



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 168
November 13, 2007; 7:30am – 10:00am*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order	C. Karnei	7:30am
2.		Adjourn to Executive Session		
	Decision required	2a. Approval of executive session minutes (Vote) (10/16/07)	C. Karnei	7:30am
	Decision required	2b. Approval of 2008 internal audit plan (Vote)	C. Campbell	
	Informative	2c. Update on 2007 internal audit goals	C. Campbell	
	For discussion	2d. Internal Audit status report	C. Campbell	
	Informative	2e. EthicsPoint update	C. Campbell	
	For discussion	2f. Project updates - Met Center – S. Grendel/B. Kahn - Contingent Workforce Management – M. Petterson/S. Byone		8:10am
		Adjourn to Open Session		
3.	Decision required	Approval of general session minutes (Vote) (10/16/07)	C. Karnei	8:40am
4.	For discussion	Review credit work group matters - CWG charter (Vote) - other	C. Yager	8:45am
5.	For discussion	Review and update on financial and investment standards (Vote)	C. Yager	9:00am
6.	Informative	2007 financial statement audit planning	S. Barry	9:10am
7.	Informative	2007 SAS 70 audit status report	S. Barry	9:20am
8.	For discussion	Follow-up from November 9 th Credit workshop (if needed)	C. Yager	9:30am
9.	Informative	Committee Briefs (Q&A only)	All	9:40am
10.	Informative	Future agenda items	S. Byone	9:45am
		Adjourn ISO meeting		9:50am

** 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, December 11, 2007, at ERCOT, 7620 Metro Center Drive,
Austin, Texas 78744, in Room 168.

Decision required
For discussion

3. Approval of General Session Minutes Clifton Karnei

- **Approval of General Session Minutes**
 - Vote 10/16/07

Draft MINUTES OF THE ERCOT ISO FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:00 A.M.

October 16, 2007

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 8:00 A.M. on **October 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	Present
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member	Present
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Present
William Taylor	Calpine Corporation	Ind. Generator	Not 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

ERCOT staff and guests present:

Bojorquez, Bill	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
DiPastena, Philip	ERCOT
Doolin, Estrellita	ERCOT
Grendel, Steve	ERCOT
Giuliani, Ray	ERCOT
Hinsley, Ron	ERCOT
Kolodziej, Eddie	Customized Energy Solutions
Grimm, Larry	Texas Regional Entity
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Saathoff, Kent	ERCOT
Spells, Vanessa	ERCOT
Vincent, Susan	ERCOT
Wullenjohn, William	ERCOT

Executive Session

At 8:01 A.M., the Committee meeting was adjourned and the Committee went into Executive Session until 8:42 A.M., when the Committee returned to Open Session.

Approval of Previous Minutes

Dan Wilkerson made a motion to approve the minutes of the Committee meeting held on September 18, 2007, as corrected to remove Bob Helton’s name from the attendee list; Nick Fehrenbach seconded the motion. The motion passed unanimously.

Standard Guarantee and Letter of Credit Agreement Modifications

Susan Vincent explained that staff was proposing modifications to the standard market participant guarantee and letter of credit agreements to conform these credit agreements to the new ERCOT Standard Form Agreement. She confirmed that any modification to these standard credit agreements required Board approval and that the modifications proposed were not intended to provide for any substantive credit changes.

Miguel Espinosa moved to recommend that the Board approve the modifications to the Market Participant Guarantee Agreement, Foreign Market Participant Guarantee Agreement, and Irrevocable and Unconditional Standby Letter of Credit, as requested in the decision template and proposed Resolution for Item 11 of the October 16, 2007 ERCOT Board Meeting; William Taylor seconded the motion. The motion passed unanimously.

Update on Enterprise Risk Management Program

Steve Byone noted that the Committee had requested a thorough “drill down” into the Enterprise Risk Management (“ERM”) program. Mr. Byone noted that ERCOT officers were present to answer questions and introduced Philip DiPastena, ERCOT’s Enterprise Risk Manager, to lead the discussion.

Mr. DiPastena reported on the ERM program efforts to date, including a recent canvassing of officers, directors and managers on the various risk areas for ERCOT. Mr. DiPastena stated that he incorporated the discussions and other input received into the current ERM report. He described in detail the various components of the ERM reports which were provided to the Board on a monthly basis in order to highlight key risk areas. He also reported that an ERM task force—compiled of persons from each officer group—had been formed to improve ERM program methodologies. The Committee discussed the ERM process and reports.

In response to William Taylor’s question about the intent of the ERM reporting tool, Mr. Byone and Bill Bojorquez explained that management used the tool to: (1) document and monitor risk at the management level and (2) allow management to communicate to the Board risk issues faced by ERCOT, Inc. (the company) and ERCOT the market. Mr. Byone acknowledged that certain risk factors included in current reports are outside the control of ERCOT management. He noted that the option of creating two reports—one for risks within the company’s control, another for risks outside the company’s control—had been discussed, but this was not currently contemplated. Mr. Karnei and Mr. Taylor said that the presentation was helpful, and that Committee should continue to periodically review the items on the ERM report for inclusion.

Quarterly Investment Performance Update

Steve Byone referred to the Summary of Investment Results materials (for the third quarter, 2007) and noted that investment activity continues to be within ERCOT standards and he recommended no changes at this time.

Review of PwC Non-Audit Fees

In compliance with the Committee charter, Michael Petterson informed the Committee that ERCOT had renewed for 2008 its subscription to Comperio (a comprehensive, web-based accounting database) provided by PricewaterhouseCoopers (ERCOT's independent audit firm), at a cost of approximately \$2,000.

Texas Regional Entity / ERCOT ISO Independence Discussion

The Committee discussed certain potential procedural issues and questions which could arise as a result of the Texas Regional Entity ("Texas RE") being a division of ERCOT. Mr. Byone noted that it was important to maintain total independence of the Texas RE while still ensuring protection of ERCOT, Inc. The Committee discussed potential issues relating to audits, authority, financial approvals, and escalations for conflicts between Texas RE and ERCOT ISO. Mr. Karnei directed Mr. Byone to work with ERCOT Legal and the Texas RE to consider developing a corporate services agreement between the two divisions to outline how audits, approvals, corporate assistance, and other issues would be handled.

Committee Briefs (Q&A only)

Committee members were provided written reports with information for the following areas:

1. Market Credit
2. Internal Control Management Program (ICMP)
3. Enterprise Risk Management (ERM)
4. Project Management Organization (PMO)

Mr. Byone reported that market credit project with the vendor Oliver Wyman was progressing well and that a workshop for the Committee members to be fully briefed and provide input into the project was planned. After some discussion, Mr. Karnei requested Mr. Byone to schedule the workshop for November 9 at 10 a.m.

In response to Michehl Gent's question about the Control Self-Assessment (CSA) chart, Mr. Byone explained that the individuals completed the CSA for their own conduct, so it was not uncommon for CSA results to be positive. He noted that the reason Internal Audit needed to follow up regarding CSA results was because the Internal Audit verifications occasionally revealed different results than those reported in a CSA.

Future Agenda Items

Steve Byone noted that in November, Sean Barry with PwC would present the 2007 SAS 70 audit status report and information about the 2007 financial statement audit planning. Other future agenda items include: standing Internal Audit status report(s); review of Credit Work Group matters; review/update on financial and investment standards; and Committee briefs. Mr. Byone and Mr. Petterson also informed the Committee that the terms of a contract for contingent workforce management were being discussed by staff with a potential vendor, and

that full details of a proposed contingent workforce management solution would be provided during the November meeting.

Adjournment

At 9:56 A.M. the Committee meeting was adjourned.

The next regular Committee meeting will be held on the morning of Tuesday, November 13, 2007.

Susan Vincent, Secretary

Review

<Vote>



Electric Reliability Council of Texas, Inc.

ERCOT Credit Work Group Charter

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 Technical Advisory Committee (TAC)AC. 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 as a working group and is not a subcommittee of either the Board or TAC.

III. ERCOT Credit Work Group Functions

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

- Provide input on credit matters as requested by the Finance and Audit Committee or by TAC or its subcommittees

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

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

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 the 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 emergencyurgent condition requires shorter notice. Meeting notices for emergencyurgent 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 urgent matteremergency, 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 urgent matteremergency, 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 circumstances causing the urgency need for the emergency vote shall be clearly identified. All CWG meetings may be attended by any interested observer. Call-in numbers will be provided for those persons wishing to attend via phone. CWG members may participate in the meeting and vote via phone. If third-party confidential information is presented during a meeting, all persons except for CWG members may be excluded from the portion of the meeting at which such confidential information is discussed.

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 request time 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 draft minutes of each meeting with materials being distributed for the next 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~~ November 13, 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.

<Vote>

**The following decision template is a copy of Board materials
agenda item 10a.**

ERCOT CORPORATE STANDARD

Document Name:	Financial Standard
Document ID:	CS3.1
Effective Date:	Upon Approval
Owner:	Board of Directors, F&A Committee
Approved:	

1.0 PURPOSE

This financial standard is a framework from which ERCOT’s financial integrity will be maintained while serving the long-term interests of the company and the ERCOT market. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT’s primary responsibilities.

2.0 DEFINITIONS

TERM	DEFINITION
Budget	The Budget consists of Project Budgets, and an Operating and Maintenance Budget and will include the Texas Regional Entity Division of ERCOT (“TRE”) Budget as a component, if and when ERCOT signs a Delegation Agreement with North American Electric Reliability Corporation (NERC).
Project Budgets	Project Budgets consist of proposed expenditures to be made to develop capital assets during ERCOT’s Fiscal Year. Any significant projects not included in the approved project budgets will be presented to ERCOT’s Board of Directors for approval as they arise.
Cash Operating and Maintenance Expenses	Cash Operating and Maintenance Expenses consist of a All reasonable and necessary costs and expenses (excluding non-cash items such as depreciation and amortization) incurred in the operation and maintenance of ERCOT’s facilities, equipment and systems.
Fiscal Year	ERCOT’s fiscal year is January 1 st through December 31 st .
Operating and Maintenance Budget	The Operating and Maintenance Budget consists of all reasonable and necessary operating costs expected to be incurred during ERCOT’s Fiscal Year.
TRE Budget	The TRE Budget is the budget (which can include both operating and maintenance and project budgets) for the Texas Regional Entity Division of ERCOT (TRE) which is approved by NERC and Federal

TERM	DEFINITION
	Energy Regulatory Commission (FERC) and which is used exclusively for the TRE’s propos <u>ing</u> and <u>enforcement ofing</u> Reliability Standards (Federal Statutory duties) and for ERCOT Protocol <u>and Operating Guide</u> compliance <u>investigationand enforcement</u> activities.
Scheduled Debt Service	<u>Scheduled Debt Service is a</u> All interest and mandatory principal payments <u>due</u> on ERCOT’s outstanding indebtedness (both long-term and short-term) for a stated period.
Strategic Financial Plan	The <u>Sstrategic Ffinancial Pplan</u> will provide current financial information and a five-year projection, which addresses all sources of revenues, including any proposed fee adjustments. It will include projections of operating and maintenance expenses, project expenditures, the funding sources of project expenditures, and debt service requirements as well as the resulting capital structure.

3.0 FINANCIAL OBJECTIVES

In seeking to fulfill its corporate objectives, ERCOT will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

Strategic Financial Plan and Budget. Prior to or in conjunction with the submission of the annual Budget, the Chief Financial Officer will submit an update to the Strategic Financial Plan.

The Budget will be substantially consistent with the Strategic Financial Plan and will be submitted to the Board with sufficient time for the review and approval of the Board prior to the beginning of the Fiscal Year. The TRE Budget component of the Budget may be approved in advance of the full Budget if required to meet deadlines set by regulators.

In developing the Strategic Financial Plan and Budget, ERCOT staff will work to ensure that financial ratios required for compliance with debt instruments are maintained.

ERCOT will pursue financial objectives that will allow it to maintain an investment grade debt rating with Standard & Poor’s, Moody’s or Fitch. If a rating below investment grade is received or expected to be received, staff will promptly recommend a plan for Board consideration to recover or maintain the targeted rating within 18 months.

Overall, the Strategic Financial Plan and the related Budget will seek to assure ERCOT’s financial stability. They will be approved by the Board and will guide ERCOT’s financial planning process.

Fees and Charges. ERCOT will assess fees consistent with the ERCOT Protocols and PUCT rulings. Established fees will include payment of the portion of the TRE Budget for ERCOT Protocol and Operating Guide compliance investigation activities. andERCOT will also collect fees on behalf of the Electric Reliability Organization as

approved by FERC. ~~If approved as the regional entity, t~~The TRE will also receive funding for its Federal Statutory duties from NERC, pursuant to [itsa](#) Delegation Agreement. Fees, funding, and charges will be requested to recover the Board-approved Operating and Maintenance Budget (excluding depreciation and amortization), Scheduled Debt Service (less any principal payments reasonably expected to be refinanced), and the portions of Project Budgets that are to be financed with revenue. Fee adjustments, if necessary, will generally be developed and proposed in connection with ERCOT's annual Budget.

ERCOT will use all reasonable means to operate within the approved Budget for the current year. When unforeseen events occur (e.g. MWh's are significantly over or under projected levels, functionality is added or removed, etc.) and as a result, ERCOT experiences or expects to experience in the next 12 month period more than a 25% variance from 1) its Project Budgets, 2) its Operating and Maintenance Budget (excluding depreciation and amortization), or 3) its projected revenue stream, staff will promptly recommend a plan for Board consideration, which may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.

Sources of Financing. ERCOT will use a combination of equity (revenue funding) and debt to finance projects. In determining the combination of equity and debt to be used in any particular year, ERCOT will consider the impact of the current year decision on future years.

Generally, ERCOT will structure debt issues such that the average maturity of the debt approximates the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified.

ERCOT may use variable-rate debt to provide flexibility in its overall financing program and to manage its overall interest rate exposure. However, in no event will ERCOT allow unhedged, variable rate debt to be more than 40% of total debt outstanding.

ERCOT will periodically evaluate the interest rate environment and review ways to manage interest rate exposure within that environment.

As appropriate, ERCOT will periodically evaluate mechanisms to restructure or refinance debt. ERCOT will regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this financial standard.

Liquidity. ERCOT will seek to maintain adequate liquidity to meet its business needs. Liquidity is the combination of available 1) operating cash on hand, 2) operating cash equivalents / short term investments and 3) undrawn borrowing capacity under credit facilities.

ERCOT's targeted minimum level of liquidity will factor in: 1) six months of forecasted Scheduled Debt Service, other than principal payments reasonably expected to be refinanced, 2) two months of average Cash Operating and Maintenance Expenses, net

of projected administrative fee receipts, 3) two months of budgeted project expenditures, and 4) two months of estimated TCRs expected to be paid, net of projected TCR receipts during the same period.

If at any time ERCOT's liquidity is less than or is expected to be less than the targeted minimum level set forth in this standard, staff will promptly recommend a plan for Board consideration to achieve the liquidity target within six months.

Funds received in conjunction with TCR auctions may be utilized to fund ERCOT working capital and project expenditure needs so long as liquidity is at or above the target levels and ERCOT's issuer rating remains investment grade. These funds may be utilized in place of borrowing under short term credit facilities to meet liquidity needs.

4.0 RESPONSIBILITIES

It is the responsibility of the Chief Executive Officer, Chief Compliance Officer and Chief Financial Officer to ensure that this standard is implemented and to recommend changes in the standard as needed.

5.0 FINANCIAL STANDARD ADOPTION

ERCOT's financial standard will be adopted by resolution of the Board of Directors. The standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.

ERCOT CORPORATE STANDARD

Document Name:	Investment Standard
Document ID:	CS3.2
Effective Date:	Upon Approval
Owner:	Board of Directors, F&A Committee
Governs:	ERCOT Personnel
Approved:	

1.0 PURPOSE

The purpose of the ERCOT Investment Standard is to document the guidelines and related activities approved by the ERCOT Board of Directors for the investment and management of funds held by ERCOT.

It is ERCOT's policy to invest its funds in a manner that provides reasonable investment returns with adequate security while meeting daily cash flow demands and conforming to applicable laws, Bylaws, board resolutions and policies and debt covenants.

The standard applies to activity involving ERCOT funds, except for the Electric Reliability Council of Texas, Inc. 401(k) Savings Plan, which is managed separately.

ERCOT funds specifically include proceeds from:

- 1) the ERCOT System Administration Fee, Nodal Surcharge, NERC funding under a Delegation Agreement, and other fees collected from time to time,
- 2) transmission congestion rights (TCR) auctions,
- 3) market settlement operations,
- 4) security deposits,
- 5) debt issues, and
- 6) other miscellaneous cash received.

2.0 STANDARDS

Standard of Care. ERCOT investments will be made with judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of principal as well as the probable income to be derived.

The standard of prudence to be used by the Designated Investment Officers (defined below) shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing an overall portfolio. The Designated Investment Officers of ERCOT, acting in accordance with this standard and any other written procedures pertaining to the administration and management of ERCOT’s portfolio and who exercise the proper due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes.

Investment Objectives. The primary objectives, in priority order, of ERCOT’s investment activities shall be:

- 1) **Safety** – Safety of principal is the foremost objective of the investment program. Investment of ERCOT funds will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, ERCOT will diversify its investments by investing funds among a variety of securities offering independent returns and a variety of independent financial institutions.
- 2) **Liquidity** – ERCOT’s investment portfolio will remain sufficiently liquid to enable ERCOT to meet all operating requirements which might be reasonably anticipated.
- 3) **Return on investment** – ERCOT’s investment portfolio will be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, in line with ERCOT’s investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority. Responsibility for the investment program is hereby delegated to the Designated Investment Officers. The Chief Financial Officer and the Treasurer of ERCOT are the Designated Investment Officers of ERCOT and are authorized to enter into and are responsible for all investment transactions undertaken. They will establish a system of controls over the investment program.

The Designated Investment Officers will establish written investment procedures for the operation of the investment program consistent with this standard. No person may engage in an investment transaction except as provided under the terms of this standard and the procedures established by the Designated Investment Officers.

Any two of the following individuals, with at least one being a Designated Investment Officer shall have authority to open and close investment and / or depository accounts with Qualified Institutions (as defined below): Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Controller and Treasurer.

Qualified Institutions. A Designated Investment Officer will select banks and other financial institutions that are approved for investment and / or depository purposes (“Qualified Institutions”). Only firms meeting the requirements of the attached Appendix A will be eligible to serve as Qualified Institutions.

If an ERCOT Board member or member of his or her immediate family is an officer or director, is employed by, or owns or has a beneficial interest in more than 10 percent of the stock in a bank or other financial institution that would otherwise be a Qualified Institution, such Board member shall provide full disclosure of such stock holdings or relationship in documented form to be filed with permanent records of ERCOT. Any institutions so disclosed will be excluded from consideration as a Qualified Institution without 1) full disclosure to the Board of Directors of the relationship and 2) approval of the Board to establish the relationship.

Authorized Instruments. ERCOT shall invest only in those types of instruments authorized under this standard and listed in Appendix C and subject to the restrictions included in Appendix C.

Safekeeping of Investments. Security transactions, including collateral for repurchase agreements, will be conducted on a "delivery-versus-payment" (DVP) basis. Securities, other than shares in money market mutual funds, will be held in safekeeping, in the name of ERCOT, by a custodian (an independent state or federally-chartered bank) designated by the Treasurer and evidenced by safekeeping receipts. Institutions that offer money market mutual funds are responsible for safeguarding their underlying securities.

Internal Control. The Treasurer shall ensure that the internal controls over investments are reviewed 1) periodically by ERCOT's internal auditor, and 2) annually in conjunction with the fiscal audit by the external auditor. This review will test compliance with policies and procedures.

Reporting. A Designated Investment Officer will provide quarterly investment reports to the Board of Directors and Finance and Audit Committee which provide a clear picture of the status of the current investment portfolio.

Schedules in the quarterly report will, at a minimum, include the following:

- 1) A listing of individual securities held at the end of the reporting period by authorized investment category
- 2) Average life and final maturity of all investments listed
- 3) Coupon, discount or earnings rate
- 4) Par value, amortized book value and market value
- 5) Percentage of the portfolio represented by each investment category
- 6) Statement of compliance with the Investment Standard

Investment Standard Adoption. ERCOT's investment standard will be adopted by resolution of the Board of Directors. The standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.

APPENDIX A

Requirements of Qualified Institutions

Only entities meeting the following requirements will be eligible to serve as Qualified Institutions:

General Requirements

- 1) The entity has a senior debt rating which is at least the equivalent of A- by Standard & Poor's or A3 by Moody's Investor Service,
- 2) Has provided a current audited financial statement which is on file at ERCOT,
- 3) Has capital of not less than \$100 million, and
- 4) Has assets of not less than \$1 billion.

Additional Requirements for Depositories

- 1) The entity is a federal- or state-chartered bank, and
- 2) Deposits up to \$100,000 are insured by federal agencies

Additional Requirements for Security Dealers

- 1) The entity is a "primary" or regional dealer that qualifies under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule),
- 2) Is registered as a dealer under the Securities Exchange Act of 1934,
- 3) Is a member in good standing of the National Association of Securities Dealers (NASD),
- 4) The entity has been in business for at least five (5) years,
- 5) A representative of the entity has returned a signed certification (substantially in the form attached as Appendix B) that he/she has read and is familiar with ERCOT's Investment Standard, and
- 6) The entity has provided such other information as ERCOT requires from time to time.

APPENDIX B

**Investment Standard for
Electric Reliability Council of Texas**

Qualified Institution Certification for Security Dealers

Dealer / Investment Firm: _____

I hereby certify that I have received and thoroughly reviewed the ERCOT Investment Standard, and the firm I represent

- 1) meets all of ERCOT's Requirements for Qualified Institutions; and

- 2) has implemented reasonable procedures and controls in an effort to preclude investment transactions between this firm and ERCOT that are not authorized by the ERCOT Investment Standard, except to the extent that this authorization is dependent on an analysis of the makeup of ERCOT's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative

Name

Title

Date

APPENDIX C

Authorized Instruments

<u>Description</u>	<u>Quality Limitation</u>	<u>Maturity Limitation</u> (Note 1)	<u>Limitation per issuer</u>	<u>Category limitation</u>
1. Obligations of or guaranteed by the US government	n/a	5 yrs or less	none	none
2. Obligations of or guaranteed by other US governmental entities (e.g. federal agencies, state or municipal, etc)	n/a	5 yr or less	\$ 5,000,000	50% of total
3. Certificates of deposit and share certificates	Note 2	1 yr or less	\$ 5,000,000	33% of total
4. Repurchase agreements in which the collateral is government or agency securities (1 or 2 above). (Note 3)	Note 2	7 days or less	\$ 5,000,000	33% of total
5. Commercial paper	A1/P1 or better	1 yr or less	\$ 5,000,000	33% of total
6. Banker's acceptances	Note 2	1 yr or less	\$ 5,000,000	33% of total
7. Money market mutual funds (MMMF)	Note 4	Note 4	Note 4	none

Note 1: To the extent possible, ERCOT will attempt to match its investments with anticipated cash flow requirements. A base level of cash may remain uninvested to meet the operating needs of ERCOT.

Note 2: Investments may be made with financial institutions with a corporate or senior debt credit rating of at least A- with S&P or A3 with Moody's. Investments in repurchase agreements must be subject to a Master Repurchase Agreement signed with the bank or dealer (e.g. a PSA Master Repurchase Agreement or equivalent).

Note 3: Collateral is required for all repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value and accrued interest. Collateral may consist only of other instruments approved above. Collateral will always be held by an independent third party with whom ERCOT has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to and retained by ERCOT. The right of collateral substitution is granted.

Note 4: There is no credit rating required given 1) the MMMFs stated objective to preserve capital, 2) the credit quality restrictions placed on MMMFs by the SEC (may hold no more than 5% of middle-rated securities - A2/P2 or equivalent), 3) the SEC restriction that no more than 5% of assets in a MMMF may be invested in any one security (requires diversification) and 4) the restriction that MMMFs can only invest in instruments with maturities of less than 13 months and that the average maturity of all holdings in a MMMF cannot extend beyond 90 days. There is no maturity limitation or limitation per issuer for the reasons mentioned above.



Date: November 6, 2007
To: Board of Directors
From: Clifton Karnei, Chair, Finance & Audit Committee
Subject: Investment and Financial Standards Approval

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: November 13, 2007

Agenda Item No.: 10a

Issue:

Consideration of modifications to the ERCOT Financial Standard which are recommended by ERCOT staff and are expected to be recommended by the Finance and Audit (F&A) Committee.

Background/History:

The Board established an Investment Standard defining the principals by which ERCOT invests funds and a Financial Standard defining the principals by which ERCOT performs its financial planning and budgeting. These Standards require that the F&A Committee review these documents annually and that the Board approve any revisions recommended by the F&A Committee.

ERCOT staff has reviewed the Investment Standard, but does not propose any changes to the Investment Standard at this time. A copy of the current Investment Standard is attached hereto as *Attachment A*. The F&A Committee will review the document and is expected to confirm that no changes are required.

ERCOT staff has reviewed the Financial Standard and recommends modifications to the Financial Standard, as reflected in *Attachment B*. The F&A Committee is expected to recommend the Board approve these modifications to the Financial Standard.

Key Factors Influencing Issue:

The requirement for Board approval of any modifications to the Investment Standard and Financial Standard.

Alternatives:

- Continue operating under current Financial Standard
 - Approve recommended revisions to the Financial Standard
 - Make any requested modifications to the Investment Standard
-

Conclusion/Recommendation:

ERCOT staff recommends and the Finance & Audit Committee is expected to recommend that the Board approve the modifications to the Finance Standard, as set forth in *Attachment B*.



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

November 13, 2007

WHEREAS, the board of directors (the "Board") of Electric Reliability Council of Texas, Inc., a Texas non-profit corporation ("ERCOT") deems it desirable and in the best interest of ERCOT, in order to provide sound financial guidance for its business, to approve requested revisions to the Financial Standard;

THEREFORE be it RESOLVED, that the revised Financial Standard, as set forth in **EXHIBIT A**, which is attached hereto and incorporated herein for all purposes, is hereby authorized and approved by the Board in each and every respect.

CORPORATE SECRETARY'S CERTIFICATE

I, _____, Assistant Corporate Secretary of ERCOT, do hereby certify that, at the _____, 2007 ERCOT ISO Board Meeting, the Board of Directors of ERCOT approved the above referenced Resolution. The Motion passed by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____, 2007.

Assistant Corporate Secretary

pwc

Electric Reliability Council of Texas, Inc.
2007 Financial Statement Audit Plan



F&A Committee meeting
November 13, 2007

November 13, 2007

To the Members of the Finance and Audit Committee
of the Board of Electric Reliability Council of Texas, Inc.
7620 Metro Center Drive
Austin, TX 78744

Dear Finance and Audit Committee Members,

We are pleased to have the opportunity to meet with you to discuss Electric Reliability Council of Texas, Inc.'s ("ERCOT") relevant business issues and your expectations of PricewaterhouseCoopers LLP ("PwC") as your independent auditors.

We are pleased to present you our audit plan, which includes a summary of our mutual understanding and expectations between you and others within your organization and PricewaterhouseCoopers, our preliminary analysis of key risks, our planned audit approach, reporting and audit timetable and other matters. Discussion of our plan with you ensures our PwC engagement team members understand your concerns and that we agree on mutual needs and expectations to provide the highest level of service quality.

We look forward to meeting with you to present this report, address your questions and discuss any other matters of interest to the Finance and Audit Committee. If you have any questions regarding this plan please contact Sean Barry at (916) 390-0058.

Yours truly,

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Our Objectives	3
Audit Approach and Risk Analysis	4 – 5
Fraud Considerations	6 – 7
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PwC Service Team	9

Our Objectives



Our team is directed towards delivering our services at three levels:



- independent opinions and reports that add credibility to financial information released by the Company
-

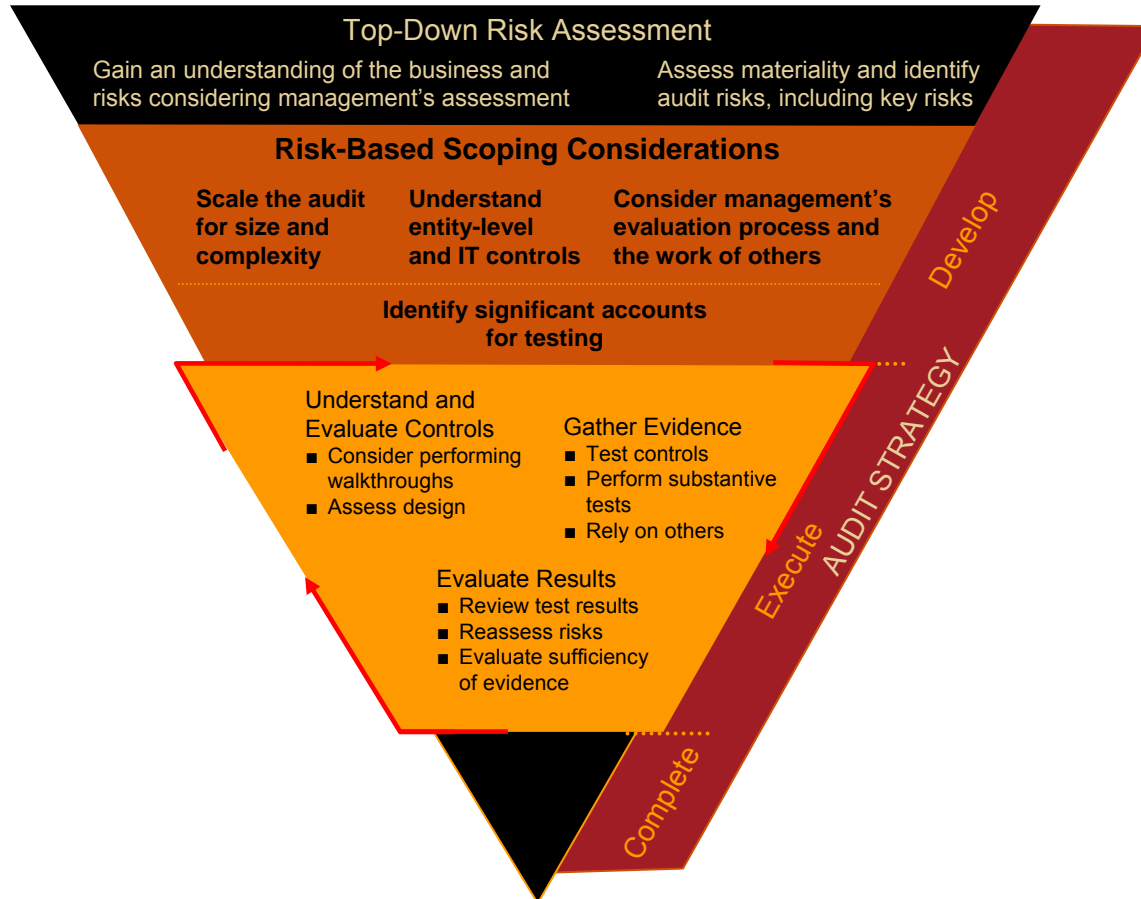


- assistance to the audit committee in discharging their corporate governance and compliance responsibilities
-



- observations and advice on financial reporting, tax and business issues from senior professionals who have an in-depth understanding of your business and industry, including sharing experience on industry best practice issues

PwC Top-Down, Risk-Based Audit Approach



Opinions on Financial Statements

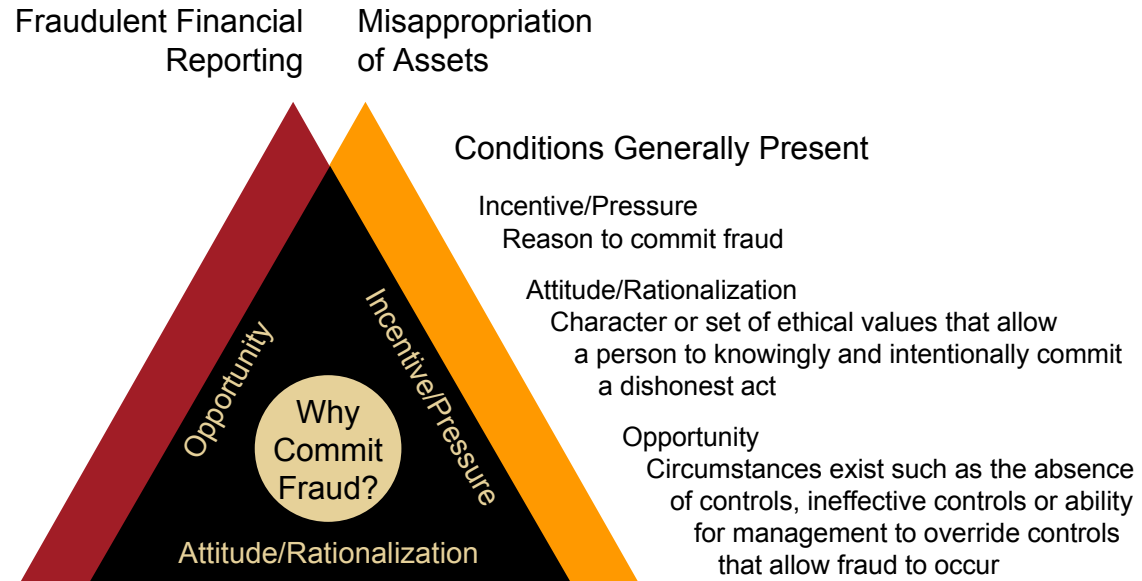
Risk Analysis and Key Audit Areas



Key financial risks: Based on our understanding of the business and discussions with various company personnel, we understand the key financial and audit risks for the current year to be as follows:

- Accruals/Provisions – Cutoff, estimates & reserves
- Contingencies/Commitments – Market settlement issues; Significant agreements
- Fixed Assets – Physical existence, impairment, depreciable lives
- Capitalized Software – Cost accumulation; capital vs. expense
- Regulatory Accounting – Nodal Project costs and deferrals
- Separate Financial Reporting – Texas Reliability Entity (“TRE”)

Types of Fraud



Attributes Contributing to Increased Fraud Risk

- Size, complexity and ownership attributes of the Company
- Type, significance, likelihood and pervasiveness of the risk

Fraud Considerations

PERSPECTIVES ON FRAUD



AUDIT PLAN

Discussions with senior management, and financial management regarding the risk of fraud.

PwC engagement team will inquire about reported or suspected fraud.

Complete specific fraud procedures:

- Review non-standard journal entries
- Perform analytical procedures, specifically on revenue and accruals
- PwC enhanced audit program will include sections addressing reported or suspected fraud and anti-fraud programs.

Audit Deliverables



Reporting/deliverables:

Your PricewaterhouseCoopers team works on the engagement throughout the year to provide Electric Reliability Council of Texas, Inc. with timely, responsive service. Below are the dates you can expect our reports.

Audit reports	Consolidated financial statements opinion - ERCOT Audit Report - TRE Audit Report	April 2008
Internal control reporting	Internal control observations and business issues	April 2008
Audit findings	Required communications	April 2008

PwC Service Team



Role	Name	Office Phone	Office Fax	Email
Quality Review Partner	Mark Niehaus	(267) 330-2100	(813) 329-3127	mark.niehaus@us.pwc.com
Engagement Leader	Sean Barry	(916) 390-0058	(813) 375-5447	sean.d.barry@us.pwc.com
Engagement Manager	Ryan Bassett	(214) 756-1516	(813) 375-5283	ryan.p.bassett@us.pwc.com
Senior Associate	Nick Hill	(512) 708-5608	(813) 639-2451	nick.hill@us.pwc.com
SPA Engagement Manager	Nisha Rocap	(512) 708-5506	(813) 375-8128	nisha.rocap@us.pwc.com
Tax Engagement Partner	Mike Lane	(512) 708-5864	(813) 637-4754	mike.lane@us.pwc.com
Tax Engagement Manager	Pat Dunnahoo	(512) 708-5613	(813) 741-4438	patrick.a.dunnahoo@us.pwc.com

Informative

Group discussion if needed

Q&A only

ERCOT Market Credit Status

as of 9/30/2007

as of 10/31/2007

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	
8	8,666,562	2%	55,675,094	U

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
9	20,229,143	5%	86,853,059	U

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

42	230,142,206	57%	339,891,614	S
15	162,044,982	40%	520,279,236	S

45	234,158,794	54%	336,437,196	S
14	183,214,455	42%	485,279,236	S

Total Exposure

65	400,853,750	100%		
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68	437,602,392	100%		
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Other QSEs in the ERCOT Market (ERCOT owes)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

9	(21,617,364)	-31%	87,074,672	U
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8	(2,440,398)	-6%	56,096,707	U
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QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

46	(36,772,443)	-53%	49,407,692	S
8	(11,697,718)	-17%	175,700,000	S

46	(30,663,760)	-78%	47,231,678	S
9	(6,112,539)	-16%	205,700,000	S

Total

63	(70,087,525)	-100%		
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63	(39,216,697)	-100%		
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Total

128

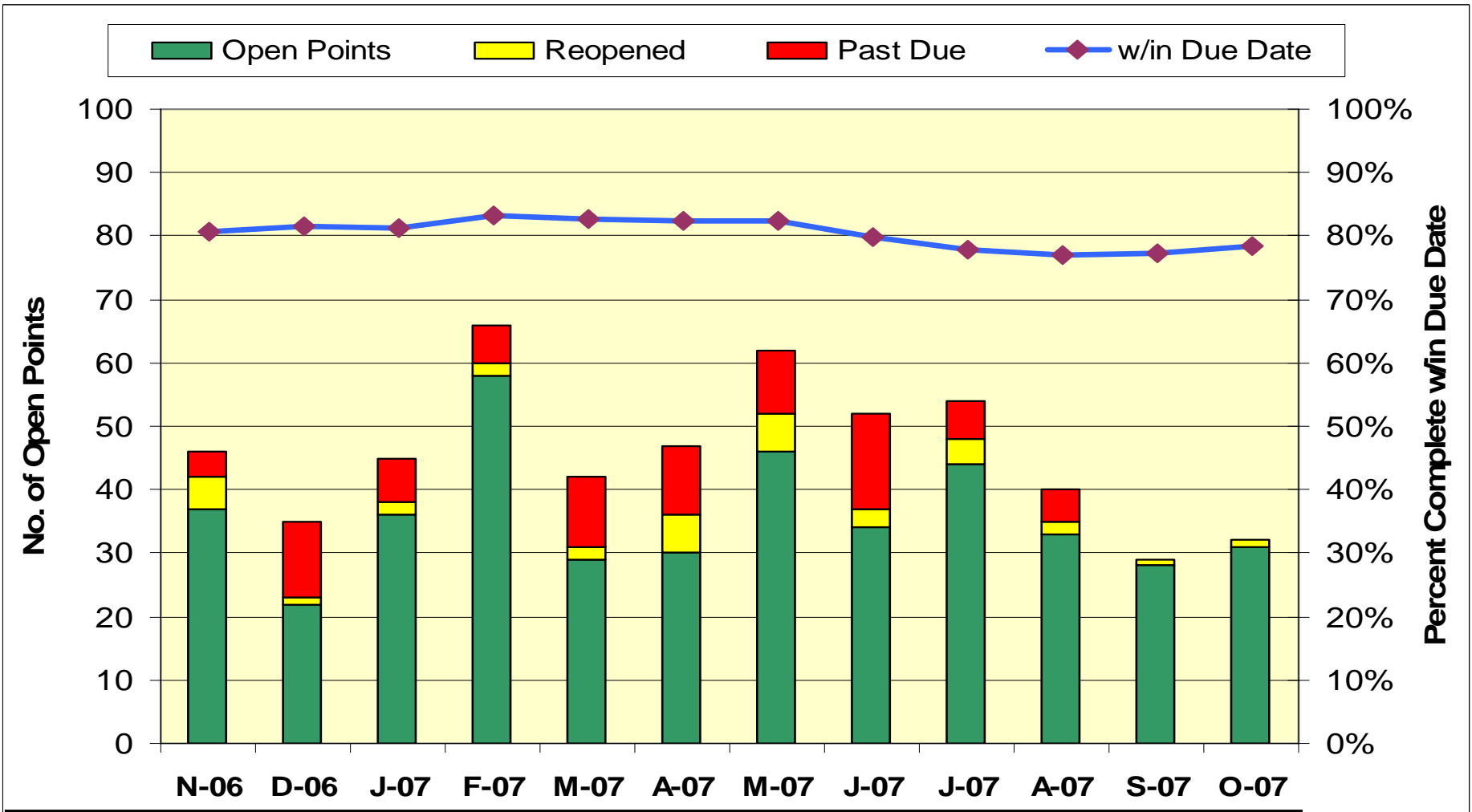
131

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

9. Committee Brief: ICMP – Status of Open Audit Points

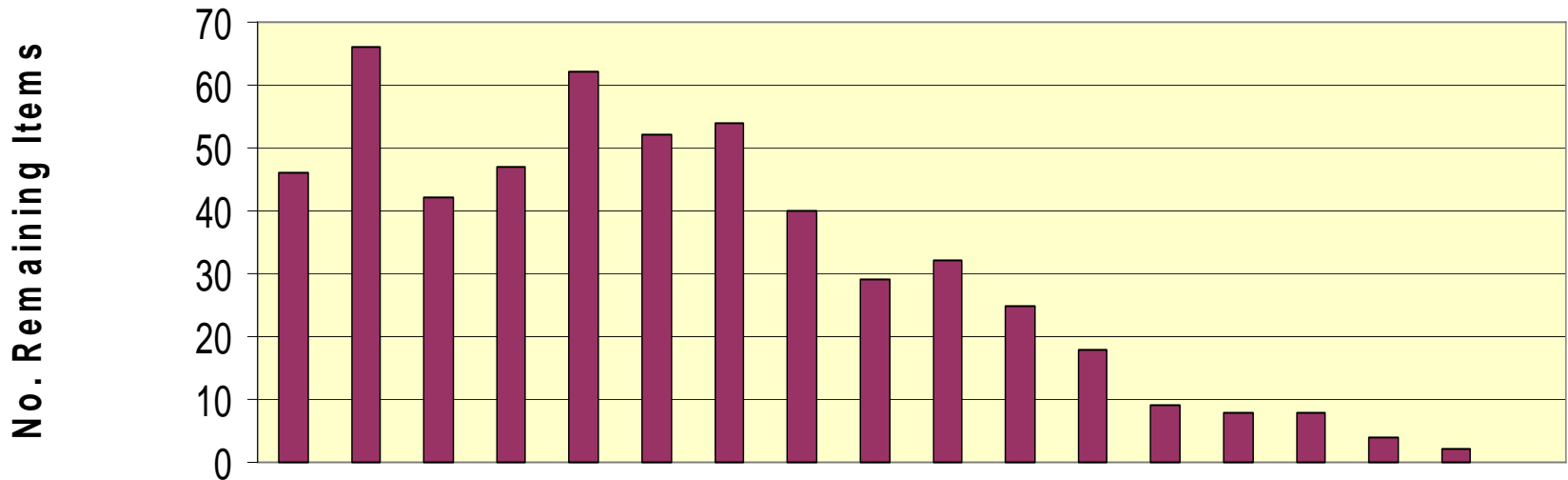
Cheryl Moseley



	N-06	D-06	J-07	F-07	M-07	A-07	M-07	J-07	J-07	A-07	S-07	O-07
Audits Completed	3	2	5	2	2	3	3	1	4	1	1	3
Points Added	28	8	36	35	0	7	18	3	17	1	4	20
Points Completed	14	19	26	14	24	2	3	13	15	15	15	17



Projected Audit Point Progress



	J-07	F-07	M-07	A-07	M-07	J-07	J-07	A-07	S-07	O-07	N-07	D-07	J-08	F-08	M-08	A-08	M-08	J-08
■ Audit Points	46	66	42	47	62	52	54	40	29	32	25	18	9	8	8	4	2	0

Audits Completed

(last 3 months)

Internal Audits

- Cash & Investments
- 2006 Fraud Auditing Program Review
- Nodal Acctg./Allocation
- Nodal Vendor Billings
- Market Credit Process
- Contractor Background/Reference Checks & Drug Screens (Targeted Review)
- Testing of Internal Controls

External Audits

- 2007 401K Audit (Maxwell, Locke & Ritter)
- Texas Nodal Program Controls – Review #4 (Managed by IAD)

Open Audits

Internal Audits

- Non-Nodal Vendor Billings
- Protocol/Market Guide Approvals/Revisions
- Operator Procedural Compliance (Limited Scope)
- Fixed Assets (Special Request)

External Audits

- 2007 SAS70 (PwC)

Planned Audits

(next 3 months)

Internal Audits

- Ethics Compliance (ERCOT-wide)
- Debt Financing
- Nodal PMO

External Audits

- Texas Nodal Program Controls – Review #5 - 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

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

External Assessments

1 security assessment
planned

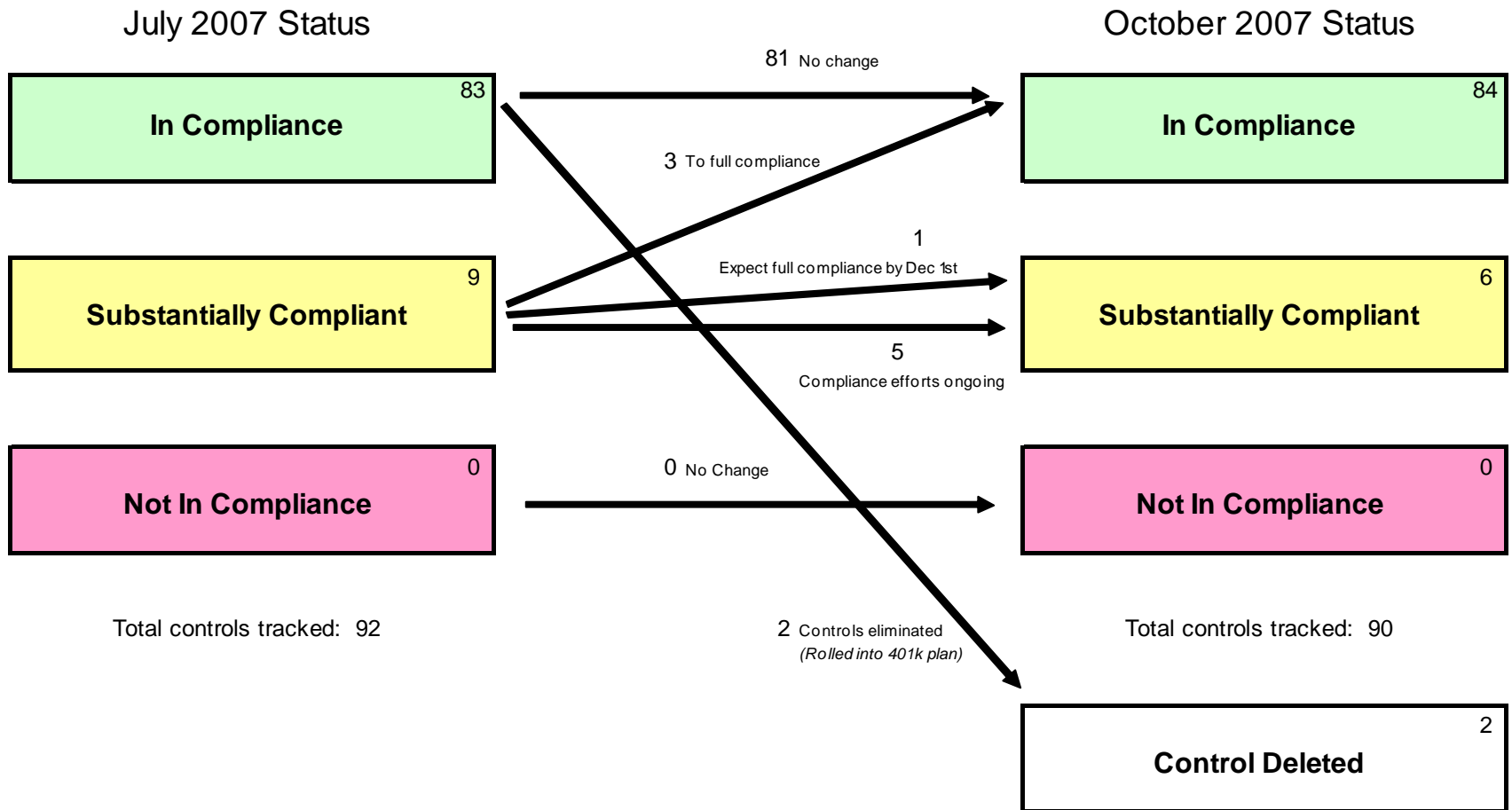
**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of November 1st, 2007)**

Strategic Risks	Operational Risks			Reporting Risk	Legal and Regulatory Compliance Risks
	Operational Excellence	Market Facilitation	Grid Reliability		
<p>Strategy Development</p> <p>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</p> <p>Current planning effort only at tactical level (5-10 years). Risk assessment and business planning horizon needs to be extended. Development of a strategic plan is underway; expect to present to Board during Q1'08.</p>	<p>Performance Monitoring</p> <p>Clearly defined and actively monitored performance metrics linked to mission and goals. Performance status communicated and corrective action taken.</p>	<p>Customer Choice</p> <p>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</p> <p>Work to improve database backup processes and production failover processes in case of emergencies is on hold due to the implementation of many retail system infrastructure changes. We will implement improvements to mitigate such residual risk concerns after infrastructure changes stabilize. We currently triage disaster recovery events on a case-by-case basis and will continue to do so to meet stakeholder expectations for accurate and timely processing.</p>	<p>Grid Operations</p> <p>Information required to operate the grid is efficiently gathered. 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</p> <p>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</p>	<p>Legal & Legislative</p> <p>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</p>
<p>Mission and Goals</p> <p>Corporate objectives and performance standards are understood and followed.</p>	<p>Business Practices</p> <p>Business planning, processes and management standards are effective and efficient.</p> <p>Disaster recovery plans are currently below desired expectations. Business Continuity Plan coordinator has been selected. Gap analysis complete. Business Impact Assessments are currently being drafted and are on schedule to be completed by mid-November.</p>	<p>Nodal Implementation Project</p> <p>Nodal Implementation on budget on schedule, and within defined scope.</p> <p>Scope is green, budget quality and timeline remain amber. Major milestones have been reached to date. Many base systems have been delivered. Baseline 1 and 2 systems are in various delivery phases. Staffing issues remain in some areas. Retention plans have been developed and put into place. Budget forecast exceeds \$263 million. Cost-saving steps are under review in an attempt to bring back in line. Some hardware implementations have been delayed and are impacting delivery of some Nodal projects.</p>	<p>Planning</p> <p>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</p> <p>Completed study of need for transmission and generation capacity over longer-term (over 5 years out) scenarios. Plan to perform additional studies for multiple generation interconnection scenarios. Reviewing requirements stakeholder requests for longer (10-20 yr) planning studies.</p>	<p>Disclosure</p> <p>Reporting and other disclosures to intended parties is timely, accurate and effective.</p>	<p>Internal Control Compliance</p> <p>Internal Control Compliance, processes and management standards are effective and efficient.</p> <p>Training requirements are ongoing; a fully operational plan is expected by 11/30/07.</p>
<p>Reputation</p> <p>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</p>	<p>Workforce</p> <p>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</p> <p>We continue to face an increased demand for the skill sets of our employees and have recently experienced additional losses that affect the nodal project. Our open positions remain constant at around 50. ERCOT is considering additional retention options and other modifications to curb the loss in experienced personnel.</p>	<p>Counterparty Credit</p> <p>Maintain credit risk exposure for overall market within acceptable limits.</p> <p>Developing enhanced metrics to measure the residual credit risk assumed by market participants and the associated probabilities that the market could withstand such an event. F&A will receive an update on the progress of this project in November. Final results are expected to be available by first quarter 2008. A determination of the acceptable level of residual credit risk exposure will be made by the ERCOT Board of Directors.</p>	<p>Bulk System Resources</p> <p>Market Participants construct and make available adequate bulk electric grid resources.</p> <p>The latest Long Term Reliability Assessment shows the region below the 12.5% target margin stating in 2009. ERCOT is developing new transmission interconnection solutions for new proposed power plants, evaluating possible increases in LaaR participation in the responsive reserve market, and communicating the resource outlook to industry groups, regulators and other stakeholders</p>	<p>Communication</p> <p>Internal and external communications are timely and effective.</p>	<p>Industry Standards</p> <p>Business practices provide stakeholders with required assurances of quality.</p> <p>Initiation of ERO/TRE reliability standard Compliance Monitoring and Regional Entity Compliance Program in June introduces additional audit and penalty risks which ERCOT is still assessing.</p>
<p>Fiscal Management</p> <p>ISO design requires competent, prudent and cost effective provision of services.</p>	<p>Technology Infrastructure</p> <p>Information systems, supporting facilities and data are effectively managed and are reliable.</p> <p>SAIC has completed the review of the retail systems. The final report will be issued in November and findings will be revealed at that time. Retail systems have been relatively stable. The AIX migrations continue and are scheduled for completion in January. Most production systems have been moved to AIX and system stabilization has gone well. A Service Level Agreement is in development with the market for electronic data warehouse reports for zonal.</p>	<p>Administration, Settlement & Billing</p> <p>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</p>	<p>Operational Responsibility</p> <p>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</p> <p>Response of generators and LaaRs 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 which will provide additional incentive for improved performance. Increased wind generation will present additional operational challenges that are currently being defined in a special study.</p>	<p>Adequacy and Integrity</p> <p>Robust processes exist to support management assertions embodied within financial reports.</p>	<p>Regulatory Filings</p> <p>Evidence, testimony and other supporting materials are compelling and successful.</p>

(Updates from last report in **Green**)

9. Committee Brief: Management Compliance Status Update

Philip DiPastena



- Details regarding areas deemed 'substantially in compliance' are included in your Executive Session materials.

9. Committee Brief – PMO

David Troxtell

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* (To Date)	Projected Go-Live (by Y.E.)
CART	Corporate Operations	1	1	11	10	4	3	3	0	14	47	6	11
	IT Operations	4	2	3	7	3	1	0	0	0	20	3	12
	Market/Retail Operations	0	0	6	6	4	5	8	2	3	34	3	8
	System Operations	0	0	3	3	3	10	3	2	0	24	6	10
	TRE	0	0	2	0	0	0	2	0	0	4	0	2
	Totals by Phase	5	3	25	26	14	19	16	4	17	129	18	43











* Note: Additional Projects Gone Live in October 2007
 (IO) PR-60096_01 (Citrix Rebuild)
 (IO) PR-50031_01 (EMMS EDW Decommission)
 (CO) PR-70039_01 (Security Risk & Compliance)

9. Committee Brief – PMO

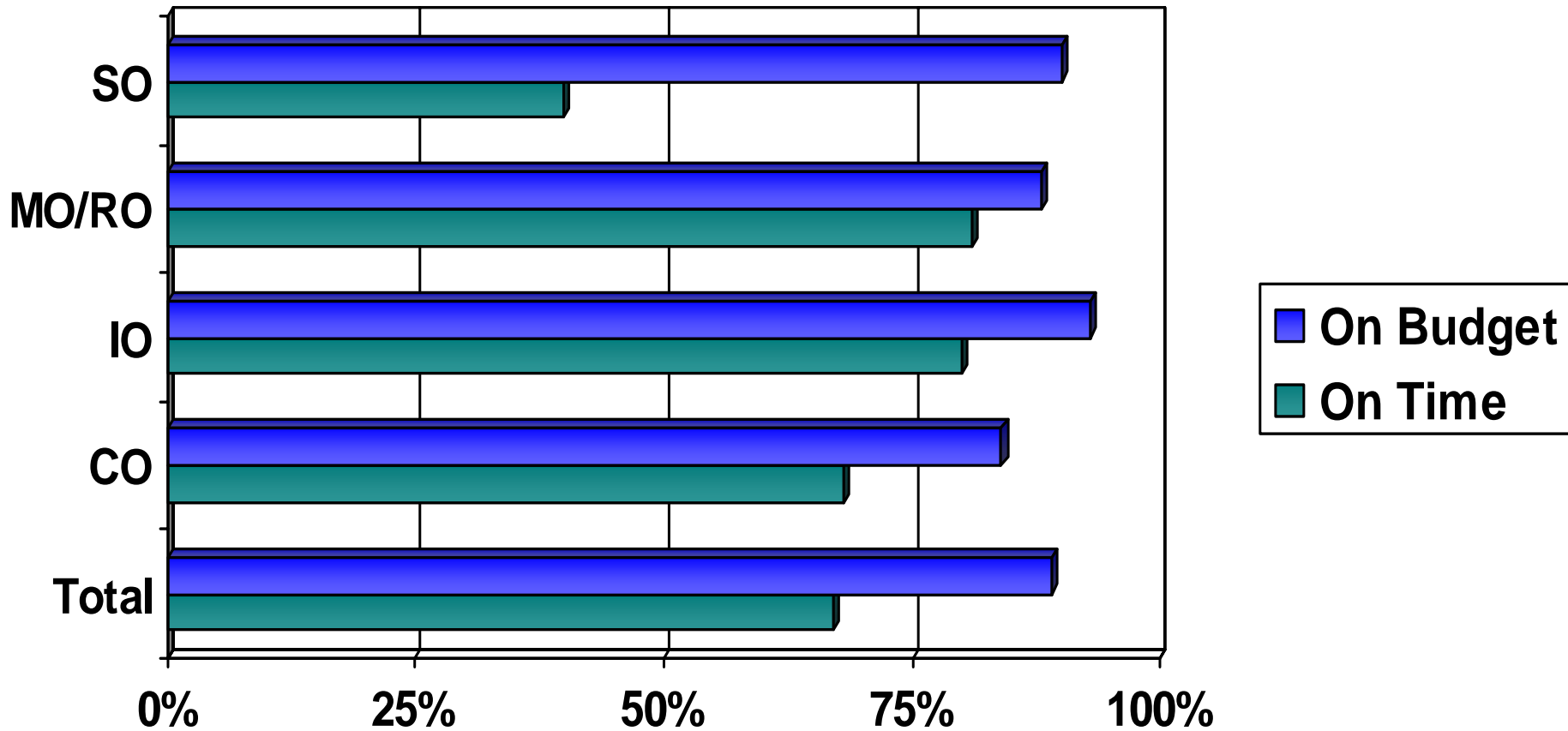
David Troxtell

PPL Iterations	Origination	Project Phases								Deferred Projects	Subtotal	Grand Total
		Not Started	Initiation	Planning	Execution	Closing	Closed	On Hold	Cancelled			
Original 2007 PPL											80	
	PUCT					1	1	2	1		5	
	Market			2	2	1			6		11	
	ERCOT	5	3	11	8	3	5	1	6	17	59	
	Compliance			3				1	1		5	
	System Maintenance										0	
Unexpected Carry Over From 2006											22	
	PUCT						2				2	
	Market				1		3		1		5	
	ERCOT				4	4	7				15	
	Compliance										0	
	System Maintenance										0	
New Projects Added (Since PPL Approval in August 2006)											27	
	PUCT				1						1	
	Market			1							1	
	ERCOT	2	4	6	9	4					25	
	Compliance										0	
	System Maintenance										0	
2007 PPL totals to date											129	
	PUCT	0	0	0	1	1	3	2	1	0	8	
	Market	0	0	3	3	1	3	0	7	0	17	
	ERCOT	7	7	17	21	11	12	1	6	17	99	
	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		7	7	23	25	13	18	4	15	17	129	

Projects Over \$1 Million

Project (CART) Number and Description (Duration) Phase (Sponsor)	Total Budget	Total Committed To Date	Metrics	
			Schedule	Budget
(MO/RO) PR-40038_01: TX SET 3.0 <i>(2007) Currently in Closing (R. Giuliani)</i>	\$1.63M	\$1.52M		
	<i>Project Go Live 6/24/2007</i>			
(MO/RO) PR-50024: Enhancements to SCR727 (consists of 2 sub-projects) <i>(2005-2008) Currently in Closing/Execution (R. Giuliani)</i>	\$1.61M	\$1.21M		
	<i>Expected Completion 4th Qtr 2007/1st Qtr 2008</i>			
(CO) PR-60099_01: TCC2 Build-Out Phase One <i>(2007) Currently in Execution (B. Kahn)</i>	\$2.65M	\$1.98M		
	<i>Expected Completion 4th Qtr 2007</i>			
(IO) PR-60055_01: Enterprise Service Management <i>(2006-2007) Currently in Execution (R Hinsley)</i>	\$1.31M	\$1.15M		
	<i>Expected Completion 4th Qtr 2007</i>			
(CO) PR-60075: Identity to Access Management (consists of 2 sub-projects) <i>(2006-2007) Currently Re-Planning (B. Kahn)</i>	\$1.49M	\$1.28M		
	<i>Expected Completion 2nd Qtr 2008</i>			

2007 Completed and Active Projects Performance



9. Committee Brief – PMO

David Troxtell

Budget vs. Actuals for Closed in 2007

Completed Projects	Description	Implemented	Baseline Budget	Actuals	\$ Fav/(UnFav) Baseline Budget	% Fav/(UnFav) Baseline Budget
50132	Network Intrusion Detection and Intrusion Protection System	2005	588,000	516,565	71,435	12
40015_01	TCR Report Enhancements	2005	23,100	38,787	(15,687)	(68)
40007	SCR 727 Phase II	2006	389,300	363,713	25,587	7
40070	Austin QA Buildout	2006	1,165,200	1,108,641	56,559	5
50007	Enhancements to FasTrak Tools	2006	2,492,900	2,629,354	(136,454)	(5)
50025	Enhance ESIIID Lookup Function	2006	313,100	230,615	82,485	26
50030	Lodestar Transition to ODS	2006	181,000	115,871	65,129	36
50123	Document Management	2006	579,000	442,398	136,602	24
50134	DC Tie Automation and Scheduling	2006	665,600	748,822	(83,222)	(13)
50137	Maestro Upgrade	2006	515,000	749,992	(234,992)	(46)
30026_01	Automate EPS Meter Data Transmittal	2006	158,300	231,651	(73,351)	(46)
40015_02	TCR Report Enhancements PH II	2006	174,100	203,517	(29,417)	(17)
40042_06	EDW LodeStar Batch Extracts	2006	910,500	947,569	(37,069)	(4)
50015_02	Lawson SIR - Process Flow	2006	232,900	163,709	69,191	30
60004_01	EIS Conformed Data Warehouse Foundations	2006	428,700	217,678	211,022	49
60016_01	Host Intrusion Detection System	2006	177,100	124,819	52,281	30
60068_01	PRR 565 and PRR 668 Modification of Distribution Loss Calculation	2006	68,900	48,922	19,978	29
60076_01	Proxy Server	2006	337,700	308,283	29,417	9
60080_01	Market Operation Support Release 1	2006	267,600	172,137	95,463	36
60088_01	Market Management System Expansion	2006	749,600	654,931	94,669	13
60092_01	Storage Upgrade	2006	901,000	801,804	99,196	11
60098_01	Veritas Vaulting	2006	100,000	82,279	17,721	18
60100_01	Lawson Software Procurement	2006	189,700	197,569	(7,869)	(4)
60102_01	Nodal Buildout (NP60C03_01)	2006	549,000	515,318	33,682	6
60103_01	Nodal Buildout (NP60C04_01)	2006	250,000	192,071	57,929	23
30105	Congestion Management Reports	2007	90,100	86,716	3,384	4
50003	MOMS - Enhancements to AREVA Study Tools	2007	1,073,400	958,712	114,688	11
50005	EDW EMMS Reports	2007	327,200	319,928	7,272	2
50130	SCE Performance Monitoring (PRR525)	2007	48,000	92,500	(44,500)	(93)
40090_02	Operator Training Simulator System	2007	3,848,100	3,650,973	197,127	5
60002_01	Increase Number of Seats for Study Market Clearing Engines	2007	103,600	86,231	17,369	17
60090_01	Upgrade to Load Profiling Software	2007	141,000	111,432	29,568	21
70031_01	Spectral Hotline System Replacement	2007	195,400	238,353	(42,953)	(22)
		Count = 33	18,234,100	17,351,861	882,239	5

NOTE:

1. Baseline budget does not include change controls that were approved without granting a new baseline budget.
2. List and totals include projects delivered and reported in previous years' project management reports but closed in Lawson in 2007.
3. **Fav**orable is when a project is delivered under budget. **(UnFav)**orable is when a project is delivered over budget.

Go Live Project for October

- **PR-70039_01 Security Risk & Compliance**

- **Scope:**

- To implement an automated monitoring system within the ERCOT Enterprise to ensure compliance with the security requirements for both SAS70 and NERC CIP Standards.

- **Deliverables:**

- Successfully delivered a software product to automate the majority of security compliance activity within ERCOT as possible to increase productivity and decrease potential compliance errors.

- **Timeline:** April/2007 – October/2007

Go Live Project for October

- **PR-50031_01: EMMS EDW Decommission**

- **Scope:** The scope of this project was limited to all of the data access points (i.e. tables, as defined by the requirements gathering phase of this project) within the EMMS Data Archive that are in use today and making the equivalent available for use in the BI layer of the ODS, via the Cognos ReportNet toolset. In addition, current DA business users' reports were evaluated for potential duplication in the ODS as certified reports area. Report logic and queries for the EMMS schemas were the only reports and queries moved as part of this project.
- **Deliverables:** The end result of the project was delivery of the Business Intelligence components necessary to produce business reports and all queries for each business unit currently using the schemas of the Data Archive.
- **Timeline:** April/2006 – October/2007

Go Live Project for October

- **PR-60096_01 Citrix Rebuild**

- **Scope:** Redesign the current Citrix environment in order to increase reliability, supportability and usability of current and future published Citrix applications for ERCOT, the PUCT, and Market Participants.
- **Deliverables:**
 - Replacement of current Citrix Windows farms with IBM Blades running Presentation Server 4.0
 - Migrate user programs to the Desktop Citrix farm
 - Upgrade Citrix HPUX servers to Presentation Server 4.0
 - Implement published applications in accordance with Citrix best practices
 - Provides a seamless work environment for users
- **Timeline:** October 2006 – October 2007

Large Project Moving to Execution

- **PR-70026_01 Virtual Tape**

- **Scope:** The Virtual Tape Backup Project will focus on implementing a tape-less environment to meet growing backup and restore needs, with offsite archiving and retrieval capability and retire the Powderhorn Tape Library in the Taylor Computer Center that was acquired in 2002.
- **Deliverables:** Hardware and Software necessary to meet ERCOT's requirements for backup and restore capabilities.
- **Timeline:** October 2007 – December 2007
- **Approval Dates:**
 - CART [10/22/07], SRT [10/22/07], EC [11/05/07]
- **Board Request:** Cost expected to exceed \$1 million – seeking approval to move into execution

Large Project Moving to Execution

- **PR-70049_01 San Hardening**

- **Scope:** To provide Storage Area Network Director hardware and software to meet ERCOT's Production Reliability and Capacity needs.
- **Deliverables:** Hardware and software that will meet ERCOT's current and future architectures and SAN requirements.
- **Timeline:** October 2007 – December 2007
- **Approval Dates:**
 - CART [09/19/07], SRT [10/22/07], EC [10/29/07]
- **Board Request:** Cost expected to exceed \$1 million – seeking approval to move the project to execution.

Large Project Moving to Execution

- **PR-70054_01 Blade Refresh**

- **Scope:** Replace 350 Blade servers and 25 corresponding chassis that have reached end of life and support.
- **Deliverables:** Updated Blade servers and chassis hardware that will ensure continued support of ERCOT critical applications.
- **Timeline:** November 2007 – 2Q2008
- **Approval Dates:**
 - CART [11/2/07], SRT [11/5/07], EC [11/05/07]
- **Board Request:** Cost expected to exceed \$1 million – seeking approval to move the project to execution.

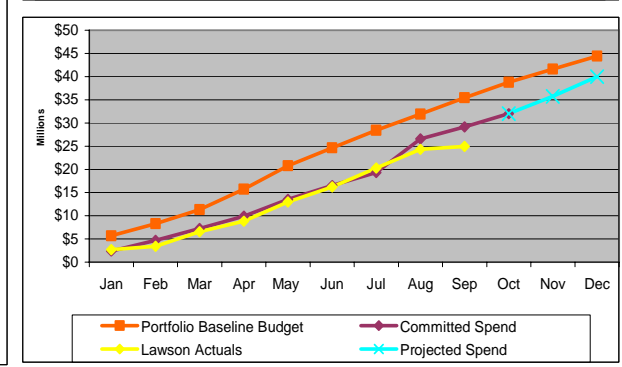
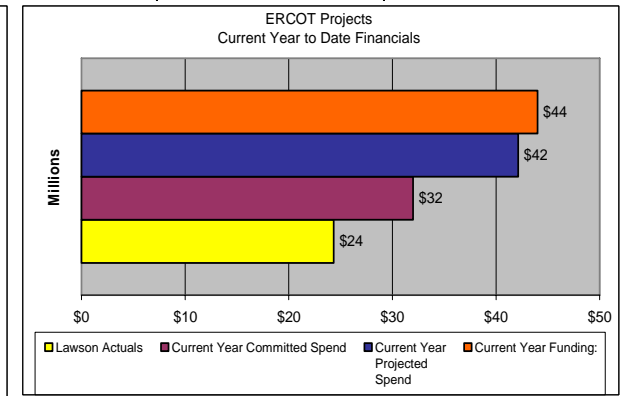
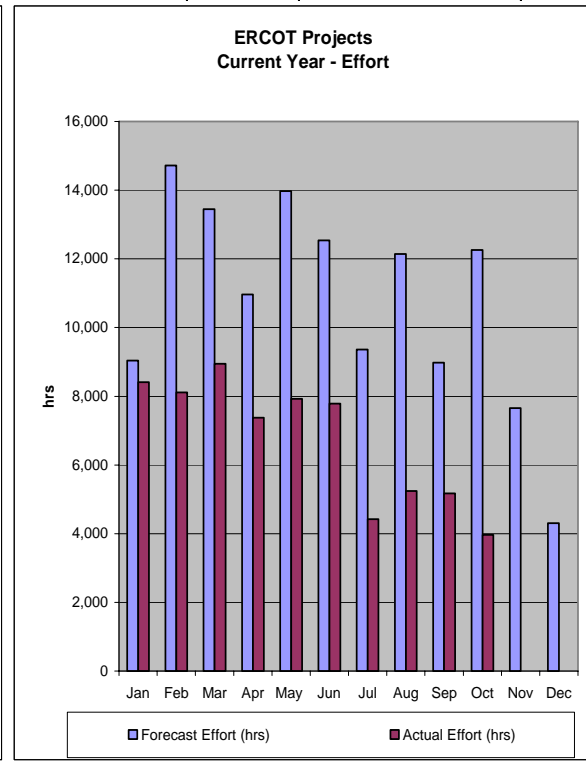
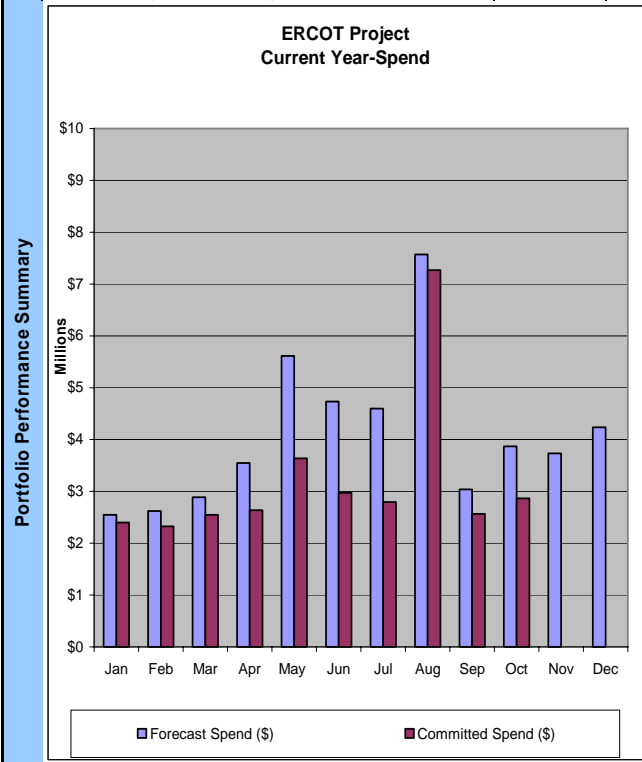
Large Project Moving to Execution

- **PR-70055_01 Additional Production SAN Capacity**
 - **Scope:** To allow ERCOT to meet the future storage capacity demands that will be increasing in 2008. Production database and server growth requirements will be met by increasing SAN Storage Capacity.
 - **Deliverables:** SAN Storage hardware and software for production capacity needs.
 - **Timeline:** November 2007 – 2Q2008
 - **Approval Dates:**
 - CART [11/05/07], SRT [11/05/07], EC [11/05/07]
 - **Board Request:** Cost expected to exceed \$1 million – seeking approval to move the project into execution.

ERCOT Enterprise Projects Summary Report

ERCOT Overall Projects Report Reporting Period: 10/29/2007

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	4	3	23	27	13	Y	G	G	R
Ron Hinsley	Steve Byone	Closed	21	Total Active		66					
		Cancelled	14	Projects Not Started:		5			Current Year Funding:	\$44,000,000	



Projections Trending Below Budget
 Testing environment 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).

Project/Status Count Variance
 CO:(9 Deferred); IO:(1 NODAL in Closed); SO-DPO:(1 NODAL in Execution); SO-TRE:(1-Hold/1-Cancelled/2-Planning); Deferred:(8-2007 PPL).



Future Agenda Items – December 2007

- **Standing Internal Audit status report (s)**
- **Final report on 2007 SAS 70 audit**
- **Approve audit committee meeting planner for the upcoming year, confirm mutual expectations with management and the auditors**
- **Assessment of the adequacy and effectiveness of the Internal Audit staff**
- **Review proposed Texas RE service agreement**
- **Update on Met Center disposition**
- **Perform Finance & Audit committee Self Assessment**
- **Committee briefs**

F&A Yearly Schedule

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