



**ERCOT Finance & Audit Committee Meeting**  
**Hilton – Austin Airport – Wildflower Room**  
**9515 New Airport Drive**  
**December 11, 2007; 8:30am – 10:40m\***

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order	C. Karnei	8:30am
2.		Adjourn to Executive Session		
	Decision required	2a. Approval of executive session minutes (Vote) (11/13/07)	C. Karnei	8:30am
	For discussion	2b. Internal Audit status report	B. Wullenjohn	8:33am
	Informative	2c. EthicsPoint update	B. Wullenjohn	8:38am
	Informative	2d. Internal Audit staffing update	B. Wullenjohn	8:43am
	Informative	2e. Discussion with Executive management	B. Kahn/S. Byone	8:45am
	Informative	2f. Assessment of adequacy and effectiveness of Internal Audit staff	B. Wullenjohn	8:55am
	For discussion	2g. Review D&O insurance coverage	C. Yager	9:05am
	Informative	2h. Update on Identity and Access Management	J. Brenton/D. Troxtell	9:15am
		<b>Adjourn to Open Session</b>		
3.	Decision required	Approval of general session and special meeting minutes (Vote) (11/09/07) (11/13/07)	C. Karnei	9:30am
4.	Decision required	Designation of Committee Secretary (Vote)	C. Karnei	9:32am
5.	For discussion	Approve audit committee meeting planner for upcoming year	S. Byone	9:35am
6.	Informative	2007 SAS 70 audit report	S. Barry	9:40am
7.	Informative	Semi-annual credit update & CWG report	M. Davies	9:55am
8.	For discussion	Review Finance & Audit committee self assessment results	C. Karnei	10:15am
9.	Informative	Committee Briefs (Q&A only)	All	10:30am
10.	Informative	Future agenda items	S. Byone	10:35am
		Adjourn ISO meeting		10:40am

\*\* 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, January 15, 2008, 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 11/09/07
  - Vote 11/13/07

**Draft MINUTES OF THE ERCOT ISO FINANCE & AUDIT COMMITTEE  
SPECIAL MEETING**

Holiday Inn Express – 7601 East Ben White Blvd., Austin TX  
10:00 A.M.  
**November 9, 2007**

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 10:00 A.M. on **November 9, 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 (via phone)
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 (via phone)
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
Brad Cox	Tenaska Power Services	Ind. Power Marketer	Present (via phone)

ERCOT staff and guests present:

Blesy, Justin	Oliver Wyman
Byone, Steve	ERCOT
Davies, Morgan	Chair, Credit Work Group
Denton, Michael	Oliver Wyman
Doolin, Estrellita	ERCOT
Frederick, Neal	PUCT
Gallo, Andrew	ERCOT
Kahn, Bob	ERCOT
Kopech, Bob	Oliver Wyman
Leewong, Andrea	Oliver Wyman
Seely, Chad	ERCOT
Spells, Vanessa	ERCOT
Vincent, Susan	ERCOT
Wagner, Marguerite	Reliant
Yager, Cheryl	ERCOT

Cheryl Yager explained that the Special Meeting was scheduled to update the Committee on the credit evaluation project. She introduced Bob Kopech and Michael Beck of Oliver Wyman to lead the discussion.

Mr. Kopech and Mr. Beck described in detail the efforts completed to date to (1) review ERCOT's existing credit practices, (2) develop a credit scoring model, and (3) construct a credit loss model for ERCOT.

Mr. Kopech and Mr. Beck stated that, in summary, ERCOT's credit worthiness and management practices were found to be generally effective in mitigating losses, but fell short of "best practices" in some areas. They explained that the credit scoring model was being developed as an enhanced credit risk assessment tool to provide input into the capital adequacy model, and the capital adequacy model was being designed to estimate the probability and severity of tail-event credit losses in the ERCOT market.

Committee members and public participants asked a variety of questions to which Oliver Wyman representatives and ERCOT staff responded.

Mr. Kopech informed participants of the following proposed schedule:

- November 16, 2007 - deliver completed capital adequacy model
- Nov 07 through January 08 – review results internally and vet with market participants
- February 19, 2008 – present findings to Board of Directors

Steve Byone asked the Committee to confirm that the work completed so far and proposed next steps were consistent with their expectations. Several Committee members commented that they were generally impressed with the information presented and looked forward to future updates. Mr. Karnei requested that, due to ERCOT's heavy reliance on guarantees as collateral, ERCOT obtain outside counsel review and suggestions regarding the current guarantee forms and regarding possible positions on the "haircutting" of guarantees.

### **Adjournment**

At 12:38 P.M. the Committee meeting was adjourned.

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Susan Vincent, Secretary

**Draft** MINUTES OF THE ERCOT ISO FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

7:30 A.M.

**November 13, 2007**

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 7:32 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	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
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present for Scott Gahn

Other Board Members and Segment Alternates:

Steve Bartley	CPS Energy	Municipal	Present
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ERCOT staff and guests present:

Barry, Sean	PricewaterhouseCoopers
Bassett, Ryan	PricewaterhouseCoopers
Berry, Ron	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Davies, Morgan	Chair, Credit Work Group
Day, Betty	ERCOT
Delenela, Ann	ERCOT
DiPastena, Philip	ERCOT
Doolin, Estrellita	ERCOT
Giuliani, Ray	ERCOT
Kahn, Bob	ERCOT
McElfresh, Brandon	ERCOT
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Seely, Chad	ERCOT
TroxteLL, David	ERCOT
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT

### **Executive Session**

At 7:32 A.M., the Committee meeting was adjourned and the Committee went into Executive Session until 9:05 A.M., when the Committee returned to Open Session.

### **Approval of Previous Minutes**

**Dan Wilkerson made a motion to approve the minutes of the Finance & Audit Committee meeting held on October 16, 2007; Robert Thomas seconded the motion. The motion passed unanimously.**

### **Review and Update on Credit Work Group Charter and Other CWG Matters**

Cheryl Yager and Morgan Davies reviewed with the Committee the recommended modifications to the Credit Work Group ("CWG") Charter. Mr. Davis confirmed that the CWG had voted in favor of the proposed modifications by a vote of 14 for and 2 against, with 1 abstention. Mr. Davies told the Committee that the 2 votes against the modifications were by Retail Electric Providers ("REPs"), but that 4 REPs voted in favor. In response to Michehl Gent's question regarding verification of qualifications, Ms. Yager explained that CWG members provided their information on an application form and this information was accepted without further verification. In response to a question by Robert Thomas about whether "urgent" was defined, Susan Vincent explained that although the Charter did not include a definition, the definition in the bylaws could be used. Mr. Thomas also asked Ms. Yager about the process used to determine when a matter was urgent. Ms. Yager explained that such was determined based primarily on input from the CWG and Board members. Nick Fehrenbach suggested that they consider adding the phrase, "no later than" to allow draft minutes to be distributed prior to the distribution of meeting materials if desired.

**Michehl Gent moved to approve the requested modifications to the Credit Work Group Charter, including the clarification proposed by Mr. Fehrenbach, as set forth in Exhibit A hereto; William Taylor seconded the motion. The motion passed unanimously.**

### **Review of Financial and Investment Standards**

Cheryl Yager noted that staff did not propose any changes to the Investment Standard. Ms. Yager explained that staff recommended some slight modifications to the Financial Standard, primarily to update references to the Texas Regional Entity division of ERCOT.

The Committee completed its required annual review of the Financial Standard and Investment Standard and discussed the recommended modifications to the Financial Standard. The Committee recommends the Board accept management's recommendation to leave the current Investment Standard as is, with no changes.

Michehl Gent recommended that additional modifications be included in the Financial Standard, including a specific reference that the North American Electric Reliability Corporation (NERC) is the Federal Energy Regulatory Council ("FERC") certified Electric Reliability Organization and an addition of the word "appropriately" to section 4.0 of the Standard, as specifically set forth in Exhibit A, hereto. After further discussion of the proposed changes to the Financial Standard, the Committee recommends the Board approve the modifications as set forth in Exhibit A to these minutes.

**William Taylor moved to recommend that the Board approve modifications to the Financial Standard, including the additions proposed by Mr. Gent, as set forth in Exhibit B hereto and to make no modifications to the Investment Standard; Dan Wilkerson seconded the motion. The motion passed unanimously.**

## **2007 Financial Statement Audit Planning**

Sean Barry of PricewaterhouseCoopers (“PwC”) provided an overview of the audit plan for the annual audit of ERCOT’s financial statements. Ryan Bassett of PwC discussed the audit objectives and PwC’s risk analysis process, including assessment of key financial and audit risks for the ERCOT audit. Mr. Barry noted that although PwC would test some internal controls during the financial audit, this audit would not include a review of all ERCOT internal controls, but he explained that the development of the audit plan included fraud considerations, as it had in previous years. Mr. Barry informed the Committee that the 2007 financial audit would review the Nodal accounting and, for the first time, the Texas Regional Entity division would be audited as required by NERC and FERC. Mr. Barry stated that he expected to complete the audit and issue a report in April 2008.

In response to a question by Mr. Taylor regarding ERCOT’s “tone at the top” regarding internal controls and compliance, Mr. Barry confirmed that, in his personal opinion, ERCOT’s tone at the top had always been reasonably solid, but that, for the past three years, the importance placed on internal controls by executive management appeared to have been driven down throughout the ranks of the ERCOT organization.

## **2007 SAS 70 Audit Status Report**

Mr. Barry reported that testing for the SAS 70 audit was essentially complete, and PwC anticipates issuing the SAS 70 report in December. Mr. Barry reported that the results and timing were very positive and PwC expected that the number of exceptions was expected to be even lower than in prior years. He noted that Security, which had been a problem in the past, would be clean for 2007. Mr. Barry did note that one potential area of exception or comment was regarding a process in the TCR Auction area, relating to the application of limits to one Transmission Congestion Rights (“TCR”) Auction. Ray Giuliani explained that the Protocols require limiting the TCRs of any one entity to 25% of any zone. In August, after an electronic problem and refresh of systems, the applied constraint was incorrect. The constraint on amount should have been 1,174 TCRs and instead a constraint of 1,123 was imposed – causing a maximum constraint that was slightly too low. Mr. Giuliani noted that it was not known if anyone tried to exercise TCRs above this amount, and discussed with the Committee the level of resources that should be applied to catch such a small error. Mr. Barry confirmed that this isolated TCR Auction circumstance was the only outstanding issue that could affect a clean SAS 70 report and that PwC had not yet determined if this would be an exception.

## **Follow-up from November 9, 2007 Credit Workshop**

Clifton Karnei reported that the F&A Committee held a special open meeting on November 9, 2007 to review the results of Oliver Wyman’s review of ERCOT credit practices and to review Oliver Wyman progress on development of the Capital Adequacy Model.

The Committee members acknowledged the concerns of market participants relating to credit, and that staff should continue to take actions to ensure market participants have an opportunity for input into the process. Mr. Davies noted that, in addition to the special Committee meeting, staff held a market participant meeting on November 2, 2007 to gather input on the exposure portion of the model. Ms. Yager noted that Oliver Wyman expects to deliver the model in mid-November, and the ERCOT staff review of the model and associated outputs would occur during the second half of November and through December. She also informed the Committee that market participants will have an additional opportunity for input in January and, following these reviews, she expects that staff will present results to the Board at the February meeting.

Mr. Karnei asked that Ms. Yager and Mr. Davies have the CWG re-look at ERCOT’s position on and handling of guarantees, given the heavy reliance on guarantees for credit. He asked them to discuss and make recommendations regarding caps on and the level of “haircuts” that should

be given to parent and third-party guarantees. Mr. Karnei asked that CWG also look at the impact of the pending urgent PRR related to credit policy and the need to require the financials of market participants that have parent and third-party guarantees. Mr. Karnei asked that CWG report back to the Committee in December on these reviews. Mr. Karnei noted that the Committee acknowledges good progress has been made to date regarding credit.

### **Committee Briefs (Q&A only)**

Clifton Karnei, Cheryl Yager and Steve Byone discussed details on the Market Credit Status report and concluded that approximately 64% of the security posted with ERCOT was in the form of a guarantee. Mr. Karnei asked that ERCOT Legal have outside counsel review and make possible recommendations for strengthening the current domestic and foreign guarantee forms.

Steve Byone referred to the Risk Management materials and reported that three items had been moved from “Substantially Compliant” to “In Compliance” and that staff was continuing to work on the six remaining “Substantially Compliant” items.

David Troxtell informed the Committee that four large projects were poised to move to Execution and would be covered during the Executive session of the Board meeting.

### **Future Agenda Items**

Steve Byone noted the following future agenda items:

- December 2007:
  - Review standing Internal Audit status report
  - Receive final report on 2007 SAS 70 audit
  - Approve audit committee meeting planner for the upcoming year (including confirmation of mutual expectations with management and the auditors)
  - Discuss the adequacy and effectiveness of the Internal Audit Staff
  - Perform F&A Committee self-assessment
  - Review update on the Met Center disposition
  - Receive update on the urgent credit (financial statement) PRR
  - Receive draft of proposed Texas Regional Entity service level agreements
  - Committee briefs

### **Adjournment**

At 9:45 A.M., the Committee meeting was adjourned.

The next regular Committee meeting will be held on the morning of Tuesday, December 11, 2007.

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Susan Vincent, Secretary





## 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.<sup>1</sup>

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). 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
- Providing input regarding PRRs and NPRRs that impact credit in accordance with this Charter and Board approved credit policies
- Providing input 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.

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

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 urgent condition requires shorter notice. Meeting notices for urgent 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 matters, 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 matter, 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 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 no later than the materials being distributed for the next meeting. 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](mailto:vspells@ercot.com).

Effective on 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.

# 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, an Operating and Maintenance Budget and a Texas Regional Entity Division of ERCOT (“TRE”) Budget as a component.
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 all reasonable and necessary costs (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 <sup>st</sup> through December 31 <sup>st</sup> .
NERC	North American Electric Reliability Corporation, the entity currently certified as the Electric Reliability Organization by FERC.
Operating and Maintenance Budget	The Operating and Maintenance Budget consists of all reasonable and necessary 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 TRE which is approved by NERC and Federal Energy Regulatory Commission (FERC) and which is used exclusively for the TRE’s proposal and enforcement of

TERM	DEFINITION
	Reliability Standards (Federal Statutory duties) and for ERCOT Protocol and Operating Guide compliance investigation activities.
Scheduled Debt Service	Scheduled Debt Service is all interest and mandatory principal payments due on ERCOT's outstanding indebtedness (both long-term and short-term) for a stated period.
Strategic Financial Plan	The Strategic Financial Plan 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. ERCOT will also collect fees on behalf of the Electric Reliability Organization as approved by FERC. The TRE will also receive funding for its Federal Statutory duties from NERC, pursuant to its 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 appropriately 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.



## 4. Designation of Committee Secretary - Vote Clifton Karnei

- **Current “designated” Secretary, Susan Vincent**
- **Staff recommendation for new Committee Secretary, Estrellita Doolin**

# 5. Approve Audit Committee Meeting Planner for Upcoming Year

## Steve Byone

### 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

## Informative

- **CWG activity over the last six months**
- **CWG activity for upcoming six months**
- **CWG discussion re: guarantees**
- **CWG vote on PRR 744**

## 7. CWG Activity Over the Last Six Months

Morgan Davies

- **Involved with OW project**
  - Provided input to RFP Scope of Work
  - Provided feedback on respondents
  - Met for two day-long sessions to review assumptions and provide input for modeling
- **Subgroup researching other risk mitigation measures**
- **Updated Creditworthiness Standards**
- **Updated CWG Charter**
- **Reviewed PRRs and NPRRs for credit implications**

## 7. CWG Activity for Upcoming Six Months

Morgan Davies

- **Election of new Chair and Vice Chair**
- **Ongoing involvement in Oliver Wyman project**

- **General consensus that**
  - Some amount of discount should be applied to guarantees
    - Believe results of OW capital adequacy study would be helpful in determining “how much”
  - Guarantee form should
    - Allow an evergreen feature
    - Not preclude an “unlimited” guarantee
- **Discussed a requirement whereby all entities that have a parent entity should provide some level of guarantee above the EAL requirement**
  - For “close out” costs
  - For potential future exposure

## **Annual Finance and Audit committee self assessment questionnaire completed in November**

- **Noted areas of strength**
  - Committee structure
  - Organization and handling of meetings
  - Awareness of issues
  - Ability and willingness to freely discuss issues
- **Areas for Improvement**
  - Continuing education for members
  - Comparisons to Peers
  - More discussion of accounting policy alternatives and complex transactions
- **Group discussion – Next Steps**



	<b>ERCOT Finance &amp; Audit Committee Self-Evaluation December 2007</b>	<b>Yes</b>	<b>No</b>	<b>Not Sure</b>	<b>Comments</b>
1.	Does the committee have the appropriate number of members? The committee should not be so large that: <ul style="list-style-type: none"> <li>▪ its ability to operate efficiently and effectively is reduced</li> <li>▪ members' ability to raise issues is hampered</li> <li>▪ it is difficult to get a quorum when a time-sensitive issue arises</li> </ul>	6	0	0	<ul style="list-style-type: none"> <li>• Current size strikes proper balance allowing exchange of diverse viewpoints</li> <li>• Not sure Committee would function as well with more members; everyone has chance for input while keeping to schedule</li> </ul>
2.	Committee members demonstrate their objectivity during meetings through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.	5	0	1	<ul style="list-style-type: none"> <li>• Committee members actively question and probe; often suggesting their own proposals in addition to management's</li> <li>• Hiring of Oliver Wyman</li> <li>• Sometimes show our bias in the way we vote</li> </ul>
3.	Differences of opinion on issues are resolved to the satisfaction of the committee.	6	0	0	<ul style="list-style-type: none"> <li>• Usually</li> </ul>
4.	Committee members challenge the Chair as appropriate.	6	0	0	<ul style="list-style-type: none"> <li>• Committee members defer to the Chair on governance and administrative matters; Chair participates as peer on substantive matters</li> <li>• Frequently</li> </ul>
5.	The committee charter is used as a document to guide the committee in its efforts, and to help guide the committee's agenda.	6	0	0	<ul style="list-style-type: none"> <li>• Repeatedly</li> </ul>
6.	6.1 Committee members are financially literate, and the committee has determined that it has adequate financial expertise in accordance with its charter.	4	0	2	<ul style="list-style-type: none"> <li>• Review annually</li> <li>• I'm technically qualified; serving is a giant learning experience, and I also rely on the financial expertise of others</li> </ul>
	6.2 Committee members participate in some form of continuing education to stay abreast of changes in the financial accounting and reporting, regulatory and ethics areas.	2	2	2	<ul style="list-style-type: none"> <li>• I must take 40 hours per year</li> <li>• So far, I have not</li> </ul>
	6.3 The committee understands how the organization's performance compares with its budgetary targets and its peers, and how management plans to address any unfavorable variances.	4	0	2	<ul style="list-style-type: none"> <li>• We are lacking peer comparisons</li> <li>• Committee receives limited peer comparisons and generally only when requested by Committee or Board</li> </ul>

	<b>ERCOT Finance &amp; Audit Committee Self-Evaluation December 2007</b>	<b>Yes</b>	<b>No</b>	<b>Not Sure</b>	<b>Comments</b>
	6.4 The committee discusses the initial selection of or changes in significant accounting policies used in developing the financial statements, the reason for and impact of any changes in policy, and reasons alternative treatments were not adopted.	4	0	2	<ul style="list-style-type: none"> <li>• I don't recall such discussions</li> <li>• FAS 71 is an example</li> <li>• Staff does a good job of keeping us informed</li> </ul>
	6.5 The committee discusses significant, complex, or unusual transactions with management and the external auditors.	4	0	1	<ul style="list-style-type: none"> <li>• Did this in November 2007</li> </ul>
	6.6 The committee understands which areas represent high risk for material misstatement of the financial statements, and discusses assumptions and approaches used with management and the external auditors.	5	0	0	
	6.7 The committee forms its own view of the risk of material misstatement due to fraud, discusses with management and the external auditors their views on the risk of material misstatement due to fraud, and is comfortable that any differences in views can be reconciled.	4	0	1	<ul style="list-style-type: none"> <li>• Have not really seen this yet</li> </ul>
	6.8 The committee fully understands significant changes in financial statements from prior years and from budget, and is provided with sufficient, reliable evidence to support variances.	4	0	1	
	6.9 The committee commits sufficient time to review, discuss, and consider the financial statements.	4	1	0	<ul style="list-style-type: none"> <li>• Meetings start at 7:30 when needed</li> </ul>
	6.10 The committee makes optimum use of the meeting time allotted.	5	0	0	<ul style="list-style-type: none"> <li>• Excellent</li> </ul>
	6.11 The committee meets with financial management to discuss results reported before finalization.	4	0	0	<ul style="list-style-type: none"> <li>• Usually</li> </ul>
7.	Committee members have a clear understanding of ERCOT's debt structure and cash management practices.	5	0	0	
8.	Committee members receive sufficient details regarding long-term financial planning.	4	0	1	<ul style="list-style-type: none"> <li>• Could use longer looks</li> </ul>
9.	The Committee makes appropriate use of workgroups or task forces to investigate issues defined by the Committee.	4	0	1	<ul style="list-style-type: none"> <li>• CWG is an example</li> <li>• CWG is a primary "advisor"; Committee must ensure CWG maintains independence of recommendations as provided in CWG Charter</li> </ul>

	<b>ERCOT Finance &amp; Audit Committee Self-Evaluation December 2007</b>	<b>Yes</b>	<b>No</b>	<b>Not Sure</b>	<b>Comments</b>
10.	The committee engages outside experts as appropriate.	5	0	0	
11.	11.1 The organization's financial reporting processes are stronger as a result of management's interactions with the committee.	5	0	0	
	11.2 The committee understands and agrees with the board on which categories of internal control it oversees. Categories include: <ul style="list-style-type: none"> <li>▪ Integrity of financial reporting</li> <li>▪ Compliance with laws and regulations</li> <li>▪ Operational efficiency and effectiveness</li> </ul>	5	0	0	<ul style="list-style-type: none"> <li>• Board approved an updated committee charter this year</li> <li>• In 2007, offered to Board an option to change F&amp;A role relating to credit</li> </ul>
	11.3 The committee and the board concur with any changes to the committee's internal control oversight mandate.	5	0	0	<ul style="list-style-type: none"> <li>• Board approved an updated committee charter this year</li> </ul>
	11.4 The committee understands the current high-risk areas - including information technology and computer systems - in the categories of controls it oversees, as well as how management addresses those areas.	5	0	0	
12.	The committee is cognizant of the line between oversight and management, and endeavors to respect that line.	5	0	0	
13.	The committee conducts executive sessions in a manner that offers a "safe haven" to the individual, while at the same time asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution.	5	0	0	
14.	14.1 The committee does its part to ensure the objectivity of the internal audit team.	5	0	0	
	14.2 The committee provides constructive feedback to the chief audit executive at least annually.	5	0	0	<ul style="list-style-type: none"> <li>• Feedback is monthly</li> </ul>
	14.3 The committee receives sufficient detail regarding material issues and complaints brought forward which relate to the company's fraud, ethics or accounting practices.	5	0	0	

	<b>ERCOT Finance &amp; Audit Committee Self-Evaluation December 2007</b>	<b>Yes</b>	<b>No</b>	<b>Not Sure</b>	<b>Comments</b>
	14.4 The committee has developed the scope of work to be done by the independent auditor and by the internal audit department based upon a reasoned review of the risks or exposures to the company.	5	0	0	
15.	The committee communicates at an appropriate level of detail when informing the Board of its actions.	5	0	0	<ul style="list-style-type: none"> <li>• Feel so</li> </ul>
16.	Committee members receive clear and succinct agendas and supporting written material sufficiently prior to scheduled meetings.	5	0	0	<ul style="list-style-type: none"> <li>• Material has improved</li> <li>• Management does an excellent job providing relevant pre-read materials</li> </ul>
17.	Committee members have adequate opportunities to discuss issues and ask questions.	5	0	0	
18.	The frequency of committee meetings is appropriate for the responsibilities assigned to the committee.	5	0	0	<ul style="list-style-type: none"> <li>• Special meetings have been called as appropriate in addition to regular meetings</li> </ul>
19.	Meeting facilities and presentation materials are effective for the conduct of committee activities.	5	0	0	
20.	The committee is efficient and value adding.	4	0	0	
21.	Please add additional comments, questions and suggestions here.				<ul style="list-style-type: none"> <li>• ERCOT prides itself on using best practices; this should extend to the Board and Committees. Board should adopt a rule that chair of all committees be an independent member. This is a trend among most boards. Alternatively, consider limiting the number of terms a member can chair a standing committee</li> </ul>

**Q&A only**

## ERCOT Market Credit Status

as of 10/31/2007

as of 11/30/2007

### 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	
9	20,229,143	5%	86,853,059	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	45	234,158,794	54%	336,437,196 S
Guarantee Agreements	14	183,214,455	42%	485,279,236 S
<b>Total Exposure</b>	<b>68</b>	<b>437,602,392</b>	<b>100%</b>	

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
11	28,340,234	7%	108,325,004	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	45	203,527,105	49%	364,360,976 S
Guarantee Agreements	16	179,589,704	44%	575,979,236 S
<b>Total Exposure</b>	<b>72</b>	<b>411,457,043</b>	<b>100%</b>	

### 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

8	(2,440,398)	-6%	56,096,707	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	46	(30,663,760)	-78%	47,231,678 S
Guarantee Agreements	9	(6,112,539)	-16%	205,700,000 S
<b>Total</b>	<b>63</b>	<b>(39,216,697)</b>	<b>-100%</b>	

5	(249,807)	0%	14,624,762	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	48	(33,764,300)	-56%	26,268,660 S
Guarantee Agreements	10	(26,036,380)	-43%	159,700,000 S
<b>Total</b>	<b>63</b>	<b>(60,050,487)</b>	<b>-100%</b>	

*Total*

131

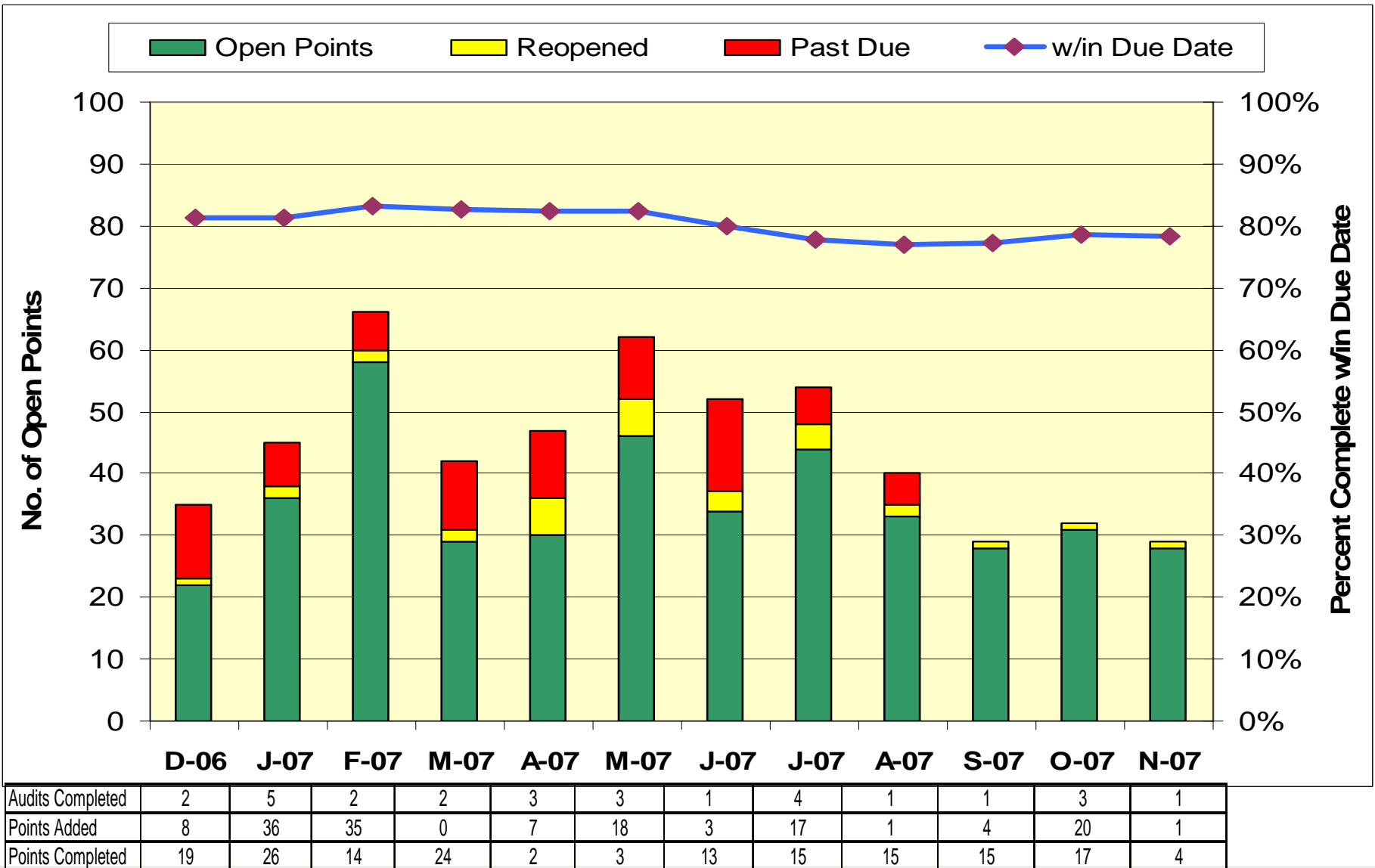
135

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

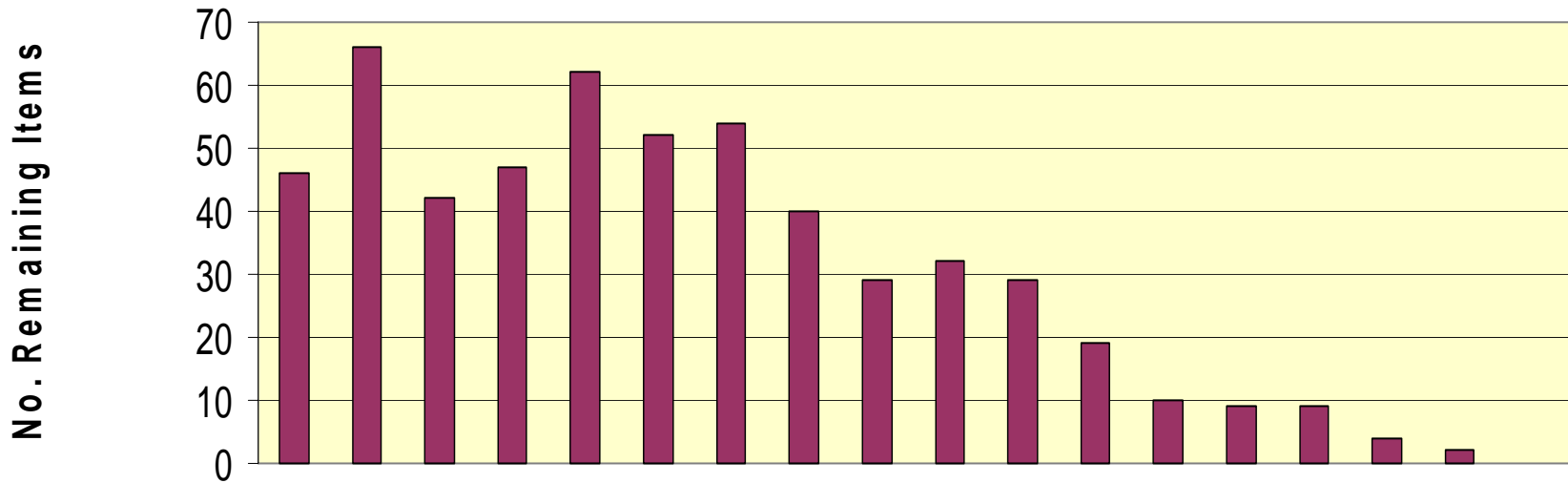
# 9. Committee Brief: ICMP – Status of Open Audit Points

## Cheryl Moseley



Audits Completed	2	5	2	2	3	3	1	4	1	1	3	1
Points Added	8	36	35	0	7	18	3	17	1	4	20	1
Points Completed	19	26	14	24	2	3	13	15	15	15	17	4

## 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
<b>Audit Points</b>	46	66	42	47	62	52	54	40	29	32	29	19	10	9	9	4	2	0



## Audits Completed

(last 3 months)

### Internal Audits

- Nodal Acctg./Allocation
- Nodal Vendor Billings
- Market Credit Process
- Contractor Background Checks, Ethics Agreements & Drug Screens (Targeted Review)
- Testing of Internal Controls
- Protocol/Market Guide Approvals/Revisions
- Operator Procedural Compliance (Limited Scope)
- Non-Nodal Vendor Billings
- Fixed Assets (Special Request)

External Audits - none

## Open Audits

### Internal Audits

- Ethics Compliance (ERCOT wide)
- Debt Financing
- Nodal Infrastructure Purchasing (Special Request)

### External Audits

- 2007 SAS70 (PwC)
- Texas Nodal Program Controls – Review #5 – IBM (Managed by IAD)

## Planned Audits

(next 3 months)

### Internal Audits

- Nodal Schedule/Delivery Time
- Nodal Project SOWs
- Nodal Spending
- Nodal Contractor Time Reporting
- Contractor Ethics Compliance

### External Audits

- Texas Nodal Program Controls – Review #6 - 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 December 1st, 2007)**

Strategic Risks	Operational Risks			Reporting Risk	Legal and Regulatory Compliance Risks
	Operational Excellence	Market Facilitation	Grid Reliability		
<p><b>Strategy Development</b></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><b>Performance Monitoring</b></p> <p>Clearly defined and actively monitored performance metrics linked to mission and goals - Performance status communicated and corrective action taken.</p>	<p><b>Customer Choice</b></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 manage 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><b>Grid Operations</b></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 is being used in our operator training program. Load Forecast accuracy improved. Continued improvement must be made.</p>	<p><b>Review Practices</b></p> <p>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</p>	<p><b>Legal &amp; Legislative</b></p> <p>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</p>
<p><b>Mission and Goals</b></p> <p>Corporate objectives and performance standards are understood and followed.</p>	<p><b>Business Practices</b></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 (BIA's) complete. Working off BIA's, IT is developing recommendations to either close gaps identified or accept limited risks until nodal moved to production.</p>	<p><b>Nodal Implementation Project</b></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, including calculations of location marginal pricing and security constrained economic dispatch. 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. Isolated vendor issues are aggressively being managed.</p>	<p><b>Planning</b></p> <p>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</p> <p>The 2007 ERCOT Five Year plan will be published in mid December. The CREZ Transmission Optimization Study and the surge of generation interconnection requests in the five-year horizon are tying up all available resources in System Planning. The preparation for the ERCOT Long Term System Assessment will begin in the first quarter of 2008.</p>	<p><b>Disclosure</b></p> <p>Reporting and other disclosures to intended parties is timely, accurate and effective.</p>	<p><b>Internal Control Compliance</b></p> <p>Internal Control Compliance, processes and management standards are effective and efficient.</p> <p>The Internal Control department (ICMP) has an initial training plan for business process training for certain areas. ICMP is working with the business process owners and HR to set up company-wide training for delivery in 2008.</p>
<p><b>Reputation</b></p> <p>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</p>	<p><b>Workforce</b></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 have increase to over 55. The number of openings should decline over the next 3 months, based on historical performance. The Board approved additional retention tools at the November BoD meeting. Management has also approved some benefit modifications, employee recognition programs and minor changes to the dress policy, which have improved moral and should have a positive effect on retention.</p>	<p><b>Counterparty Credit</b></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&amp;A received an update on the progress of this project at it's November meeting. 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><b>Bulk System Resources</b></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. Next resource adequacy assessment due in Jun'08. 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. ERCOT is also reviewing the applicability of demand response programs towards planning reserves.</p>	<p><b>Communication</b></p> <p>Internal &amp; external communications are timely and effective.</p>	<p><b>Industry Standards</b></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><b>Fiscal Management</b></p> <p>ISO design requires competent, prudent and cost effective provision of services.</p>	<p><b>Technology Infrastructure</b></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. Several recommendations have been suggested and will be considered for future implementation. The AIX migrations continue on schedule. Most production systems have been moved to AIX and system stabilization has gone well. Processing delays are being addressed through tuning efforts. Aging hardware is becoming a concern. Projects to replace older servers have been initiated with other hardware will be replaced by the Nodal project.</p>	<p><b>Administration, Settlement &amp; Billing</b> ↑</p> <p>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</p> <p>Delays in batch processing have been occurring since the Settlements &amp; Billing database was migrated to AIX in late October. While partially mitigated through tuning efforts (see Technology Infrastructure), analysis of the root cause of processing delays is still ongoing.</p>	<p><b>Operational Responsibility</b></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><b>Adequacy and Integrity</b></p> <p>Robust processes exist to support management assertions embodied within financial reports.</p>	<p><b>Regulatory Filings</b></p> <p>Evidence, testimony and other supporting materials are compelling and successful.</p>

# 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	10	11	3	4	3	0	14	47	8	9
	IT Operations	5	0	3	12	2	2	0	0	0	24	3	9
	Market/Retail Operations	0	0	4	8	2	8	7	2	3	34	3	7
	System Operations	0	0	1	4	3	11	3	2	0	24	6	8
	TRE	0	0	1	1	0	0	2	0	0	4	0	1
	<b>Totals by Phase</b>	6	1	19	36	10	25	15	4	17	133	20	34

\* Note: Projects Gone Live in October 2007 That were not Reported in the Oct. 2007 Package

(CO) PR-60099\_01 (TCC2 Build -Out)

(CO) PR-70040\_01 (IMM/TRE Build-Out)

# 9. 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						2	2	1		5	
	Market			1	3	1	1		5		11	
	ERCOT	5		8	11	3	7	2	5	17	58	
	Compliance			1	2				2		5	
	System Maintenance										0	
Unexpected Carry Over From 2006											22	
	PUCT						2				2	
	Market				1		3		1		5	
	ERCOT				3	2	10				15	
	Compliance										0	
	System Maintenance										0	
New Projects Added (Since PPL Approval in August 2006)											32	
	PUCT				1						1	
	Market			1							1	
	ERCOT	1	1	8	15	4			1		30	
	Compliance										0	
	System Maintenance										0	
2007 PPL totals to date											133	
	PUCT	0	0	0	1	0	4	2	1	0	8	
	Market	0	0	2	4	1	4	0	6	0	17	
	ERCOT	6	1	16	29	9	17	2	6	17	103	
	Compliance	0	0	1	2	0	0	0	2	0	5	
	System Maintenance	0	0	0	0	0	0	0	0	0	0	
Totals by Project Phase		6	1	19	36	10	25	4	15	17	133	

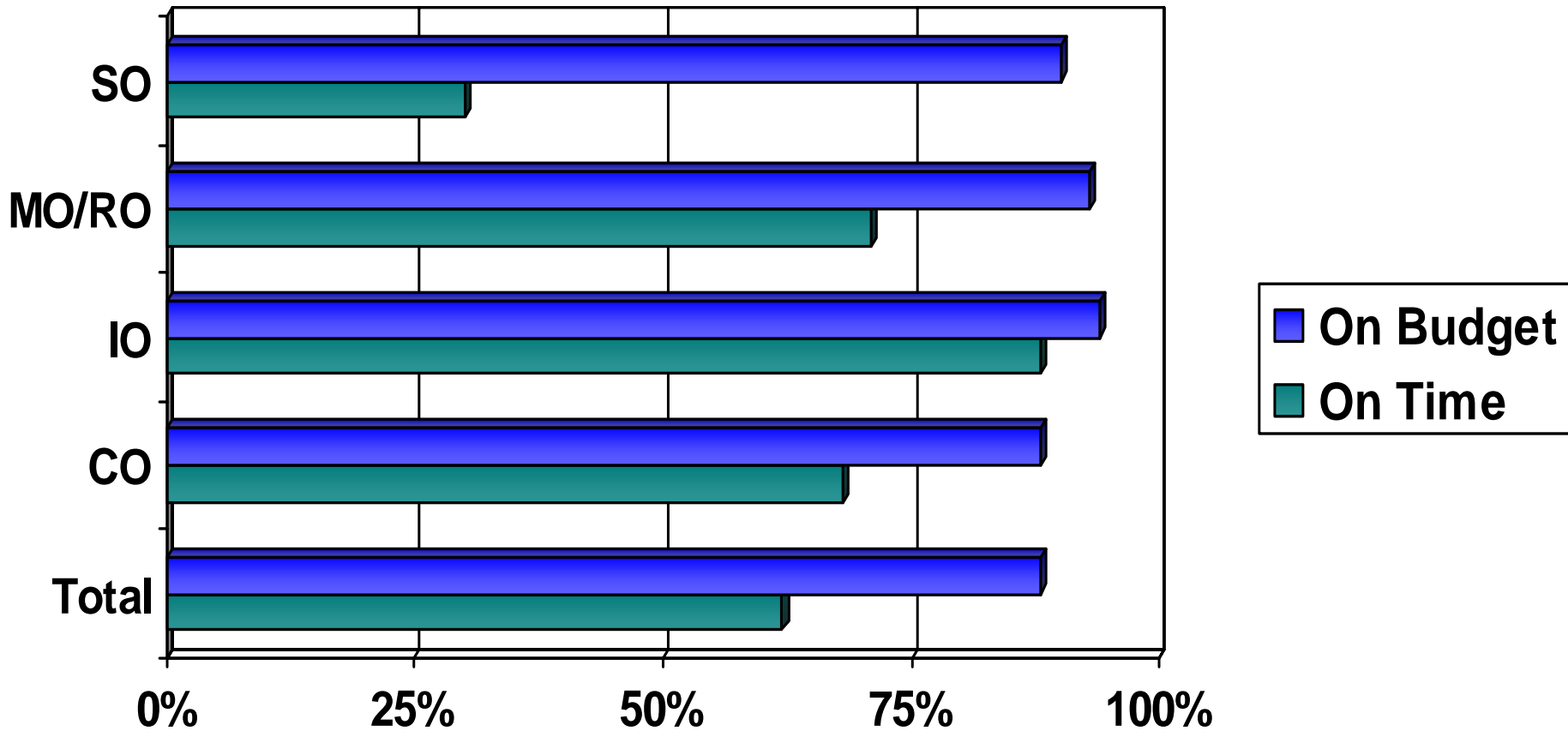
# 9. Committee Brief – PMO

## David Troxtell

### Projects Over \$1 Million

Project (CART) Number and Description	Total Budget	Total Committed To Date	Metrics	
			Schedule	Budget
(MO/RO) PR-40038_01: TX SET 3.0	\$1.63M	\$1.52M		
<i>(2007) Currently in Closing (R. Giuliani)</i>	<i>Project Go Live 6/24/2007</i>			
(MO/RO) PR-50024: Enhancements to SCR727 (consists of 2 sub-projects)	\$1.61M	\$1.21M		
<i>(2005-2008) Currently in Closing/Execution (R. Giuliani)</i>	<i>Expected Completion 4<sup>th</sup> Qtr 2007/1<sup>st</sup> Qtr 2008</i>			
(CO) PR-60099_01: TCC2 Build-Out Phase One	\$2.65M	\$1.98M		
<i>(2007) Currently in Execution ( B. Kahn)</i>	<i>Expected Completion 4<sup>th</sup> Qtr 2007</i>			
(IO) PR-60055_01: Enterprise Service Management	\$1.31M	\$1.15M		
<i>(2006-2007) Currently in Execution ( R. Hinsley)</i>	<i>Expected Completion 4<sup>th</sup> Qtr 2007</i>			
(CO) PR-60075: Identity to Access Management (consists of 2 sub-projects)	\$1.49M	\$1.3M		
<i>(2006-2007) Currently in Execution ( B. Kahn)</i>	<i>Expected Completion 4<sup>th</sup> Qtr 2008</i>			
(IO) PR-70026: Virtual Tape	\$1.35M	\$3k		
<i>(2007) Currently in Execution (R Hinsley)</i>	<i>Expected Completion 4<sup>th</sup> Qtr 2007</i>			
(IO) PR-70054_01: Blade Refresh	\$2.50M	\$1k		
<i>(2007-2008) Currently in Planning (R Hinsley)</i>	<i>Expected Completion 2<sup>nd</sup> Qtr 2008</i>			
(IO) PR-70055_01: SAN Capacity (part one)	\$1.75M	\$1k		
<i>(2007-2008) Currently in Execution (R Hinsley)</i>	<i>Expected Completion 1<sup>st</sup> Qtr 2008</i>			

2007 Completed and Active Projects Performance



# 9. Committee Brief – PMO

## David Troxtell

### Budget vs. Actuals for Closed in Lawson for 2007

Completed Projects	Description	Implemented	Baseline Budget	Actuals	\$ Fav/(UnFav) Baseline Budget	% Fav/(UnFav) Baseline Budget
50132	Network Intru Detect and Intru Protect Sys	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 ESIID 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 Mod of Distrib Loss Calc	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	3,545,483	302,617	8
60002_01	Increase No of Seats for Market Clearing Engines Study	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	236,193	(40,793)	(21)
		<b>Count = 33</b>	<b>18,234,100</b>	<b>17,244,211</b>	<b>989,889</b>	<b>5</b>

**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. **F**avorable is when a project is delivered under budget. (**U**n**F**)avorable is when a project is delivered over budget.





## Go Live Projects for October

- **PR-70040\_01 IMM / TRE MET Center Build-out**
  - **Scope:** Build-out space within the MET Center facility to house the IMM / TRE staff.
  - **Deliverables:** Office, conference room space and cubicle areas for IMM / TRE staff and relocated ERCOT staff.
  - **Timeline:** *April, 2007 – October, 2007*

## Go Live Projects for October

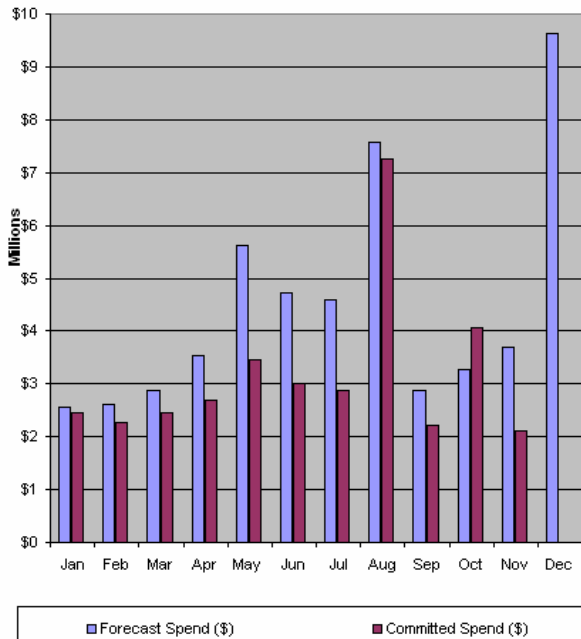
- **PR-60099\_01**
  - **Scope:** Finish the SE & SW corners of TCC2 2<sup>nd</sup> floor to house Nodal project staff and expand the TCC2 parking lot
  - **Deliverables:**
    - Double-up and Reconfigure Cubicles
      - Add 216 Seats in existing space
      - Move Console Operations to Conference Room
      - Training Rooms Setup/acquired
      - Vendor Rooms Setup
    - Move Equipment & Supplies to Offsite Storage
    - Expand TCC2 Parking – Add 130 Spaces
    - Build-out TCC2 2<sup>nd</sup> Floor
      - Add 130 Flat Desks
      - Add 6 Offices
      - Add 2 conference Rooms
      - Add Market Trials Room
  - **Timeline:** February, 2007 – October 2007

# ERCOT Enterprise Projects Summary Report

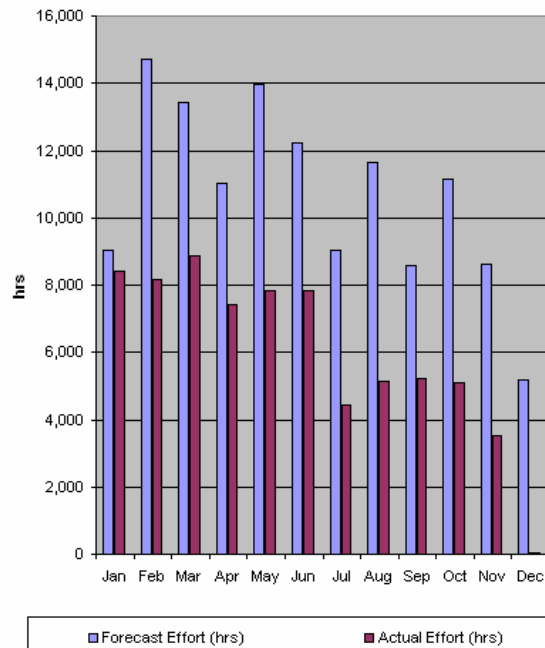
Summary	ERCOT Projects Leadership		Projects in ERCOT's Portfolio					Portfolio Performance			
	Executives		On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget	Risk	Milestones
	Kent Saathoff	Ray Giuliani	4	1	18	37	10	Y	G	G	R
Ron Hinsley	Steve Byone	Closed	25	Total Active		66					
		Cancelled	13	Projects Not Started:		6			Current Year Funding:	\$44,000,000	

Portfolio Performance Summary

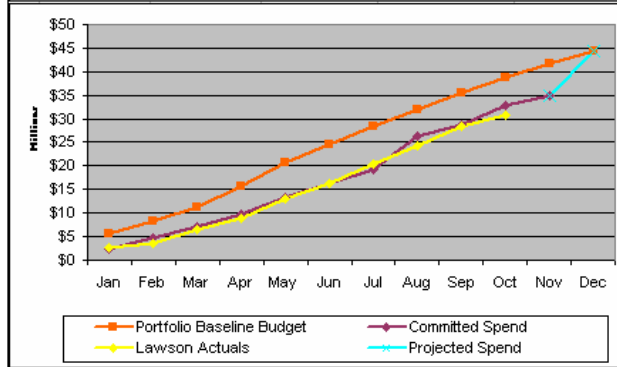
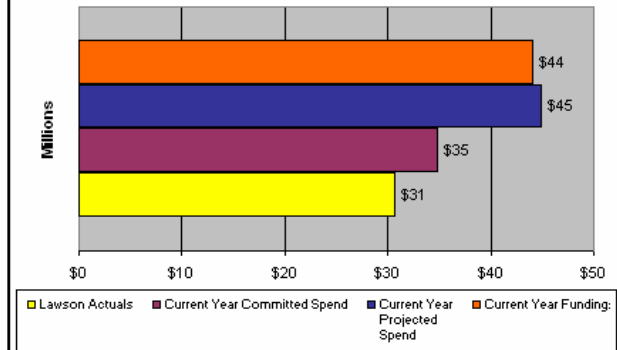
ERCOT Project  
Current Year-Spend



ERCOT Projects  
Current Year - Effort



ERCOT Projects  
Current Year to Date Financials



Notes

**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 – January 2008**

- **Standing Internal Audit status report (s)**
- **Elect Committee Chair and Vice-Chair**
- **Review of preliminary 2007 year-end financial results**
- **Review of proposed Texas RE service agreement**
- **Update on Met Center disposition**
- **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