



**ERCOT Finance & Audit Committee Meeting**  
**7620 Metro Center Drive, Austin, Texas**  
**Met Center, Conference Room 168**  
**February 19, 2008; 8:00am – 10:00am\***

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order Executive Session	C. Karnei	8:00am
2.	Decision required	2a. Approval of executive session minutes (Vote) (01/15/08)	C. Karnei	8:00am
	For discussion	2b. Internal Audit status report	B. Wullenjohn	8:03am
	Informative	2c. EthicsPoint update	B. Wullenjohn	8:08am
	Informative	2d. Update on Internal Audit goals	B. Wullenjohn	8:13am
		Recess Executive Session		8:25am
		<b>Convene General Session</b>		
3.	Decision required	Approval of general session minutes (Vote) (01/15/08)	C. Karnei	8:25am
4.	For discussion	Follow up discussion of Oliver Wyman report	C. Yager	8:28am
5.	Decision required	Forbearance request re prior protocol 16.2.8 (Vote)	C. Yager	8:45am
6.	Informative	Update on 2007 year-end financial results	M. Petterson	8:50am
7.	Informative	Update on status of Nodal filing	S. Byone	9:00am
8.	For discussion	2009 budget planning and key assumptions	M. Petterson	9:05am
9.	Informative	Update on Texas RE accounting	M. Petterson	9:25am
10.	Informative	Committee Briefs (Q&A only)	All	9:35am
11.	Informative	Future agenda items	S. Byone	9:40am
		Adjourn ISO meeting	C. Karnei	9:45am

*\*\* 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, March 18, 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 01/15/08

**Draft** ERCOT ISO FINANCE & AUDIT COMMITTEE MEETING  
**OPEN SESSION MINUTES**  
**Met Center – Austin, Texas**

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. convened on **January 15, 2008**. **Clifton Karnei** confirmed that a quorum was present and called the meeting to order at **8:00 a.m.** Mr. Karnei then welcomed Brad Cox to the Committee.

**Meeting Attendance**

**Committee members:**

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present
Miguel Espinosa, Vice Chair	Unaffiliated Board Member	Unaffiliated Board Member	Present
Brad Cox	Tenaska Power Services	Independent Power Marketer	Present
Nick Fehrenbach	City of Dallas	Consumer	Present
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member	Present
Charles Jenkins	Oncor Electric Delivery	Investor Owned Utility	Not Present
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present

**Other Board Members and Segment Alternates:**

Mark Walker	NRG Texas	Independent Generator	Present
-------------	-----------	-----------------------	---------

**ERCOT staff and guests present:**

Alexander, Sheila	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Coffing, Timothy	Luminant Energy
Doolin, Estrellita	ERCOT
Fleming, Kevin	Oxford Commercial
Grable, Mike	ERCOT
Grendel, Steve	ERCOT
Kahn, Bob	ERCOT
List, Amanda	Strategic Energy
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Troxell, David	ERCOT
Vincent, Susan	Texas Regional Entity
Wullenjohn, Bill	ERCOT
Yager, Cheryl	ERCOT

**Approval of Previous Minutes**

**Dan Wilkerson** moved to approve the minutes for the Open Session of the Finance & Audit Committee meeting held on December 11, 2007 as amended to reflect that Michehl Gent voted for himself and as Miguel Espinosa's proxy; Robert Thomas seconded the motion. The motion passed unanimously.

### **Election of Committee Chair and Vice-Chair**

Steve Byone explained that the Committee Charter requires the selection of a Committee Chair by majority vote of Committee members. After brief discussion, **Michehl Gent moved to select Clifton Karnei as Chair and Miguel Espinosa as Vice-Chair; Brad Cox seconded the motion. The motion passed unanimously.**

### **Approval of Credit Work Group Chair and Vice-Chair**

Cheryl Yager introduced to the Committee Amanda List of Strategic Energy and Tim Coffing of Luminant Energy then informed the Committee that the Credit Work Group (CWG) had voted in the previous week to name Ms. List as Chair and Mr. Coffing as Vice-Chair. **Miguel Espinosa moved to approve Amanda List as Chair and Tim Coffing as Vice-Chair; Dan Wilkerson seconded the motion. The motion passed unanimously.**

### **Review of Preliminary 2007 Year-End Financial Results**

Mike Petterson reported that ERCOT expects to finish 2007 with a favorable financial variance due to lower-than-budgeted operating expenses (labor, consultants, facilities) and lower-than-budgeted interest expense (allocations to the Nodal Program, FAS 71 transactions, pace of project spending, temporary use of TCR receipts, and interest rates). Steve Byone added that he expected to see deterioration in the favorable variance in the coming weeks and that an update would be provided in February after staff gets closer to finalizing the year's activity. Mr. Byone indicated staff planned to recommend that the Board authorize use of any surplus revenue to reduce debt.

### **Review of Quarterly Investment Results**

Cheryl Yager referred to the Summary of Investment Results (for the fourth quarter 2007) and noted that funds were performing at acceptable levels. She confirmed that fund performance was monitored weekly then answered specific questions from Committee members about the report and ERCOT practices related to investing.

### **Briefing on Nodal Budget Impacts**

Cheryl Yager presented two options (intended to outline the "book-ends" staff considered) to finance the additional costs contemplated in the revised Nodal Project budget and noted that staff recommended the option presented as "Alternative #1". Staff noted they were only seeking a recommendation from the Committee regarding the method of financing the additional costs with the understanding that the full Board would determine whether to approve the requested budget increase. Ms. Yager, Mike Petterson and Steve Byone answered several questions related to (1) potential uses of favorable financial variance, (2) consideration of a third financing option offered by Nick Fehrenbach, and (3) ERCOT practice regarding the determination of useful lives for assets. After a lengthy discussion, **Miguel Espinosa moved to approve a recommendation of Alternative #1 which allows ERCOT to seek an increase in the Nodal surcharge from \$0.127 per MWh to \$0.169 per MWh effective June 1, 2008 (or as soon as practicable) and allow the revised rate to remain in effect until all Nodal Program costs are recovered (projected to be the end of 2012); Dan Wilkerson seconded the motion. The motion passed with six supporting votes (Messrs. Cox, Espinosa, Gent, Karnei, Thomas and Wilkerson) and one opposing vote (Mr. Fehrenbach).**

### **Update on Proposed Texas RE Service Agreement**

Mike Petterson reported that ERCOT personnel (Steve Byone and Mike Petterson) and Texas RE personnel (Larry Grimm and Susan Vincent) were developing a memorandum of understanding to document how the two groups will interact. He noted that the relationship between ERCOT and Texas RE is complex and hoped to have a MOU draft for the Committee to review in February. In response to a question from Robert Thomas, Susan Vincent

responded that the final MOU would likely be used as a supporting document in the budget development process and would be submitted to NERC with the Texas RE budget filing.

### **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)

Cheryl Yager explained that data in the "Total Unsec Credit Limit/ Security Posted" columns in the ERCOT Market Credit Status report provides information about Market Participants, not ERCOT.

David Troxtell informed the Committee that an update on PR-60055 Enterprise Service Management including a request for a budget change would be provided during the Executive Session of the Board meeting.

### **Future Agenda Items & Meetings**

Steve Byone noted the following future agenda items:

1. Standing Internal Audit status report(s)
2. Preview of Oliver Wyman report
3. Update on 2007 year-end financial results
4. Update on status of Nodal filing
5. Update on 2009 budget schedule
6. Review of external auditor guidelines for engagement and external auditor independence
7. Committee briefs

The next meetings of the Committee are scheduled for **February 6, 2008** (special) and **February 19, 2008** (regular).

### **Recess to Executive Session**

The Committee met in Executive Session from 8:55 a.m. to 9:56 a.m.

### **Adjournment**

At 9:56 a.m., Clifton Karnei adjourned the Committee meeting.

---

Estrellita J. Doolin, Secretary

## Open discussion

## 5. Forbearance Request Re Prior Protocol 16.2.8 Cheryl Yager

- **Board Agenda Item #9a**
- **Finance & Audit decision on recommendation to the Board**



**Date:** February 12, 2008  
**To:** Board of Directors  
**From:** Mike Grable, General Counsel  
**Subject:** Financial statement requirements prior to February 1, 2008

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Director Meeting Date:** February 19, 2008

**Agenda Item No.:** 9(a)

**Issue:** Whether ERCOT staff should require Market Participants to provide out-of-date financial statements or waive that requirement.

**Background/History:** In mid-2007, ERCOT determined it had not been strictly enforcing the requirement in Protocol § 16.2.8 that:

...each QSE *and* its guarantor, if any, shall provide to ERCOT:

(1) quarterly unaudited financial statements no later than sixty (60) days after the close of each of the issuer's fiscal quarters; and

(2) annual audited financial statements no later than one hundred twenty (120) days after the close of each of the issuer's fiscal year;.... (emphasis added)

As ERCOT began taking steps toward enforcing that requirement, Market Participants clarified their desire (through PRR 744) that financial statements be provided only for each QSE *or* its guarantor.

At its January 2008 meeting, the Board of Directors approved PRR 744, which changed the requirement per Protocol Section 16.2.8 for Qualified Scheduling Entities (QSEs) *and* their guarantors to provide financial statements to ERCOT. This PRR became effective February 1, 2008 for all financial statements required to be provided after that date. However, the Protocols clearly state that PRRs are effective only prospectively. Therefore, Market Participants who did not comply with the requirement prior to February 1, 2008 are – technically – in breach of their Standard Form Market Participant Agreement with ERCOT.

Some Market Participants who were required by Protocol § 16.2.8 to provide financial statements in 2007 have not done so and have expressed concern that it would be costly to go back and prepare financial statements and obtain audit opinions for those historical periods and, further, that such efforts would be to collect stale information with only limited value.

Market Participants have expressed concern about: (1) being considered in breach of their Standard Form Market Participant Agreements with ERCOT and (2) what enforcement action might take place for non-compliance with the Section 16.2.8 requirements prior to February 1, 2008.

ERCOT would prefer not to take action against Market Participants not meeting the financial statement requirement as it existed in Section 16.2.8 prior to February 1, 2008, but seeks Board





guidance. ERCOT *does* expect to fully enforce Protocol Section 16.2.8 requirements, as revised, going forward.

**Key Factors Influencing Issue:** Financial information related to fiscal years ended 2006 and the quarterly updates through 2007 are of only marginal value given that 2007 year-end data becomes available in the next few months. This is a one-time event due to the recent change enacted by PRR744.

**Alternatives:**

- 1) Direct ERCOT Staff to take action against Market Participants for breach of their Standard Form Market Participant Agreements with ERCOT (SFAs) regarding Protocol § 16.2.8 as it existed before PRR744.
- 2) Direct ERCOT Staff to exercise its discretion to waive any Market Participant breaches of their SFAs regarding Protocol § 16.2.8 as it existed before PRR744.

**Conclusion/Recommendation:**

ERCOT recommends that the Board of Directors direct ERCOT Staff to exercise its discretion to waive action against Market Participants for breach of their SFAs regarding Protocol § 16.2.8 as it existed before PRR744.



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

WHEREAS, during the year 2007, some Market Participants in the ERCOT Region did not provide financial statements as required by ERCOT Protocols Section 16.2.8 as it existed before being amended on February 1, 2008; and

WHEREAS, the Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) believes it is not advisable to require those Market Participants to compile and provide that data to ERCOT at this time; and

WHEREAS, the Board deems it desirable and in ERCOT’s best interest to instruct ERCOT staff to exercise its discretion to waive Market Participant breaches of their SFAs regarding Protocol § 16.2.8 as it existed before PRR744; therefore be it:

RESOLVED, that ERCOT staff should exercise its discretion to waive Market Participant breaches of their Standard Form Market Participant Agreements with ERCOT regarding Protocol §16.2.8 as it existed before Protocol Revision Request 744.

**CORPORATE SECRETARY’S CERTIFICATE**

I, Michael G. Grable, Corporate Secretary of Electric Reliability Council of Texas, Inc., a Texas nonprofit corporation (ERCOT), do hereby certify that, at its February 19, 2008 meeting, the ERCOT Board of Directors passed a motion approving the above Resolution by a vote of [REDACTED].

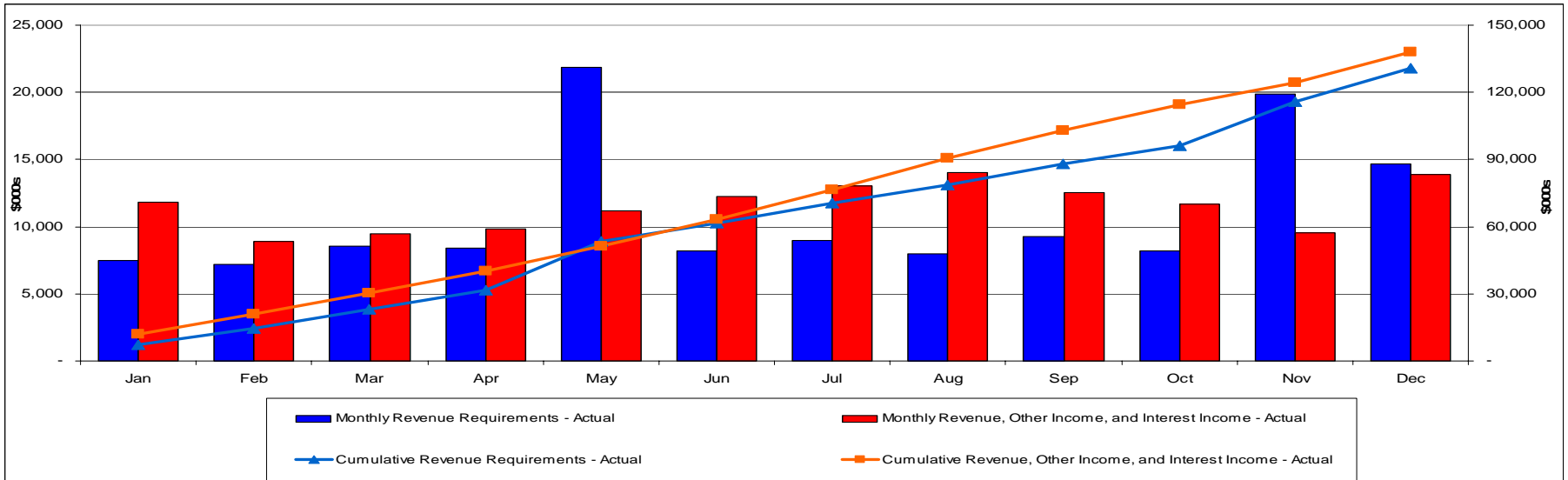
IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
Michael G. Grable  
Corporate Secretary

- **Year-end financial results are favorable and consistent with reporting throughout the year**
  - Base operations conducted within \$0.4171 per MWh
    - \$7 million excess of revenue over revenue requirements
      - Revenue - \$1 million unfavorable
      - Expenditures - \$8 million favorable
    - Recommendation for utilization of favorable variance after completion of the annual financial statement audit
  - 40% revenue-funding of 2007 projects enabled by favorable financial variance realized in 2006
    - Budgeted at 27% revenue-funding on an exception basis
  - Unrestricted net deficit reduced by 50%
    - From \$15MM to \$7MM

# 6. Update on 2007 Year-end Financial Results

## Mike Petterson



	2007												2007 Actuals	Annual Original Budget	Var-\$
	Actuals														
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec			
<b>Revenue Requirements</b>															
Base Operating Expenses (excluding depreciation)	5,766	6,413	6,956	7,045	6,104	6,472	7,008	6,007	8,025	6,332	6,139	9,555	81,822	87,608	5,786
Principal Repayment	-	-	-	-	13,637	-	-	-	-	-	12,500	-	26,137	26,137	-
Interest Payments	606	456	349	450	452	436	361	362	228	315	119	1,340	5,474	8,031	2,557
Revenue-Funded Project Expenditures	1,080	322	1,230	904	1,675	1,304	1,637	1,608	1,014	1,525	1,129	3,778	17,206	12,000	(5,206)
Subtotal - Revenue Requirements	7,452	7,191	8,535	8,399	21,868	8,212	9,006	7,977	9,267	8,172	19,887	14,673	130,639	133,776	3,137
<b>Revenue, Other Income &amp; Interest Income</b>															
System Administration Fee	10,760	9,015	9,089	8,992	10,593	11,825	12,275	13,358	11,913	10,649	9,028	10,621	128,118	130,420	(2,302)
Wide-area Network Fees	197	169	140	142	138	138	181	147	152	146	165	144	1,858	1,945	(87)
Generation Interconnection Study Fees	243	32	199	142	60	109	75	143	59	85	10	191	1,349	230	1,119
Non-ERCOT Load Serving Entity Fees	18	18	17	18	18	18	18	18	18	17	18	-	195	125	70
Membership Dues	23	23	24	24	25	24	24	25	25	35	19	19	289	250	39
Other Revenue	1	12	4	2	1	6	2	3	7	1	4	2	45	17	28
Non-Operating Income (excluding derivative valuation)	-	(30)	(503)	507	(6)	-	-	-	-	-	(2)	-	(34)	-	(34)
Interest Income	166	86	54	51	70	84	88	88	108	94	74	175	1,138	789	349
2006 Excess Revenue Carry forward	398	(388)	438	(51)	283	21	354	243	250	679	228	2,752	5,206	-	5,206
Subtotal - Revenue, Other Income & Interest Income	11,805	8,939	9,464	9,827	11,181	12,224	13,015	14,025	12,532	11,707	9,543	13,904	138,164	133,776	4,388
<b>Excess of Revenue, Other Income &amp; Interest Income Over Revenue Requirements</b>															
	4,353	1,748	929	1,428	(10,687)	4,012	4,009	6,048	3,265	3,535	(10,344)	(769)	7,525	-	7,525



## Open discussion

- **Preparation of the 2009 budget will soon commence**
  - Earlier than normal
  - Target to complete regulatory approval process before January 1, 2009
  - Board member involvement is essential
- **Key dates**
  - February 19 → provide input on budget assumptions
  - March 18 → preliminary 2009 budget review by the Finance & Audit Committee members
  - April 3 → special meeting of the Finance & Audit Committee to review the updated, preliminary budget
  - April 15 → Board review of the 2009 budget recommended by the Finance & Audit Committee members
  - May 20 → Board approval of the 2009 budget anticipated

- **Seeking confirmation of significant assumptions before launching budget preparation process**
  - Cost-consciousness is key and ERCOT's ultimate constituency is the electric consumer
  - Provide staffing, facilities, and systems necessary to satisfy responsibilities under
    - SB 7
    - ERCOT protocols
    - Key performance indicators adopted by the Board
    - Reliability and operational compliance standards and guides
    - Service level commitments to the market
  - Implement and operate a nodal market
  - Collect and remit the ERO fee for the ERCOT region

- **Seeking confirmation of significant assumptions before launching budget preparation process**
  - Implement projects as determined and prioritized by the market
    - Project funding at 40 percent equity and 60 percent debt
    - Repay borrowed funds over the average useful lives of assets acquired or constructed
    - Recover the cost of investment in projects from expected future beneficiaries
  - Protect and maintain investments in facilities and systems
  - Continue market-based employee compensation strategy approved in 2006

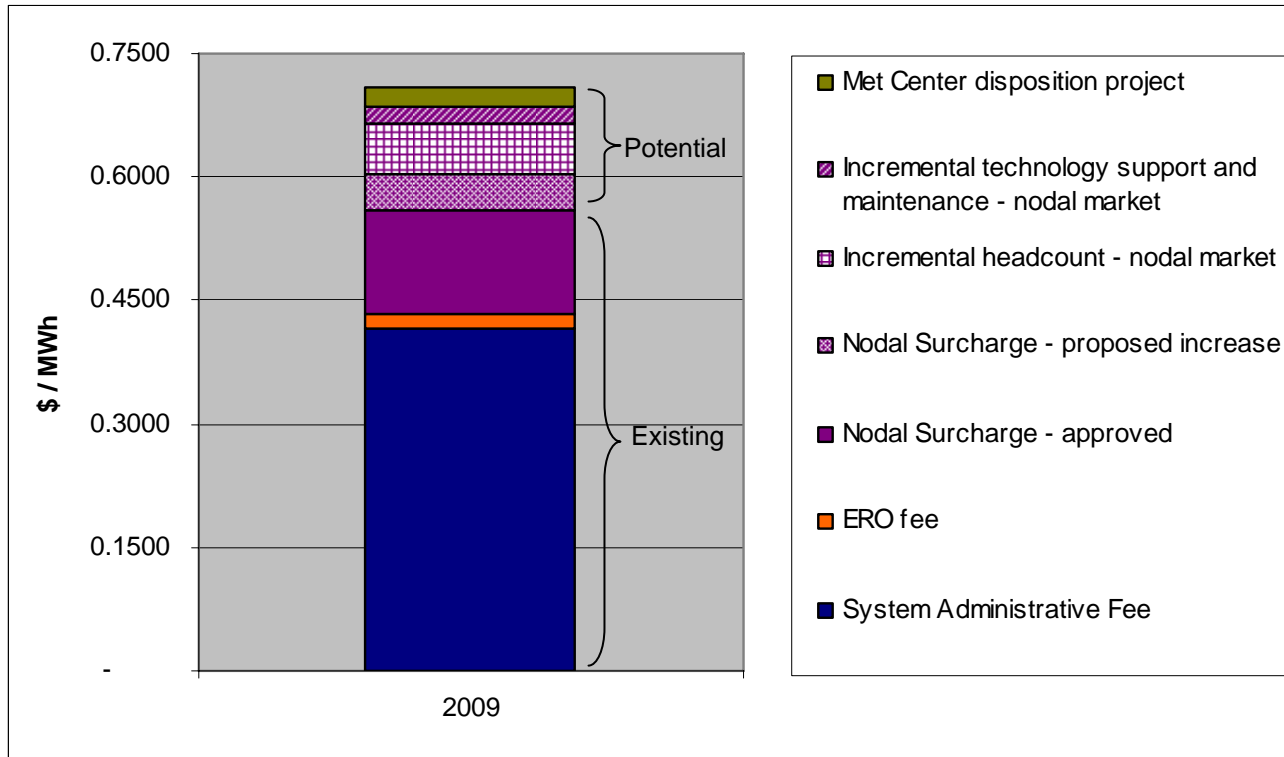


- **Several new financial issues confront ERCOT and will impact future fees**
  - Nodal market
    - Approval of an updated Nodal Program budget
    - Completion of a comprehensive analysis of staffing requirements in a nodal market
      - Information provided to R. W. Beck to assist them in preparing an independent assessment
    - Updated evaluation of support and maintenance costs relating to technology assets acquired in connection with the Nodal Program
  - Data center capacity constraints
  - Expiration of Met Center lease

## 8. 2009 Budget Planning and Key Assumptions

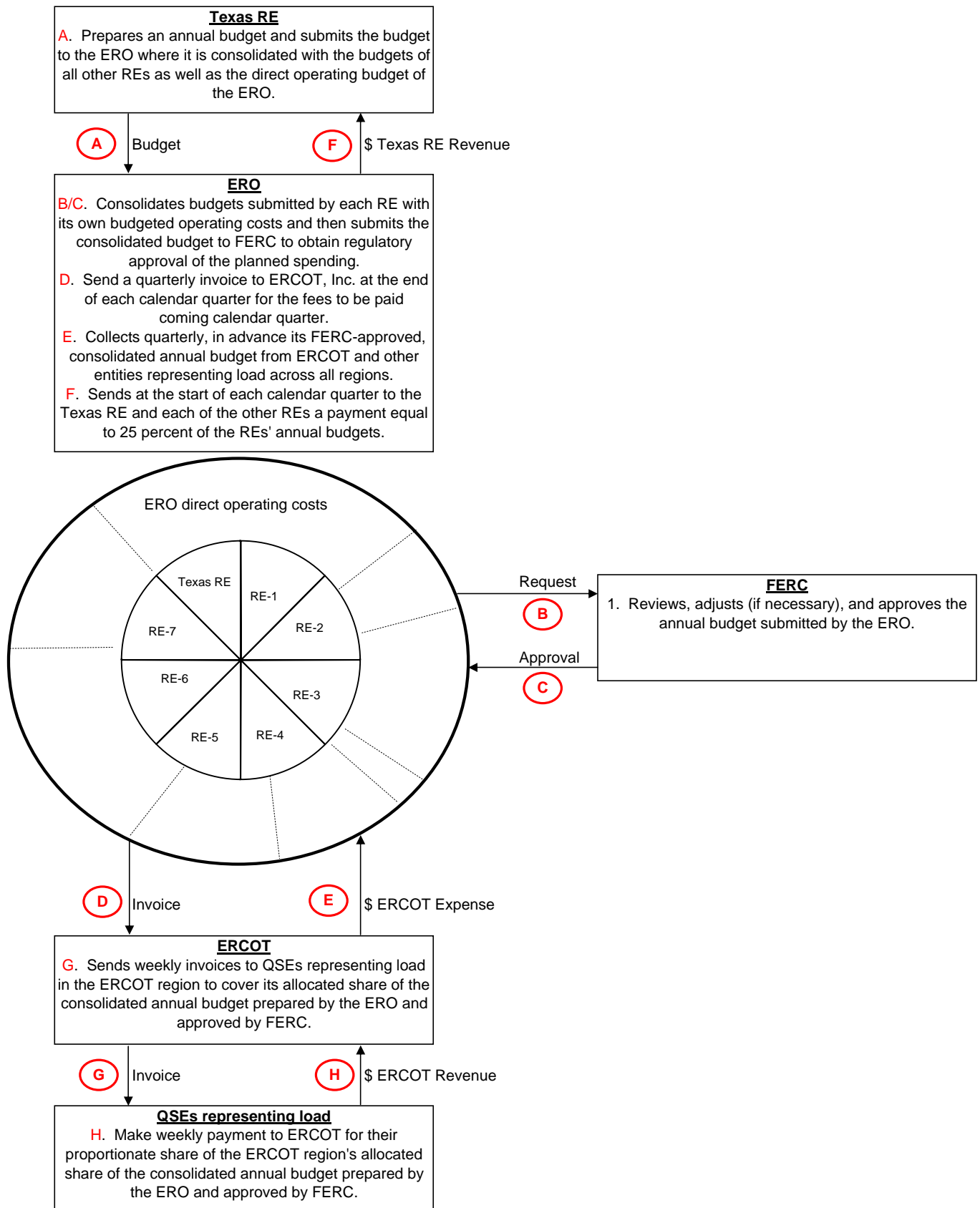
Mike Petterson

- If past policy decisions and strategic direction are assumed to be continued in the 2009 budget preparation process, preliminary high level analysis suggests significant upward pressure on existing fees.
- Issues will be fully explored and solidified as managers begin their involvement in preparing ERCOT's 2009 budget



- **Audit requirement**
  - Pursuing agreed upon procedures based on feedback from NERC
    - Cost benefit
    - Practical benefit
- **ERO / Texas RE revenue basics**
  - ERO fees (collection and remittance) must be reflected in ERCOT base operations
    - Collections are subject to load variation
    - Remittances are fixed
  - Texas RE should be credited with 100% of budgeted revenue

**Finance and Audit Committee**  
**Agenda Item 9 - Update on Texas RE Accounting**  
**Exhibit 1**



**Q&A only**

## ERCOT Market Credit Status

as of 12/31/2007

as of 1/31/2008

### 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	19,513,263	6%	101,853,059	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	45	159,070,827	48%	347,728,420 S
Guarantee Agreements	14	150,108,165	46%	476,976,336 S
<b>Total Exposure</b>	<b>68</b>	<b>328,692,255</b>	<b>100%</b>	

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
9	34,701,426	10%	101,483,796	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	48	148,428,011	45%	260,998,594 S
Guarantee Agreements	17	147,840,812	45%	571,440,544 S
<b>Total Exposure</b>	<b>74</b>	<b>330,970,249</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

7	(1,443,575)	-3%	21,096,707	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	50	(31,957,330)	-60%	48,652,603 S
Guarantee Agreements	13	(19,827,339)	-37%	244,143,775 S
<b>Total</b>	<b>70</b>	<b>(53,228,244)</b>	<b>-100%</b>	

7	(1,057,533)	-2%	20,425,755	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	52	(29,147,955)	-63%	73,300,955 S
Guarantee Agreements	9	(16,073,628)	-35%	146,943,775 S
<b>Total</b>	<b>68</b>	<b>(46,279,116)</b>	<b>-100%</b>	

*Total*

138

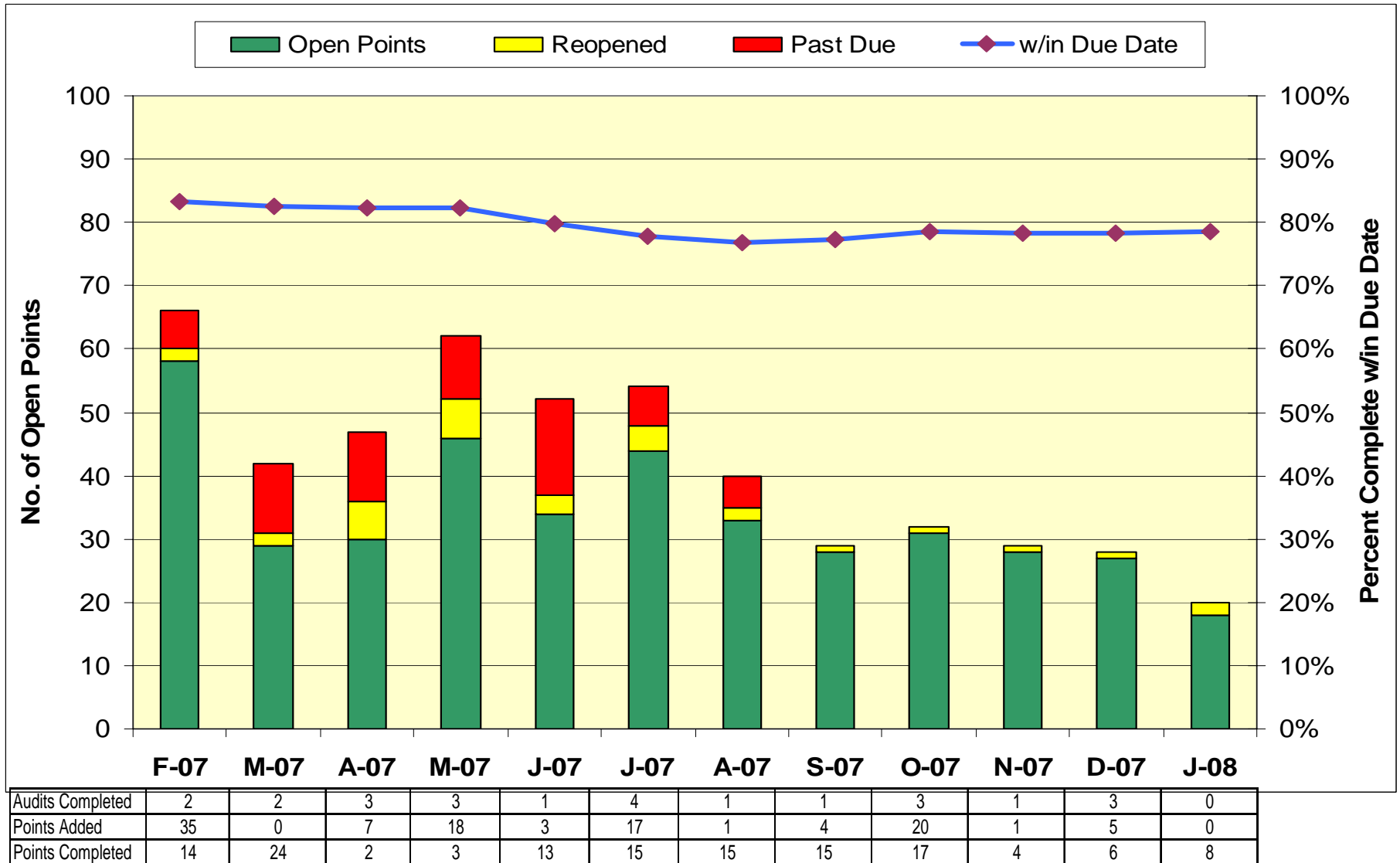
142

U: Unsecured since these QSEs meet the creditworthiness standards

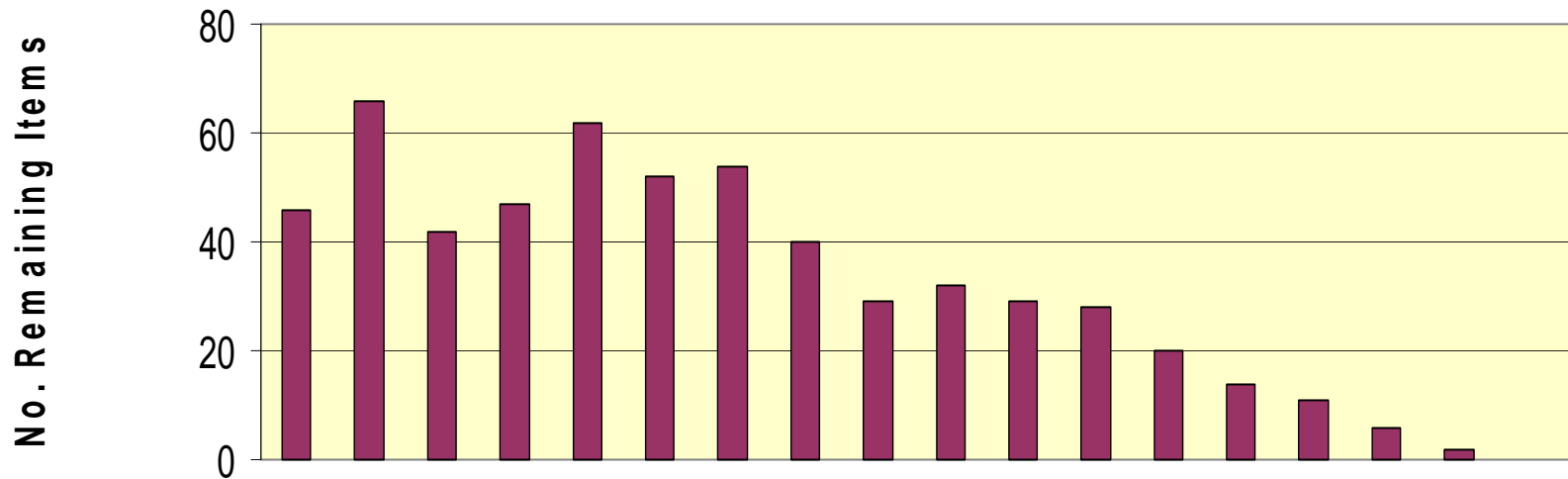
S: Secured i.e. required to post collateral since these QSEs do not meet the creditworthiness standards

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

## Cheryl Moseley



## 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	29	28	20	14	11	6	2	0



### **Audits Completed**

(last 3 months)

#### Internal Audits

- Protocol/Market Guide Approvals/Revisions
- Operator Procedural Compliance (Limited Scope)
- Non-Nodal Vendor Billings
- Fixed Assets (Special Request)
- Nodal Infrastructure Purchasing (Special Request)
- Ethics Compliance (ERCOT-wide)
- Debt Financing

#### External Audits

- 2007 SAS70 (PwC)

### **Open Audits**

#### Internal Audits

- Nodal Contractor Time Reporting
- Nodal Schedule & Delivery Time

#### External Audits

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

### **Planned Audits**

(next 3 months)

#### Internal Audits

- Nodal Project SOWs
- Nodal Spending
- Contractor Ethics Compliance
- Business Continuity/Disaster Recovery Plan
- Year-end Accruals Validations (Special Request)

#### External Audits

- Texas Nodal Program Controls – Review #6 (IBM - Managed by IAD)

\*NOTE: Conducted by internal resources other than the Internal Audit Dept.

**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

# 10. Committee Brief: Risk Inventory "Stoplight" Report

## ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. RISK MANAGEMENT EVENT PROFILE MATRIX (as of February 1st, 2008)

Strategic Risks	Operational Excellence	Market Facilitation	Grid Reliability	Reporting Risk	Legal and Regulatory Compliance Risks
<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. Preliminary version of plan shared with TAC in January. 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 and production failover processes in case of emergencies is on hold until 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. The intermittent IT problems experienced through 2006 and during the first part of 2007 have diminished.</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 have been 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 has 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. Business Continuity Plan revisions to be completed in February. Disaster Recovery Plan revisions beginning in February. BCP training to be conducted in February and testing to be conducted in March.</p>	<p><b>Nodal Implementation Project</b></p> <p>Nodal Implementation on budget on schedule, and within defined scope.</p> <p>Scope and schedule remain unchanged (green and amber respectively). Budget risk has increased to red. Major milestones have been reached to date. Many base systems have been delivered. Baseline 1 and 2 systems are in various delivery phases. Quality tracking has improved and metrics show varying degrees of quality across all projects. Critical items yet to be resolved include implementation of integrated testing environment (January) and resolution of common information model (CIM) importer problems.</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 December update to the 2007 ERCOT Five Year plan shows higher reserve margins in the near term due to an improvement in generation outlook. The CREZ Transmission Optimization (CTO) Study and the surge of generation interconnection requests in the five-year horizon are tying up all available resources in System Planning, but the completion of the CTO study in April will allow staff to start work on the 2008 Long Term System Assessment.</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 developed an initial 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>Increased publicity associated with the implementation of the Nodal market and anticipated new fee filings for the nodal surcharge and System Administration fee have the potential to negatively impact ERCOT's reputation.</p>	<p><b>Workforce</b></p> <p>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</p> <p>ERCOT continues to face an increased demand for the skill sets of employees. Open positions increased to 70 in January. Seasonal reduction in open positions or terminations normally seen in previous years is not occurring. We are interviewing and locating a large number of excellent candidates and expect many new hires in February and March. Expect turnover to increase this year as market participants prepare for nodal implementation and solicit our talent. College recruiting has produced excellent results and we expect our new internship program to provide hiring resources for the future. Continuing to review additional options to retain talent.</p>	<p><b>Counterparty Credit</b></p> <p>Maintain credit risk exposure for overall market within acceptable limits.</p> <p>ERCOT is developing enhanced metrics to measure the residual credit risk assumed by market participants. ERCOT previewed results with the COWG in January and with the F&amp;A committee in early February. Final results are expected to be discussed with the Board in February 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>Preparation for the ERCOT Long Term System Assessment (due in Jun'08) will begin in the first quarter of 2008. ERCOT is developing new transmission interconnection solutions for new proposed power plants included in the new CDR update. Two new generation interconnection agreements have been signed since the December 2007 CDR update and will bring reserves above 12.5% through 2010.</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. Issues raised to date by the Texas RE have been addressed / corrected. ERCOT received an unqualified SAS70 audit report in December.</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. Wholesale system processing slowdowns have been addressed and infrastructure design changes will be implemented after January 1, 2008. Aging hardware is becoming a concern. Projects to replace older servers have been initiated while 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>AIX processing delays have been resolved and processing has returned to pre-migration levels. However, database backup and production failover processes in case of emergencies is on hold until infrastructure changes stabilize (see Customer Choice above).</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 which should be completed in the first quarter of 2008.</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> <p>Nodal Implementation and System Admin Fee rate case applications will be filed with PUCT in 2008.</p>

# 10. Committee Brief – PMO

## David Troxtell

### January 2008 Year to Date Project Activity by Division

	Phase	Not Started	Initiation	Planning	Execution	Closing	Closed	Totals Excluding Non-Active	Cancelled	On Hold	Deferred	Totals by CART	Go-Live* (To Date)	Projected Go-Live (by Y.E.)
C A R T	Corporate Operations	20	2	7	12	5	0	46	1	0	3	50		16
	IT Operations	6	0	1	9	0	2	18	0	0	0	18	1	16
	Market/Retail Operations	3	0	5	7	2	0	17	1	1	12	31		12
	System Operations	0	0	1	3	1	0	5	0	0	0	5		4
	<b>Totals by Phase</b>	29	2	14	31	8	2	86	2	1	15	104		40
	<b>Total Non-Active</b>								18					

\* Note: Some projects in Closing and Closed Status went live in 2007

\* Note: Projects Gone Live in January 2008:

(MO) PR-50137\_02 Maestro Replacement Phase 2 (Go Live was Dec. 2007). This was not reported in the Jan. 2008 package

(IO) PR-70050\_01 EIS ETL Tool Implementation

# 10. 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 2008 (October) PPL											64	
	PUCT										0	
	Market	1		1	1						3	
	ERCOT	28		10	5		2		1	15	61	
Unexpected Carry Over From 2007											30	
	PUCT										0	
	Market				1	1					2	
	ERCOT		1	2	17	7		1			28	
New Projects Added (Since PPL Approval in October 2007)											10	
	PUCT										0	
	Market										0	
	ERCOT		1	1	7				1		10	
2008 PPL totals to date											104	
	PUCT	0	0	0	0	0	0	0	0	0	0	
	Market	1	0	1	2	1	0	0	0	0	5	
	ERCOT	28	2	13	29	7	2	1	2	15	99	
Totals by Project Phase		29	2	14	31	8	2	1	2	15	104	

# 10. Committee Brief – PMO

## David Troxtell

### Projects Over \$1 Million

January 2008 Year to Date

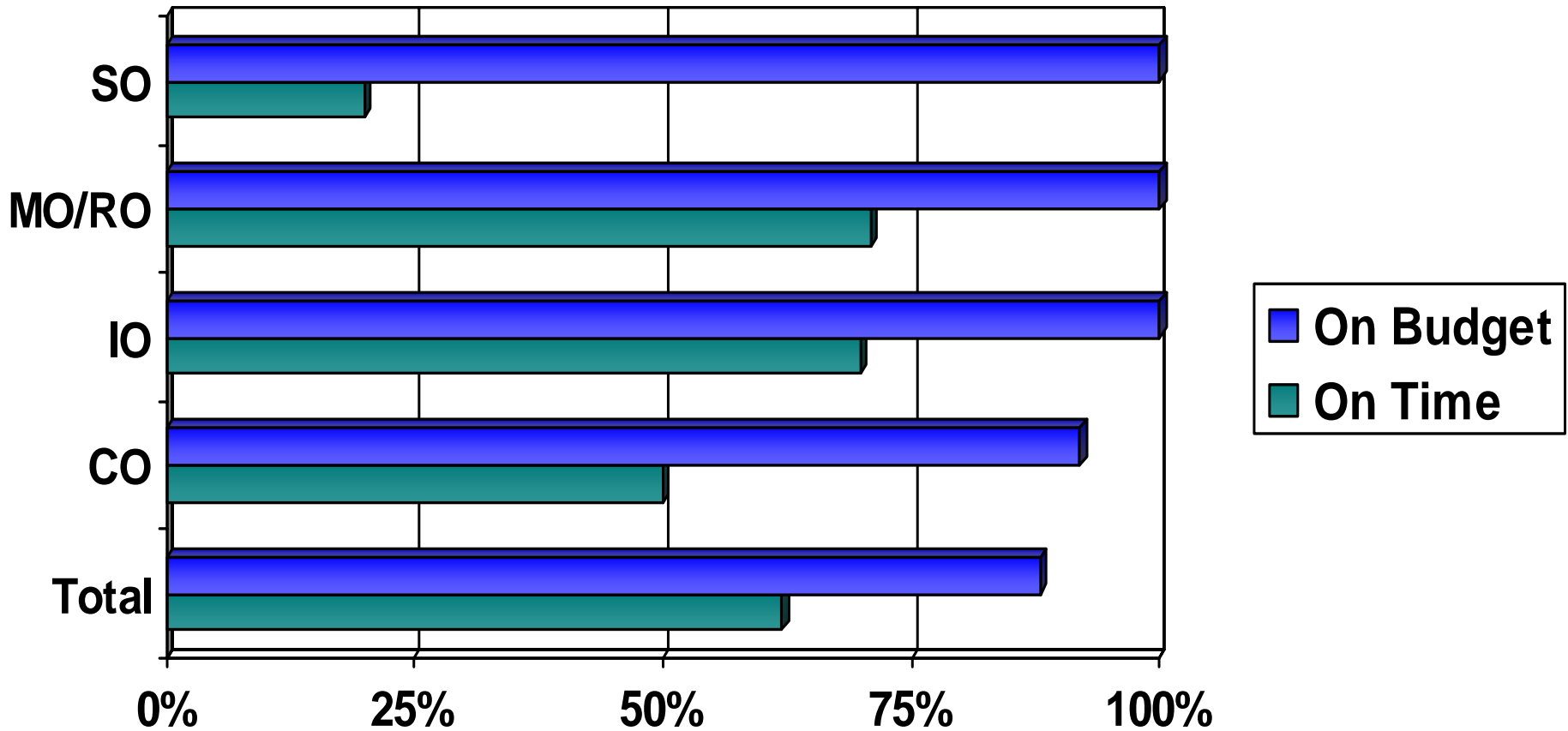
Project (CART) Number and Description	Total Budget	Total Committed To Date	Metrics	
(Duration) Phase (Sponsor)	Scheduled Completion		Schedule	Budget
<b>(IO) PR-70049_01: SAN Hardening</b>	\$880K	\$871K		
<i>(2007) Currently in Closing (R Hinsley)</i>	<i>Go Live Dec. 2007</i>			
<b>(MO/RO) PR-50024:(consists of 2 sub-projects) Enhancements to SCR727 PR-50024_01 is closed in Lawson, PR-50024_02 is Execution</b>	\$1.61M	\$1.48M		
<i>(2005-2008) Currently in Execution (R. Giuliani)</i>	<i>Go Live Nov. 2007</i>			
<b>(CO) PR-60099_01: TCC2 Build-Out Phase One</b>	\$2.64M	\$2.17M		
<i>(2007) Currently in Closing ( B. Kahn)</i>	<i>Go Live Oct. 2007</i>			
<b>(IO) PR-60055_01: Enterprise Service Management</b>	\$1.61M	\$1.3M		
<i>(2006-2007) Currently in Execution ( R. Hinsley)</i>	<i>Expected Completion 1<sup>st</sup> Qtr 2008</i>			
<b>(CO) PR-60075: Identity Access Management (consists of 2 sub-projects)</b>	\$2.44M	\$1.44M		
<i>(2006-2007) Currently in Execution ( B. Kahn)</i>	<i>Expected Completion 4<sup>th</sup> Qtr 2008</i>			
<b>(IO) PR-70026: Virtual Tape</b>	\$1.35M	\$825K		
<i>(2007) Currently in Closing (R Hinsley)</i>	<i>Go Live Dec. 2007</i>			
<b>(MO/RO) PR-70007_01: MarkeTrak Enhancements</b>	\$1.62M	\$555K		
<i>(2007-2008) Currently in Planning (R. Giuliani)</i>	<i>Expected Completion 1st Qtr 2009</i>			
<b>(IO) PR-70054_01: Blade Refresh</b>	\$2.50M	\$1.88M		
<i>(2007-2008) Currently in Planning (R Hinsley)</i>	<i>Expected Completion 4<sup>th</sup> Qtr 2008</i>			
<b>(IO) PR-70055_01: SAN Capacity (part one)</b>	\$1.75M	\$793K		
<i>(2007-2008) Currently in Execution (R Hinsley)</i>	<i>Expected Completion 2<sup>nd</sup> Qtr 2008</i>			

## Budget vs. Actuals for Projects Closed in Lawson for 2008

**NOTE:**

No Projects closed in Lawson in January 2008.

2008 Completed and Active Projects Performance



Note: Includes projects started in previous years.



## Go Live Project for January 2008

- **PR-70050 EIS ETL Tool Implementation**
  - **Scope:** To select, procure, install, and configure an Extract, Transform and Load (ETL) tool for the delivery of Nodal and Zonal EIS/EDW projects.
  - **Deliverables:** ETL tool installed in dev, iTest and production and available for development use.
  - **Timeline:** October 2007 – January 2008

## Go Live Project for December 2007

- **PR-50137\_02 Maestro Replacement Phase 2**

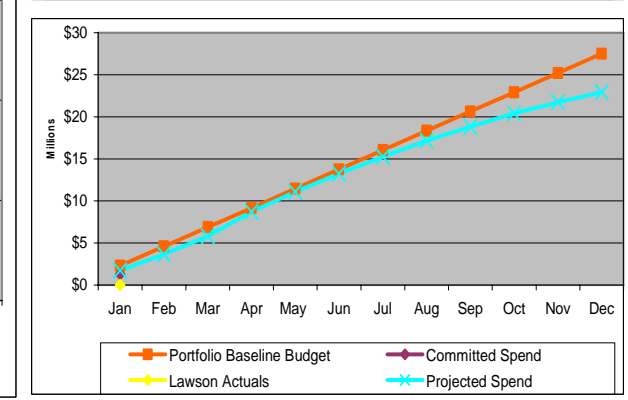
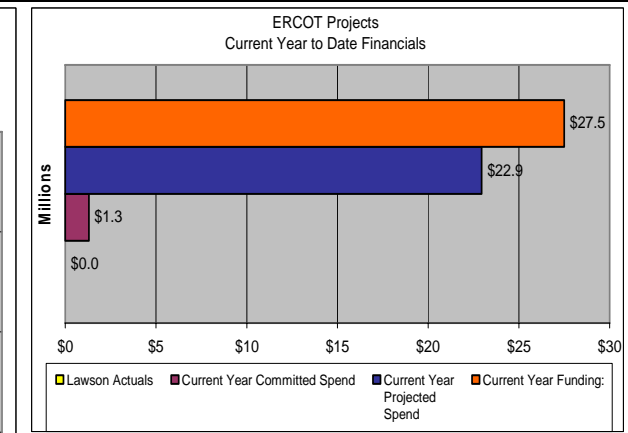
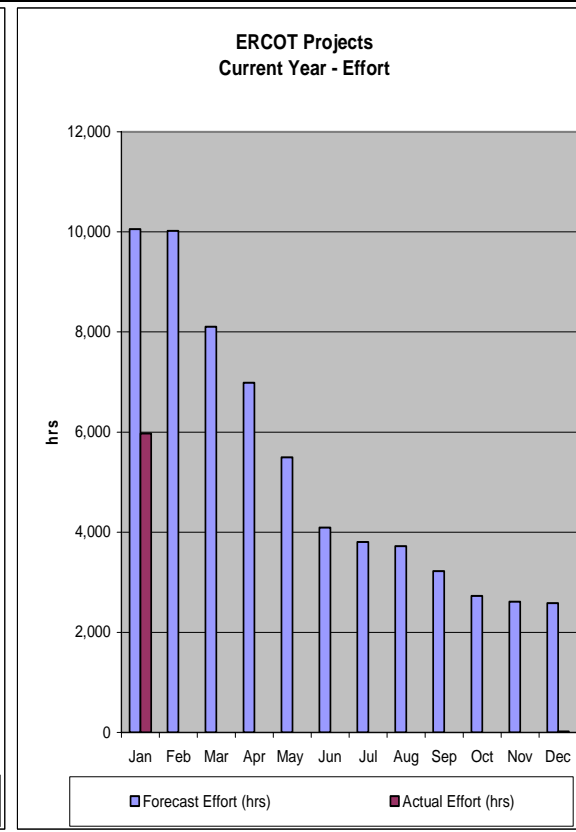
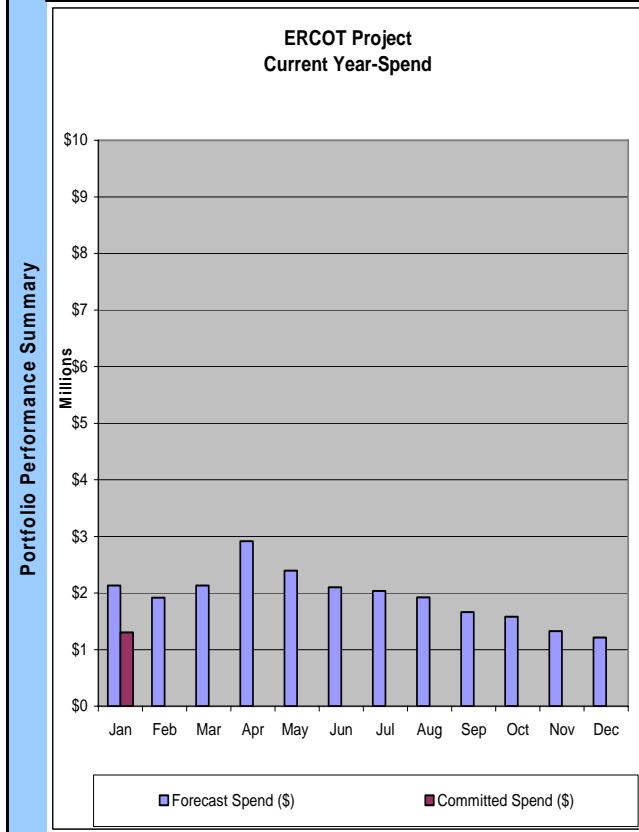
- **Scope:** To complete Phase 2 activities not implemented in the parent Maestro Replacement project (PR 50137\_01)
- **Deliverables:** Implementation of Appworx HP OvenView Integration providing the ability to monitor Appworx processes, execute commands, and establishing alert thresholds for long-running or aborted jobs
- **Timeline:** February 2007 – December 2007

## Large Project Update

- **PR-70007\_01 MarkeTrak Enhancements (Workflow and Reporting)**
  - **Scope:** To implement enhancements to the MarkeTrak tool by: (a) Increasing usability; (b) Improving workflow of MarkeTrak Issues; and (c) Increasing reporting functionality.
  - **Deliverables:** This will require development to the MarkeTrak Graphical User Interface (GUI), Application Programming Interface (API), Workflows, TIBCO adapters, automation in Siebel, as well as Data Definition Language (DDL) changes to source and Operational Date Store (ODS) databases.
  - **Timeline:** May - 2007 – February - 2009
  - **Board Request:** Project expected to exceed 1MM.

# ERCOT Enterprise Projects Summary Report

ERCOT Overall Projects Report		Reporting Period: 1/31/2008								
<b>ERCOT Projects Leadership</b>		<b>Projects in ERCOT's Portfolio</b>					<b>Portfolio Performance</b>			
Executives		On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget	Risk	Milestones
Kent Saathoff	Ray Giuliani	1	2	14	32	8	Y	G	G	Y
Ron Hinsley	Steve Byone	Closed	2	Total Active		56				
		Cancelled	2	Projects Not Started:		29	Current Year Funding:		\$27,500,000	



**Notes**  
Project/Status Count/Budget Variance  
CO:(3 Deferred); MORO:(12 Deferred); SO-DPO:(1 NODAL in Execution).



## Future Agenda Items – March 2008

- **Standing Internal Audit status report (s)**
- **Review of external auditor guidelines for engagement and external auditor independence**
- **Report by Credit Work Group Chair on credit policy (if needed)**
- **Update on CWG credit risk recommendations**
  - (follow-up on Oliver Wyman next steps)
- **Update on annual financial audit**
- **Preliminary review of 2009 ERCOT budget**
- **Committee briefs**

# F&A Yearly Schedule

## Quarter 1

- √ •Elect officers and confirm financial qualifications
  - 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 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
- Annual review of insurance coverage

## Quarter 3

- Appoint the independent auditors for upcoming year
- Review of committee charter
- Approve the Guidelines for Engagements of External auditors for Other Services (pre-approval policy)
- 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