

Date: May 13, 2008
To: Board of Directors
From: Larry Grimm, CCO
Subject: Acceptance of Agreed Upon Procedures

ERCOT Board of Directors Meeting Date: May 20, 2008

Agenda Item No.: 5b

Issue:

Acceptance of Agreed Upon Procedures of the Texas Regional Entity 2007 financial statements.

Background/History:

Section 10.6 of the Bylaws provides that “[a]t least annually, an audit of the financial statements of ERCOT shall be performed by the Auditor approved by the Board.” PricewaterhouseCoopers, LLP (PwC) was engaged by ERCOT, subsequent to Board approval, to perform the annual audit of ERCOT’s financial books and records and has completed this audit. Texas Regional Entity is required by its Delegation Agreement with NERC to obtain and provide to NERC annual audited financial statements audit of Texas RE and, so long as it is a division of ERCOT, annual audited financial statements of ERCOT. Due to the difficulty in obtaining a full financial audit of the Texas Regional Entity financial statements for 2007 (a start up and partial year of operations), NERC agreed to accept a PwC Agreed Upon Procedures of the Texas RE 2007 financial statements, in lieu of a full audit of Texas RE, so long as the Texas RE Board of Directors accepts the Agreed Upon Procedures, and Texas RE also provides the full audited financial statements of ERCOT to NERC.

Texas RE requests the Board accept the PwC Agreed Upon Procedures of the Texas RE 2007 financial statements. Texas RE will provide the Agreed Upon Procedures to the Board of Directors at, or prior to, the May 20, 2008 Board meeting and anticipates the Finance and Audit Committee will recommend Board acceptance of the Agreed Upon Procedures.

Key Factors Influencing Issue:

- The Bylaws requirement for the annual audit of financial statements
- The Delegation Agreement requirement for Texas RE to submit to NERC annual audited financial statements of Texas RE and ERCOT
- NERC’s agreed acceptance of the Agreed Upon Procedures, as accepted by the Board, in lieu of the full financial audit of Texas RE for 2007

Alternatives:

- Accept the Agreed Upon Procedures.
- Request PwC take further action to review Texas RE financials.

Conclusion/Recommendation:

Texas RE respectfully requests the Board accept the PwC Agreed Upon Procedures of the 2007 Texas RE financial statements.

RESOLUTION OF THE BOARD OF DIRECTORS OF
TEXAS REGIONAL ENTITY, A DIVISION OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

, 2008

WHEREAS, the Board of Directors of Texas Regional Entity, a division of the Electric Reliability Council of Texas, Inc., a Texas non-profit corporation deems it desirable and in the best interest of Texas Regional Entity to accept the PricewaterhouseCoopers, LLP Agreed Upon Procedures of the Texas Regional Entity 2007 financial statements;

THEREFORE be it RESOLVED, that the Board hereby accepts the PricewaterhouseCoopers, LLP Agreed Upon Procedures of the Texas Regional Entity 2007 financial statements.

CORPORATE SECRETARY'S CERTIFICATE

I, Susan Vincent, Corporate Secretary of Texas Regional Entity, do hereby certify that, at the
, 2008 Texas Regional Entity Board of Directors Meeting, the Board of Directors of Texas Regional Entity approved the above referenced resolution. The motion passed by
_____.

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

Susan Vincent
Corporate Secretary