audit Committee Special Meeting - 2008 Budget Review (if necessary)	
Friday, Aug. 17	Testimony - 1st Draft Due	
Tuesday, Aug. 21	Board Agenda - Finance & Audit Committee 2008 Budget Recommendation & Board Review	
Friday, Sept. 7	Testimony Finalized	
Tuesday, Sept. 18	Board Agenda - 2008 Budget Approval/Vote	
Wednesday, Sept. 19 - Thursday, Sept. 27	Review PUCT Fee Filing	
Friday, Sept. 28	PUCT Fee Filing	

NOTE

(1) Schedule assumes PUCT Fee Filing will be required

- **Moody's update re: Nodal Surcharge**
- **Status of interest rate swap execution**
(floating to fixed rate)
- **Status of debt financing**

Financial statement audits

In October 2005, approved PricewaterhouseCoopers to conduct financial statement audits of fiscal years 2005 – 2007

SAS 70 Type II audit

In September 2006, approved PricewaterhouseCoopers to conduct the 2007 SAS70 Type II audit

Benefit plan audits

In February 2007, approved Maxwell, Locke & Ritter, LLP to conduct benefit plan financial statement audits of fiscal year 2006 – 2008

Non-Audit services

In December 2006, approved subscription to PricewaterhouseCoopers' Comperio application – a comprehensive web-based accounting reference library

10. Review Procedures for Handling Reporting Violations

Michael Petterson

- The Charter of the Finance and Audit Committee requires the Committee to “...establish and maintain procedures for the receipt (including anonymous submission), retention and treatment of complaints regarding accounting, internal controls, and auditing;...”
- ERCOT Corporate Standard CS5.38, Fraud Prevention and Whistle-Blower Corporate Standard fulfills the requirement detailed above
 - See attachment ERCOT Corporate Standard CS5.38
- Employees receive communications to make them aware of the provisions of Corporate Standard CS5.38 and sign a “Receipt and Acknowledgement” form to evidence their awareness and understanding
- Options for registering complaints regarding accounting, internal controls, and auditing are reiterated during ERCOT’s annual Ethics Reaffirmation process

ERCOT CORPORATE STANDARD

Document Name:	Fraud Prevention and Whistleblower Corporate Standard
Document ID:	CS5.38
Effective Date:	April 1, 2007
Owner:	Vice President, General Counsel and Corporate Secretary
Governs:	ERCOT Staff
Approved:	Sam Jones, President & CEO

5.38.1 Purpose: The Company is committed to maintaining the highest standards of business conduct and ethics in its accounting standards, disclosures, internal controls, audit practices, the prevention of fraud or intentional misrepresentation or concealment of information in order to deceive or mislead. It is ERCOT's policy and standard to comply with and require the officers, all employees, contractors and consultants to comply with all applicable legal and regulatory requirements relating to corporate reporting, compliance, and other matters pertaining to fraud prevention. Every employee has the responsibility to assist ERCOT in preventing fraud and meeting these requirements. ERCOT's internal controls and corporate reporting and disclosure procedures are intended to prevent, deter and remedy any violation of the applicable laws or regulations that relate to corporate reporting and disclosure, accounting and auditing controls and procedures, compliance, and other matters pertaining to fraud prevention. Even the best systems of control and procedures; however, cannot provide absolute safeguards against such violation. This Corporate Standard governs the process through which employees and others, either directly or anonymously, notify the Vice President, General Counsel & Corporate Secretary (VPGC) or the Finance and Audit Committee of the Board of Directors of known or believed violations regarding such matters.

5.38.2 Employee's Responsibility: When an employee reasonably believes that any ERCOT employee, contractor, consultant or other person acting on behalf of ERCOT has violated any legal or regulatory requirements or internal policy or standard relating to accounting standards and disclosures, internal controls, or matters related to the internal or external audit of ERCOT's financial statements, committed fraud or received personal gain, the employee must immediately report his concern to the VPGC or directly to the Chairman of the ERCOT Finance & Audit Committee for ERCOT. If an employee is not comfortable reporting a concern to the VPGC or believes the VPGC may be involved with the misconduct, he may report the concern to the CEO or any member of

management whom he is comfortable approaching or the employee may report the issue through EthicsPoint by going to www.ethicspoint.com.

5.38.3 Manager's Responsibility: Any manager or other supervisory employee who receives a report of an alleged violation must immediately forward the report to the VPGC. If the manager or other supervisory employee is not comfortable reporting a concern to the VPGC or believes the VPGC may be involved with the misconduct, he may report the concern to the CEO or any officer whom he is comfortable approaching.

5.38.4 Reporting: Employees may also submit reports of alleged violations anonymously by using EthicsPoint. All reports of alleged violations, whether or not they were submitted anonymously, will be kept in strict confidence to the extent possible, consistent with ERCOT's need to conduct an adequate investigation. A confidential summary of all EthicsPoint reports, and the resolution of the reports, is provided to the Finance & Audit Committee at regular meetings.

The complaint describing an alleged violation or concern should be candid and should set forth all of the information that an employee knows regarding the allegation or concern. In addition, the complaint should contain sufficient corroborating information to support the commencement of an investigation. ERCOT may determine not to commence an investigation if a complaint contains only ambiguous or broad allegations of wrongdoing without appropriate factual support.

5.38.5 Investigation of Complaints: Upon receipt of a substantiated complaint alleging a violation of any state or federal law or accounting disclosures or internal accounting controls, or any allegations of fraud at ERCOT, the VPGC will request a meeting with the Chairman of the ERCOT Board of Directors and the Chairman of the ERCOT Finance & Audit Committee. All facts pertaining to the complaint will be disclosed and the group will make a determination whether a reasonable basis exists for commencing an investigation into the conduct alleged in the complaint. The Chairman of the ERCOT Board of Directors and the Chairman of the ERCOT Finance & Audit Committee shall have the authority to obtain assistance from ERCOT's management, counsel or auditors, or to retain any separate legal, accounting or other expertise as it deems necessary or desirable to conduct the investigation. The Chairman of the Finance & Audit Committee provides confidential quarterly reports to the Board of Directors on the status of any ongoing investigation under this Corporate Standard and reviews the resolution of any complaint. All alleged violations, which after investigation are determined to be substantiated, must be reported to the ERCOT Board of Directors in executive session.

5.38.6 Corrective Action: Any officer, employee, contractor or consultant deemed to have violated any law, rule or regulation, or any internal policy or standard regarding accounting standards and disclosures, internal controls or matters related to the internal or external audit of ERCOT's financial statements, may be subject to disciplinary action.

5.38.7 No Retaliation: Employees should feel comfortable reporting violations as described above or to assist in investigations of such alleged violations. ERCOT will not tolerate retaliation or discrimination of any kind by or on behalf of the Company and its employees against any employee making a good faith complaint of, or assisting in the investigation of, any alleged violation of laws, rules, or regulations, ERCOT's Code of Conduct or Ethics Agreement, or internal policy or standard regarding accounting standards or disclosures, internal controls or matters related to the internal or external audit of ERCOT's financial statements.

However, employees who file reports or provide information which they know to be false or report information without a good faith reasonable belief in the truth and accuracy of such information will not be protected by this Corporate Standard and may be subject to disciplinary action.

If an employee believes he has been subject to any action that violated this Corporate Standard, he may file a complaint with his supervisor or the Vice President of Human Resources and Organizational Development. The employee may also request that the alleged retaliation be brought to the attention of the Chairman of the ERCOT Finance & Audit Committee. If it is determined that an employee has experienced any improper retaliation or discrimination in violation of this Corporate Standard, ERCOT will take appropriate remedial and/or restorative action.



Committee Briefs

ERCOT Market Credit Status

as of 4/30/2007

as of 5/31/2007

Exposure in the ERCOT Market (owed to ERCOT)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
6	14,892,024	5%	52,026,345	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	44	155,869,023	52%	307,562,161 S
Guarantee Agreements	12	126,541,570	43%	431,747,955 S
Total Exposure	62	297,302,617	100%	

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
4	15,812,939	4%	28,000,000	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	39	203,580,743	53%	312,330,126 S
Guarantee Agreements	13	164,318,563	43%	431,447,955 S
Total Exposure	56	383,712,245	100%	

Other QSEs in the ERCOT Market (ERCOT owes)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

11	(12,129,384)	-26%	92,000,000	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	37	(17,058,705)	-37%	10,317,452 S
Guarantee Agreements	8	(17,177,210)	-37%	168,200,000 S
Total	56	(46,365,299)	-100%	

13	(15,529,628)	-27%	108,433,336	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	43	(20,104,656)	-35%	18,681,211 S
Guarantee Agreements	10	(21,950,425)	-38%	181,000,000 S
Total	66	(57,584,709)	-100%	

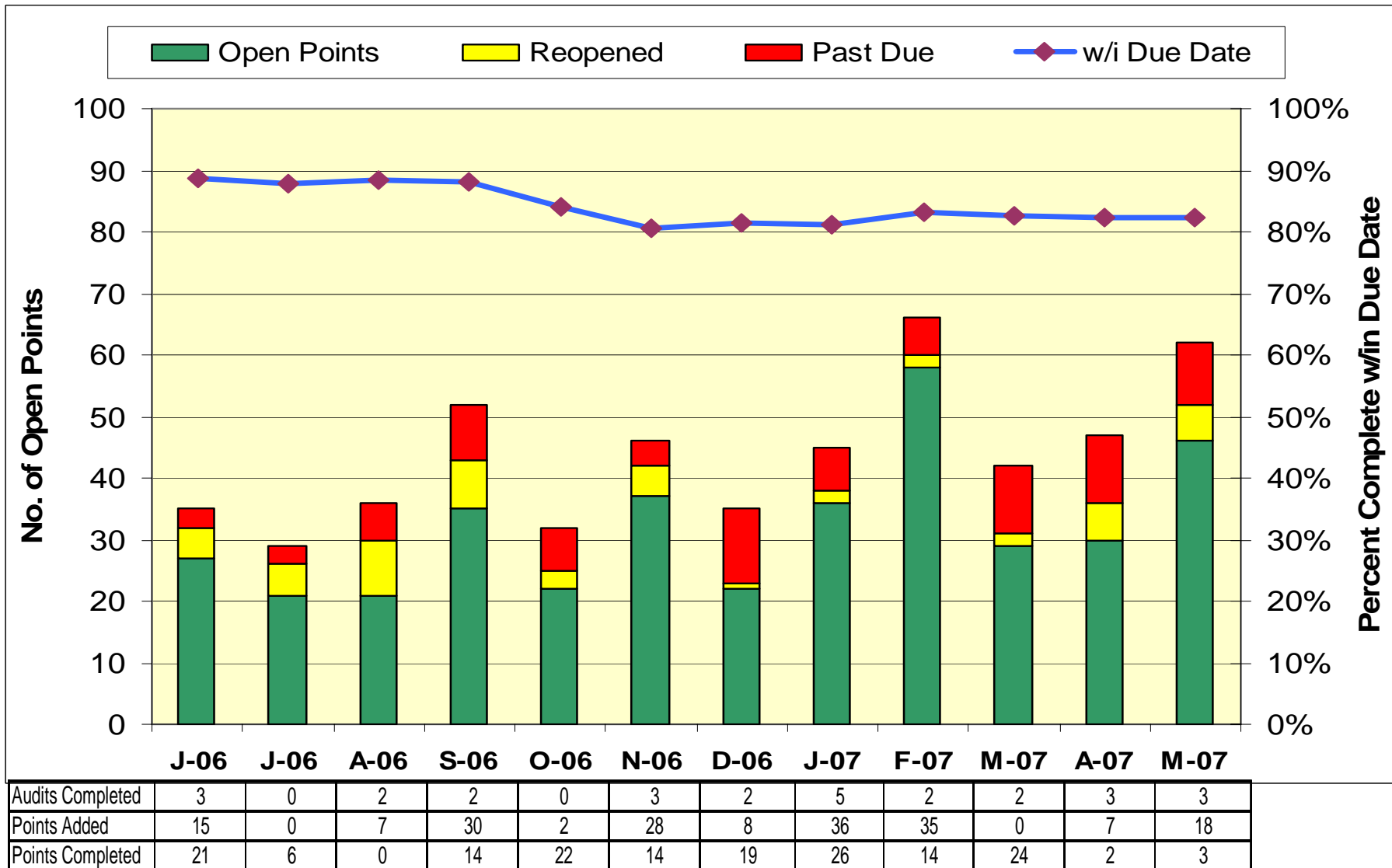
Total

118

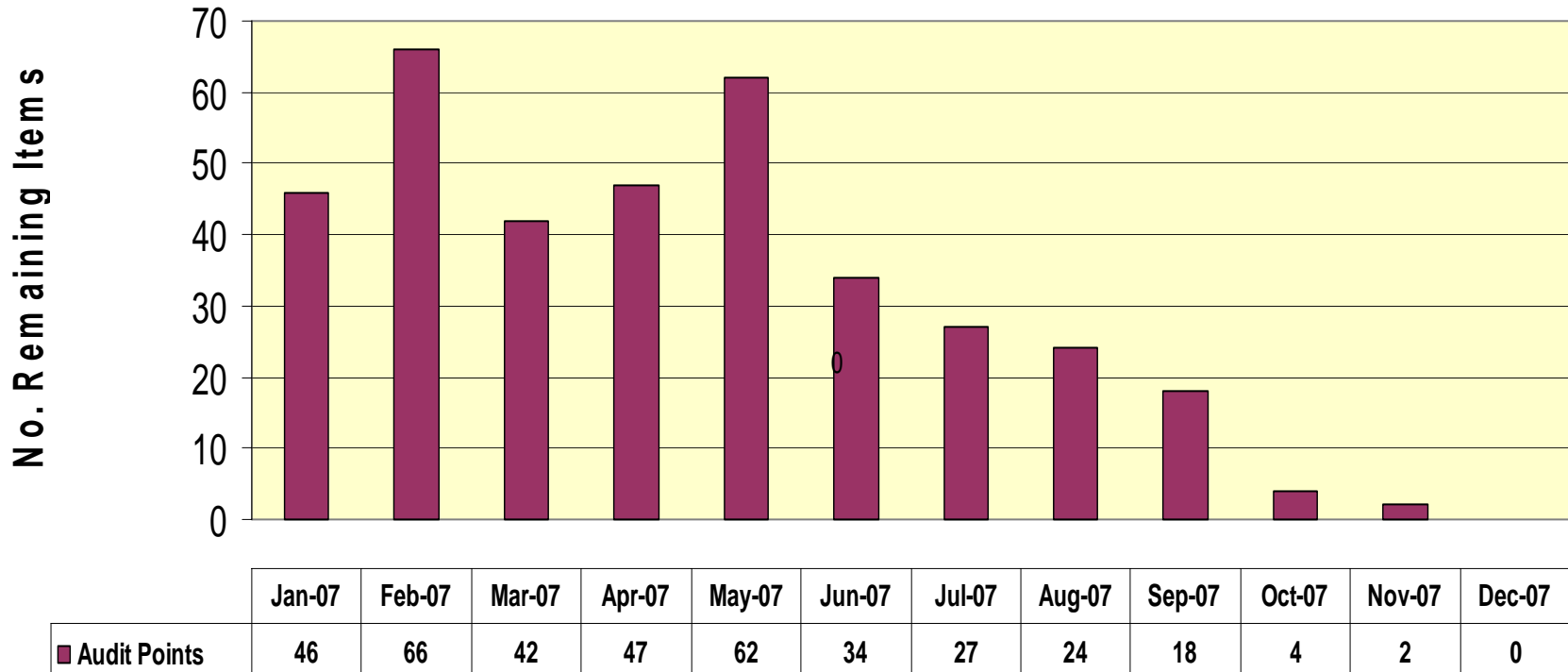
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U: Unsecured since these QSEs meet the creditworthiness standards
 S: Secured i.e. required to post collateral since these QSEs do not meet the creditworthiness standards

11. Committee Brief: ICMP – Status of Open Audit Points Cheryl Moseley



Projected Audit Point Progress



Audits Completed (last 3 months)

Internal Audits

- Nodal Recruiting
- Nodal Ethics Compliance
- SAS70 Pre-Audit Testing
- Accounts Payable
- Procurement Approval Process (Special Request)
- PMO (Non-Nodal)
- Risk of Event Similar to CAISO Incident
- NERC Compliance*

External Audits

- 2006 Financial Audit (PwC)
- 2006 Final MPP
- Texas Nodal Program Controls - Review #3 (IBM-managed by IAD)

Open Audits

Internal Audits

- Nodal Timetracking
- Nodal Signing Authority/Delegation of Authority
- Nodal PMO (Targeted Review)
- Employee Background/Reference Checks (Targeted Review)
- Contract Audit of 21st Century
- Nodal Compliance w/Procurement Guidelines
- Nodal Acctg./Allocation

External Audits

- 2007 SAS70 (PwC)

Planned Audits (next 3 months)

Internal Audits

- Congestion Mgmt./TCRs
- Nodal Contractor/Vendor Billings
- Cash and Investments
- Disaster Recovery Plan

External Audits

- Texas Nodal Program Controls – Review #4 - IBM (Managed by IAD)

* NOTE: Conducted by internal resources other than Internal Audit

**Consultation/
Analysis Reports
Completed**
(last 3 months)

External Assessments

**Open Consultation/
Analysis Reviews**

External Assessments
1 security assessment
started in March

**Planned Consultation/
Analysis Reviews**
(next 3 months)

External Assessments

ALERT **CHEMICAL RELIABILITY COUNCIL OF TEXAS, INC.**
RISK MANAGEMENT EVENT PROFILE MATRIX (as of June 1st, 2007)

Strategic Position	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Compliance
<p> Strategy Development Objective setting adequately incorporates informed stakeholder input, market realities and management expertise</p> <p>ERCOT Board and Staff need awareness of ERCOT's short and long-range strategic plan. The Nodal project and the proposed ERO/RE environment have been adequately factored into plans.</p>	<p> Performance Monitoring Clearly defined performance metrics linked to mission and goals; actively monitored, status communicated and corrective action taken</p> <p>Management has rolled out a revision of the Executive Dashboard based on defined KPI's and have instituted regular Quarterly Business Reviews to discuss key business activities in addition to weekly executive team meetings, constant grid monitoring, IT SLA's, and generation / transmission assessments.</p>	<p> Customer Choice Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</p> <p>IT components supporting Customer Choice are currently not at the desired levels to meet SLA's. Successful replacement of SeeBeyond Application with TIBCO has had a significant impact on Customer Choice operations which has reduced overall levels of risk, however other IT related Retail issues continue.</p>	<p> Grid Operations Information required to operate the grid is efficiently gathered and appropriate tools are prudently configured to efficiently operate the system</p> <p>Significant improvements made in the State Estimator and the accuracy and availability of SCADA data in preparation for Nodal operation. An Operator Training Simulator is in place and will be used in our operator training program. Load Forecast accuracy improved. Continued improvement must be maintained.</p>	<p> Review Practices Prudent measures are taken to insure that company disclosures are properly vetted and not misleading</p> <p>Board of Director's review of management activities on an ongoing basis assists in ensuring proper review and disclosure practices.</p>	<p> Legal & Legislative Operations are conducted in compliance with all laws and regulations and current and proposed legislation is understood and communicated</p> <p>Increased efforts have been made to inform members of the legislature about ERCOT and the performance of its functions. Enhanced efforts are being undertaken to maintain records according to established record retention policies.</p>
<p> Mission and Goals Corporate objectives and performance standards are understood and followed</p> <p>Current management initiatives related to goal setting and the development of Key Performance Indicators (KPI's) have increased awareness of organizational goals and related to high-level corporate objectives and priorities for individual divisions, departments, and employees.</p>	<p> Business Practices Business planning, processes and management standards are effective and efficient</p> <p>Disaster recovery plans are currently below desired expectations. Additional development activities required to implement and test these procedures. However solid overall business practices are confirmed via: Internal and External audit, Operational review, Regional Entity / Compliance, and RMC and Disclosure Committee review.</p>	<p> Nodal Implementation Nodal Implementation is progressing in a timely fashion on budget and schedule within a defined scope.</p> <p>Risks continue to exist with scope management and deliverable tracking. Scope management has improved. Vendor resourcing and internal staffing has improved significantly. Risks exists in time line management, software quality (unknown) and software integration. Market readiness assessment is underway. Surcharges have been approved by PUCT and collection begins with June billing.</p>	<p> Planning Long-range planning methods enable efficient responses to necessary system changes to maintain reliability standards</p> <p>Lack of timely and accurate information necessary to build reasonable system models and forecasts and insufficient ability to conduct long-range (6-10 years out) planning resulting in possible inefficiencies in ERCOT's transmission expansion plan.</p>	<p> Disclosure Reporting and other disclosures to intended parties is timely, accurate and effective</p> <p>A Disclosure Committee has been institutionalized to discuss and report issues related to external reporting and compliance.</p>	<p> Internal Control Compliance Internal Control Compliance, processes and management standards are effective and efficient</p> <p>Audit findings are actively monitored by management as well as Internal Audit. Additional training activities are required to ensure all staff members are aware of ongoing internal control compliance processes and procedures. Care must be taken to ensure nodal demands do not unreasonably diminish audit finding remediation.</p>
<p> Reputation </p> <p>Positive perceptions by stakeholders typically lead to less cost and greater flexibility resulting in enhanced enterprise value</p> <p>Approval of Nodal Fee filing and improved performance of retail systems have increased positive perception by stakeholders. It is recognized some specific concerns of Market Participants are to be addressed on an on-going basis.</p>	<p> Workforce </p> <p>Organization design, managerial and technical skills, bench strength and reward systems are aligned with corporate goals</p> <p>The number of resignations increased in April and May, some critical for Nodal completion. We continue to face an increased demand for the skill sets of our employees. We are considering a stay bonus/incentive plan for critical Nodal staff. We are also developing organizational structures for staffing needs in 2008, 2009 and 2010.</p>	<p> Counterparty Credit</p> <p>Bankruptcies and other capital deficiencies increase the cost for market participants and potentially impact Grid reliability through participant failure</p> <p>Processes for removing defaulting participants from the market increases the potential for credit losses. A medium to large market participant default could materially impact the ERCOT market, grid reliability, and ERCOT's reputation. Recent PRR's related to shortening the timeframe related to drops to POLR have reduced exposure by an estimated 37%.</p>	<p> Bulk System Resources</p> <p>Market Participants have constructed and made available adequate bulk electric grid resources</p> <p>Uncertainty surrounding generation projects, installed and operational capacity, and the high dependency on natural gas in Texas' generation fleet may impact reliability. The risk exists for a hotter than normal summer or cooler winter to increase load demand to a level that reduces reserve margins below acceptable minimum levels.</p>	<p> Communication</p> <p>Internal and external communications are timely and effective</p> <p>A crisis management project for communications has been completed and ERCOT has restructured its legal and communications departments.</p>	<p> Industry Standards</p> <p>Business practices provide stakeholders with required assurances of quality</p> <p>CY2006 SAS 70 Audit and Qualification issues have been remediated. CY2007 SAS 70 Audit underway with no new issues identified to date. New NERC Cyber Security Standards CIP002-009 were approved in CY2006 and will be implemented over next 36 months. ERCOT has outstanding issues with filings related to its retirement and benefit plans. Initiation of ERO/TRE reliability standard Compliance Monitoring and Regional Entity Compliance Program in June introduces additional audit and penalty risks.</p>
<p> Fiscal Management</p> <p>ISO design requires competent, prudent and cost effective provision of services</p> <p>Current fiscal practices are effective in managing and controlling costs. Continued diligence is necessary to effectively manage the cost of the nodal project.</p>	<p> Technology Infrastructure</p> <p>Information systems and data are effectively managed and are reliable</p> <p>Loss of Disaster Recovery Coordinator is being managed by Enterprise Architecture team while search for replacement continues. AIX conversion project is underway and risks for database migration to new platforms are being mitigated. Retail systems reliability has improved.</p>	<p> Administration, Settlement & Billing</p> <p>Market rules are fairly applied to all participants and accounting is timely and accurately reflects electricity production and delivery</p> <p>ERCOT's settlement/dispute processes has a significant number of ADR's related to the RPRS policy debate outstanding, however these are being addressed in a timely fashion. Increased levels of ADR's may pose a future risk if they are no longer able to be timely addressed.</p>	<p> Operational Responsibility</p> <p>Market participants conduct their operations in a manner which facilitates consistent grid reliability</p> <p>Response of generators to grid operation events has been improving. Enhanced enforcement of NERC standards and ERCOT Protocols and Operating Guides will exist through the ERO / TRE and IMM. Increased wind generation will present additional operational challenges.</p>	<p> Adequacy and Integrity</p> <p>Robust processes exist to support management assertions embodied within financial reports</p> <p>Financial and Operations management information has been redesigned to enable management to effectively monitor and manage the business.</p>	<p> Regulatory Filings</p> <p>Evidence, testimony and other supporting materials are compelling and successful</p> <p>Filings are completed timely and accurately.</p>

Legend: Elevated Risk Level Reduced Risk Level (New Risk Categories / Descriptions Indicated in Green)

Rationale for Category Risk Assessment Changes

Nodal Implementation

Upgrade: Red > Yellow

ERCOT has further scoped the nodal project, hired additional key staff members, and funding has largely been obtained.

2007 Year to Date Project Activity by Division

	Phase	Not Started	Initiation	Planning	Execution	Closing	Closed	Cancelled	On Hold	Deferred	Totals by CART	Go-Live*
CART	Corporate Operations	14	3	4	8	3	1	2			35	1
	IT Operations	7		2	6	2					17	0
	Market Operations	2	2	5	8	4	2	5	1		29	2
	System Operations	2	1	6	5	6	4	2	3		29	4
	Totals by Phase	25	6	17	27	15	7	9	4	8	118	7

Note: Additional Projects Gone Live this month
PR-60101_01 (MORO-5/15/07)









11. Committee Brief – PMO

David Troxtell

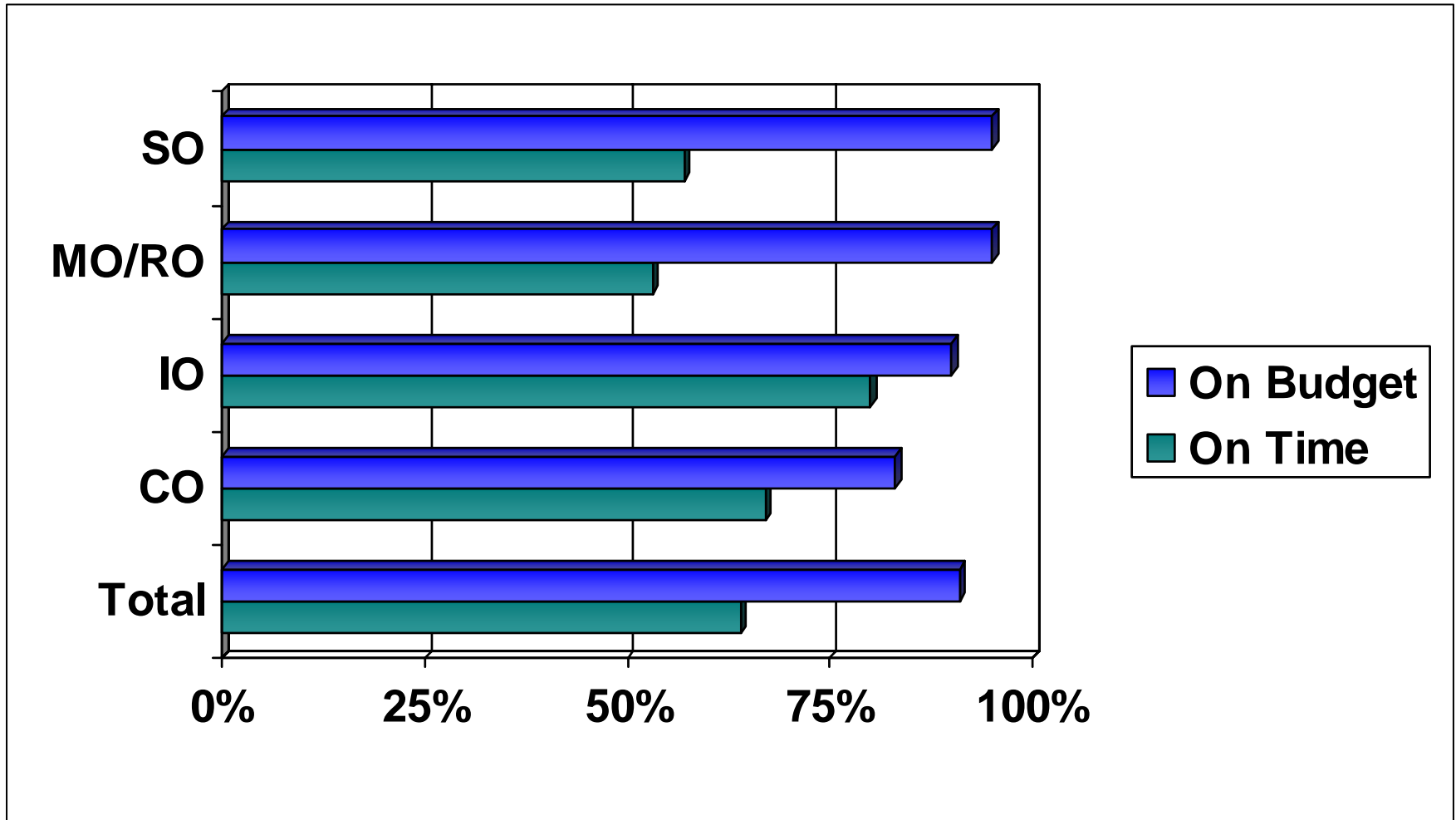
Year to Date Project Priority List (PPL) Status

PPL Iterations	Origination	Project Phases								Deferred Projects	Subtotal	Grand Total
		Not Started	Initiation	Planning	Execution	Closing	Closed	On Hold	Cancelled			
Original 2007 PPL											79	
	PUCT	1			1	1		2			5	
	Market	1	1	1	3		1		4		11	
	ERCOT	20	2	10	9	3	2	1	3	8	58	
	Compliance			3				1	1		5	
	System Maintenance										0	
Unexpected Carry Over From 2006											22	
	PUCT						2				2	
	Market	1				2	2				5	
	ERCOT				7	8					15	
	Compliance										0	
	System Maintenance										0	
New Projects Added (Since PPL Approval in August 2006)											17	
	PUCT			1							1	
	Market		1								1	
	ERCOT	2	2	2	7	1			1		15	
	Compliance										0	
	System Maintenance										0	
2007 PPL totals to date											118	
	PUCT	1	0	1	1	1	2	2	0	0	8	
	Market	2	2	1	3	2	3	0	4	0	17	
	ERCOT	22	4	12	23	12	2	1	4	8	88	
	Compliance	0	0	3	0	0	0	1	1	0	5	
	System Maintenance	0	0	0	0	0	0	0	0	0	0	
Totals by Project Phase		25	6	17	27	15	7	4	9	8	118	

Projects Over \$1 Million

Projects Over \$1M	Total Budget	Total Committed To Date	Metrics	
			Duration/Information (Sponsor)	Phase/Scheduled Completion
(MO/RO) PR-40038_01: TX SET 3.0	\$1.63M	\$1.14M		
<i>Currently in Execution (R. Giuliani)</i>	<i>Execution Phase/2nd Qtr 2007</i>			
(SO) PR-40090_02: Operator Training Simulator (2005-2007)	\$3.80M	\$3.37M		
<i>Training Simulator System for Operators (S. Jones)</i>	<i>Execution Phase/2nd Qtr 2007</i>			
(MO/RO) PR-50024: Enhancements to SCR727 (2005-2007) (consists of 2 sub-projects)	\$1.61M	\$1.44M		
<i>Entered into Execution (R. Giuliani)</i>	<i>Execution Phase/2nd Qtr 2007</i>			
(CO) PR-60099_01 TCC2 Build-Out Phase One	\$2.65M	\$0.17M		
<i>Currently in Execution (S. Jones)</i>	<i>Expected Completion/3rd Qtr 2007</i>			

2007 Completed and Active Projects Performance



Capital Projects – Budget vs. Actuals for Projects Completed YTD

Closed Projects	Baseline Budget	Actuals	\$ (Over)/Under Baseline Budget
PR-30105 (Congestion Management Reports)	105,300	86,716	18,584
PR-60002_01 (Increase Number of Seats for Study Markets Clearing Engine) *	179,823	86,231	93,592
PR-60090_01 (Load Profiling Software Upgrade) *	140,979	119,049	21,930
PR-70031_01 (Spectel Hotline System Expansion) *	504,028	10,705	493,323
NOTES:			
(a) Baseline Budget does not include change controls that were approved without granting a new baseline budget.			
* Substantially closed in Lawson - Actuals may change - Awaiting closing status in Lawson			

Go Live Projects for May

- **PR-40090_02 Operator Training Simulator (OTS) System**
 - **Scope:** The OTS system simulates the Control Center Model (MOS and POS), Power System Model, QSE Model and the Educational Subsystem for improvement of operator performance during normal and emergency operations.
 - **Deliverables:** The project includes deployment of hardware and software to support two instances of the OTS System – a production training system and a case preparation system, MDB and local SAN, real-time and study applications.
 - **Timeline:** Go Live on May 21, 2007. Currently in stabilization.

Large Project Change

- **PR-60055_01 Enterprise Service Management**

- **Scope:**

- To deliver and implement a working, supportable, enterprise service management suite of applications in support of ITIL best practices

- **Deliverables:**

- Upgrade of Aperture Vista; establishment of a Configuration Management Database; new Service Desk, Release and Change Management applications; modify Altiris server management reports for Nodal; new application relationship mapping tools

- **Timeline:** [April 2006 – December 2007]

- **Approval Dates:**

- CART [02/05/07], SRT [05/31/07], EC [06/11/07]

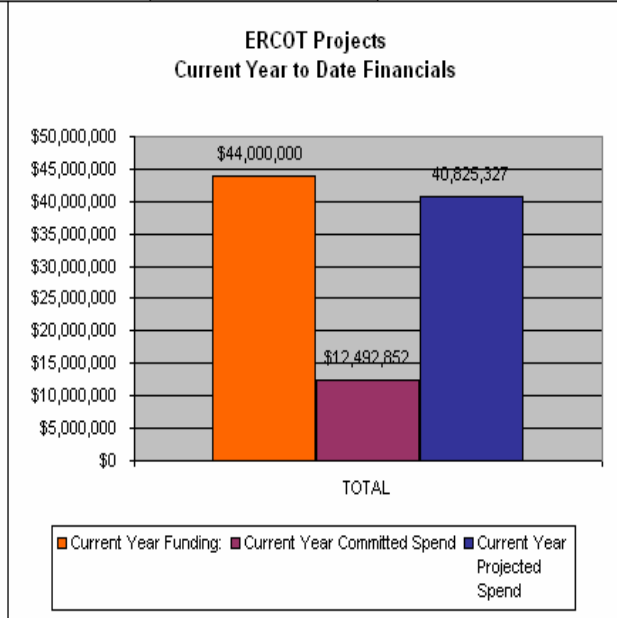
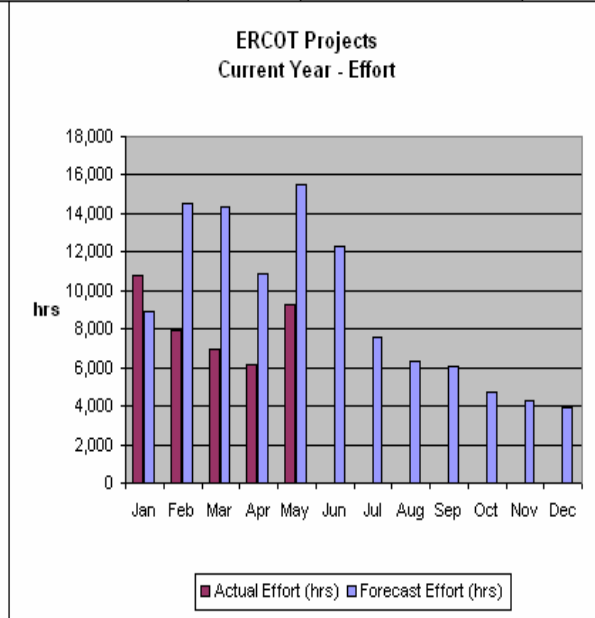
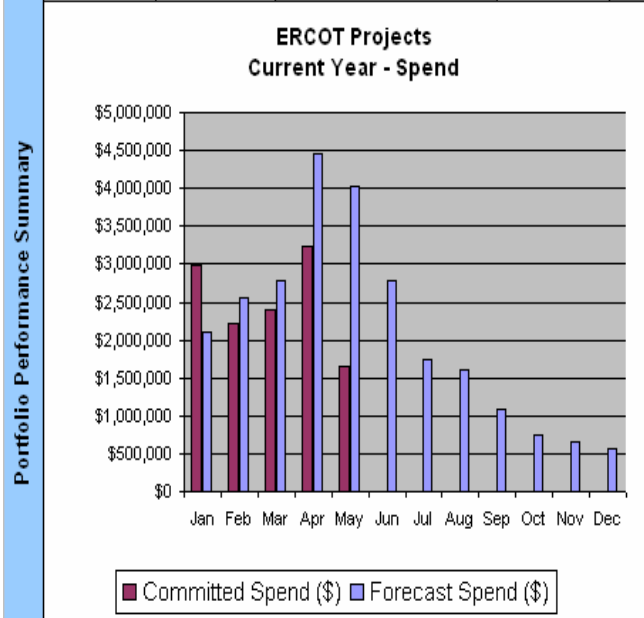
- **Board Request:**

- Cost now expected to exceed \$1 million – seeking approval to increase budget

ERCOT Enterprise Projects Summary Report

ERCOT Overall Projects Report **Reporting Period: 5/31/2007** **YTD**

Summary	ERCOT Projects Leadership					Projects in ERCOT's Portfolio					Portfolio Performance			
	Executives		On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget	Risk	Milestones			
	Kent Saathoff	Ray Giuliani	3	6	14	27	15	Y	G	G	R			
Ron Hinsley	Steve Byone	Completed	7	Total Active		62								
		Cancelled	8	Projects Not Started:		25	Prior Year Funding:	\$0	Current Year Funding:	\$44,000,000				



Notes

Projections trending below Budget

- Testing environments contentions due to HP UNIX to IBM AIX UNIX transition
- Resource contentions (mainly Nodal)
- Projects on hold/not approved to start by sources (PUCT, Compliance, IMM)



Future Agenda Items – July 2007

- **Standing Internal Audit status report (s)**
- **Update on 2007 SAS 70 (Sean Barry)**
- **Update on Credit Review**
- **Update on 2008 Budget**
- **Committee briefs**

Quarter 1

- √ •Elect officers and confirm financial qualifications
- Review Finance Audit Committee charter
- √ •Approve the Guidelines for Engagements of External auditors for Other Services (pre-approval policy)
- √ •Required written communication and discussion of auditor independence
- √ •Review scope of annual financial audit
- √ •Report by CWG Chair on ERCOT credit policy
- √ •Vote on CWG Chair/Vice Chair

Quarter 2

- √ •Report results of annual independent audit to the Board
- Report of external auditor pre-approval status/limits
- Review the procedures for handling reporting violations
- Review conflict of interest and ethics policies
(Transferring to HR & Gov)
- √ •Review results of annual audit (including required communications)
- Review and approve ERCOT Annual Report (N/A)
- Review operating plan and budget assumptions
- √ •Review and approve Internal Audit Department Charter

Quarter 3

- Appoint the independent auditors for upcoming year
- Approval of independent auditor fees for upcoming year
- Assessment of compliance, the internal control environment and systems of internal controls
- Review and approval of annual operating budget
- Report by CWG Chair on ERCOT credit policy
- Review updated year-end forecast

Quarter 4

- Approve audit committee meeting planner for the upcoming year, confirm mutual expectations with management and the auditors
- Review and approval of Financial & Investment policies
- Approve scope of internal auditing plan for upcoming year
- Assessment of the adequacy and effectiveness of the Internal Audit staff
- Perform Finance & Audit committee Self Assessment
- Review requirements for membership in CWG
- Review and approve CWG charter
- Review updated year-end forecast

Recurring Items

- Review minutes of previous meeting
- Report monthly matters to the Board (chair)
- Review EthicsPoint activity
- Review significant audit findings and status relative to annual audit plan
- Review investment results quarterly

PUC/NERC/FERC Filings - FINANCE and AUDIT Excerpt as of June 19, 2007

Docket / Project No.	Docket Description	Status
P-24055	Protocol Revision Informational Filings by the Electric Reliability Council of Texas (includes Protocol Revisions and Nodal Protocol Revisions)	Systems Implementation – Cost Benefit Analysis
P-24462	PUC Proceeding to Establish Performance Measures Relating to the Competitive Retail Electric Market	05/14/07 1 st Quarter Report Filing
P-27706	Reports of the Electric Reliability Council of Texas	05/14/07 1 st Quarter Report (Financials and Audits) Filing
P-28109	Competitive Metering Services Market Readiness Project Subst. R. §25.311(e)	05/14/07 1 st Quarter Report Filing
D-30456	PUC Proceeding Regarding ERCOT Fee	File Quarterly Reports and Present at PUC Open Meetings
P-30634	Activities Related to Implementation of Recommendations from the Potomac Economics 2004 Reports on the Operation of the ERCOT Wholesale Electricity Market	Commission Staff Appeal of PRR 590 – Potomac Recommendation #14 – Procedures to Monitor QSE Reserve Obligations in Real-time – System changes and Cost to design and installation of monitoring equipment in ERCOT Control Rooms
P-31111	Rulemaking to Address Independent Market Monitor for the Wholesale Electric Market in ERCOT	Final Order Issued 04/21/06 - ERCOT to Fund IMM
D-31243	Complaint of TXU Portfolio Management Company LP and TXU Energy Retail Company LP and Against the Electric Reliability Council of Texas	08/09/06 Final Order Issued - Load Imbalance Charges
P-31416	Evaluation of Default Service for Residential Customers and Review of Rules Relating to the Price to Beat and Provider of Last Resort	07/11/06 Order Adopting Amendment to SUBST. R. §25.43 - Create two different POLR small non-residential customer classifications - Automated process is in place no later than July 1, 2007
P-31575	Improvements to the ERCOT Zonal Market Design	01/19/07 ERCOT Controllable Load Pilot Summary Report
P-31600	Transition to an ERCOT Nodal Market Design	06/26/06 PUC Market Oversight Evaluation of Options PRR 307 Controllable Loads – ERCOT Project Priority List 2001 and Estimates \$500,000 - \$1,000,000
P-31852	Rulemaking Relating to Renewable Energy Amendments	12/04/06 ERCOT Filed Analysis of Transmission Alternative for Competitive Renewable Energy Zones in Texas
P-31972	Rulemaking Concerning Resource Adequacy and Market Power in the Electric Reliability Council of Texas Power Region	Potential Resource and System Impacts

PUC/NERC/FERC Filings - FINANCE and AUDIT Excerpt as of June 19, 2007

Docket / Project No.	Docket Description	Status
D-32025	Petition of the Electric Reliability Council of Texas for Approval of Amended and Restated Bylaws	Costs for Unaffiliated Board of Directors and TAC Representative
P-32100	PUC Market Oversight Activities	03/07/07 Potomac Economics Presentation (IMM Report) – ERCOT Wholesale Market Review
D-32492	Petition of the Electric Reliability Council of Texas (ERCOT) for Approval of Unaffiliated Director	06/29/06 Final Order - Costs for Unaffiliated Board of Directors
D-32573	Petition of Commission Staff to Revoke the Retail Electric Provider Certificate of Usave Energy Services, Inc.	05/15/06 ERCOT Intervened Amount due by Usave to ERCOT is \$212,202.90 11/13/06 PUC Final Order Issued
D-32574	Petition of Commission Staff to Revoke the Retail Electric Provider Certificate of Azor Energy, L.P.	08/14/06 Final Order Issued Azor owes ERCOT \$26,394.07
D-32686	Application of the Electric Reliability Council of Texas for Approval of a Nodal Market Implementation Surcharge and Request for Interim Relief	05/23/05 Final Order Issued
P-32853	Evaluation of Demand Response Programs in the Competitive Electric Market	
D-32992	Compliance Proceeding Pursuant to Final Order in Docket No. 31243 (Complaint of TXU Portfolio Management Company LP; and TXU Energy Retail Company LP and Against the Electric Reliability Counsel of Texas)	02/28/07 Order - ERCOT Ordered to Re-settle see TXU Complaint Docket No. 31243
D-33047	Notice of Violation and Settlement Agreement Relating to FPL Energy Power Marketing Inc.'s Violation of PURA §39.151(j) and PUC Subst. R. §25.503(f)(2); Relating to Failure to Adhere to ERCOT Protocols §6.5.4(1) and §6.5.4(7) Concerning Responsive Reserve Service	09/08/06 Final Order – FPL Energy to Pay ERCOT \$2,287
P-33049	PUC Rulemaking Proceeding to Amend Commission Subst. R. §25.88 Retail Market Performance Measures Reporting	
D-33177	Notice of Violation and Settlement Agreement Relating to Constellation Energy Commodities Group, Inc.'s Violation of PURA §39.151(j) and PUC Subst. R. §25.503(f)(2); Relating to Failure to Adhere to ERCOT Protocols 6.5.4(1) and 6.5.4(7) Concerning Responsive Reserve Service	10/13/06 Final Order – Constellation to Pay ERCOT \$1,103
D-33183	Petition of the Electric Reliability Council of Texas (ERCOT) for Approval of Unaffiliated Director (Jan L. Newton)	12/15/06 Order of Approval - Costs for Unaffiliated Board of Directors
D-33185	Petition of the Electric Reliability Council of Texas (ERCOT) for Approval of Re-election of Unaffiliated Director (Mark Armentrout)	12/15/06 Order of Approval - Costs for Unaffiliated Board of Directors
D-33416	Constellation NewEnergy's Appeal and Complaint of ERCOT Decision to Approve PRR 676, PRR 674 and Request for Expedited Relief	04/13/07 Final Order

PUC/NERC/FERC Filings - FINANCE and AUDIT Excerpt as of June 19, 2007

Docket / Project No.	Docket Description	Status
P-33457	PUC Rulemaking Concerning a Demand-Response Program for ERCOT Emergency Conditions	Potential Resource and System 03/21/07 Order Adopting New SUBST. Rule §25.507
P-33490	Rulemaking Proceeding to Amend 25.502 Pricing Safeguards in Markets Operated by the Electric Reliability Council of Texas	(Project 31972 Pending 3 rd Court of Appeals) Potential Resource and System Impacts
D-33491	Petition of Staff of Public Utility Commission of Texas to Revoke Retail Electric Provider Certificate No. 10078 of Freedom Group, LLC, d/b/a Freedom Power	Parties in Settlement Discussions
P-33492	Rulemaking Relating to the Target for Renewable Energy Resources other than Wind Power	Potential Resource and System Impacts
P-33495	Rulemaking Project to Amend Rule Relating to the Independent Market Monitor for ERCOT	04/10/07 Order Adopting - Potential Resource and System Impacts
D-33500	Complaint of Constellation Commodities Group, Inc. Against the Electric Reliability Council of Texas	ERCOT Calculation of Constellation's RPRS Under-Scheduling Settlement Charges Questioned
D-33672	Commission Staff's Petition for Designation of Competitive Renewable Energy Zones	04/24/07 ERCOT Filed Direct Testimony to Sponsor Study
D-33687	Entergy Gulf States, Inc.'s Transition to Competition Plan	Potential Resource and System Impacts – if EGSI Joins the ERCOT Region Case Abated – Hearing Resumes 07/25-27/07
P-34019	PUC Request for Proposals for a Workforce Analysis of the Electric Reliability Council of Texas	Eight Companies have submitted responses to PUC's Request for Proposal
P-34039	Rulemaking to Amend PUC SUBST. R. §25.107 Relating to Certification of Retail Electric Providers	
P-34108	Commission Staff's Requests for Qualifications Pursuant to PUC SUBST. R. §25.174(c) (to Construct Transmission Lines from the Designated CREZ)	04/16/07 ERCOT Filed Notice of Ancillary Services Study Agreement
P-34202	Rulemaking to Repeal Subst. R. §25.53 and §25.51 and Adopting New Rule Relating to Emergency Operations Plans Under New Chapter 29	
NERC	FERC Docket No. RR07-1-000 – Texas Regional Entity (TRE) Delegation Agreement with NERC Electric Reliability Organization (ERO)	