



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 168
June 17, 2008; 8:00am – 10:00am*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order Executive Session	M. Espinosa	8:00am
2.	Decision required	2a. Approval of executive session minutes (Vote) (05/20/08)	M. Espinosa	8:00am
	Informative	2b. Internal Audit status report	B. Wullenjohn	8:02am
	Informative	2c. EthicsPoint update	B. Wullenjohn	8:05am
	Informative	2d. Quarterly private discussion with Chief Audit Executive	B. Wullenjohn	8:10am
	Informative	2e. Business continuity plan and 2008 SAS 70 audit	B. Wullenjohn / S. Grendel	8:15am
	Informative	2f. 2009 Audit services planning	B. Wullenjohn	8:20am
		Recess Executive Session		8:35am
		Convene General Session		
3.	Decision required	Approval of general session meeting minutes (Vote) (05/20/08)	M. Espinosa	8:35am
4.	Decision required	Application of the 2007 actual vs budget revenue requirement variance (Vote)	M. Petterson	8:37am
5.	For discussion	Review procedures for handling reporting violations	M. Petterson	8:50am
6.	For discussion	Credit update	C. Yager	8:55am
7.	For discussion	Review of liquidity management and debt capacity	C. Yager	9:10am
8.	For discussion	Review the company's dealings with any financial institutions that are also market participants	C. Yager	9:25am
9.	Informative	Update on investments	C. Yager	9:30am
10.	Informative	Review of delegation of authority	M. Petterson	9:35am
11.	Informative	Financial statement audit wrap-up	S. Barry	9:40am
12.	Informative	Committee Briefs (Q&A only)	All	9:45am
13.	Informative	Future agenda items	S. Byone	9:50am
		Adjourn ISO meeting	M. Espinosa	9:55am

** Background material is enclosed or will be distributed prior to meeting. All times shown in the agenda are approximate. The next Finance & Audit Committee Meeting will be held Tuesday, July 15, 2008, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 168.*

Decision required
For discussion

3. Approval of General Session Minutes

Mike Espinosa

- **Approval of General Session Minutes**
 - Vote 05/20/08

DRAFT ERCOT ISO FINANCE & AUDIT COMMITTEE
General Session MEETING MINUTES
Met Center – Austin, Texas

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. convened on **May 20, 2008**. **Clifton Karnei** confirmed that a quorum was present and called the meeting to order at approximately **8:15 a.m.** The Committee met in Executive Session from **8:15 a.m.** to **9:05 a.m.**

General Session Attendance

Committee members:

Cox, Brad	Tenaska Power Services	Independent Power Marketer	Present
Espinosa, Miguel (Vice Chair)	Unaffiliated Board Member	Unaffiliated Board Member	Present
Fehrenbach, Nick	City of Dallas	Consumer	Present
Gent, Michehl	Unaffiliated Board Member	Unaffiliated Board Member	Present
Jenkins, Charles	Oncor	Investor Owned Utility	Present
Karnei, Clifton (Chair)	Brazos Electric Cooperative	Cooperative	Present
Thomas, Robert	Green Mountain Energy	Ind. Retail Electric Provider	Present
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Walker, Mark	NRG Texas	Independent Generator	Present
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ERCOT staff and guests present:

Anderson, Troy	ERCOT
Barry, Sean	PwC – via telephone
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Doolin, Estrellita	ERCOT
Goff, Eric	Constellation
Grable, Mike	ERCOT
Greer, Clayton	J. Aron & Company
Gross, Blake	AEP
Hancock, Misti	ERCOT
Hinsley, Ron	ERCOT
Lester, Suzanne	ERCOT
List, Amanda	Strategic Energy
Petterson, Mike	ERCOT
Stauffer, Tarra	ERCOT
Trostle, Kay	Chaparral
Troxtehl, David	ERCOT
Troutman, Jennifer	Direct Energy
Wullenjohn, Bill	ERCOT
Yager, Cheryl	ERCOT

Previous Minutes

Michehl Gent moved to approve the minutes for the Special Meeting of the Finance & Audit Committee meeting held April 3, 2008 and the General Session of the Finance & Audit Committee meeting held April 15, 2008 (as amended to reflect that Mr. Espinosa voted for himself and as proxy for Michehl Gent); Nick Fehrenbach seconded the motion. The motion passed unanimously.

Proposed 2009 Budget, Fees and Financial Performance Measures

Steve Byone and Mike Petterson referred to staff's recommended 2009 budget and noted line item changes made since the Board reviewed the budget in April. The changes, primarily due to updated information and staffing adjustments, did not affect the proposed System Administration Fee. Michehl Gent asked how projections related to the ERO were derived; Mr. Byone and Misty Hancock answered. **Dan Wilkerson moved to recommend that the Board approve the 2009 budget as presented in the Board materials; Miguel Espinosa seconded the motion. The motion passed unanimously.**

2007 Revenue Requirement Variance

Clifton Karnei suggested and Committee members agreed to delay any decision regarding application of the 2007 actual versus budget revenue requirement variance until a later date.

Financial Audit

Sean Barry confirmed that Mr. Karnei and Mr. Espinosa had concluded that the final version of the audit report prepared by PwC was not materially changed from the near-final version reviewed by the Board during its meeting on April 15, 2008. Mr. Karnei confirmed that, consistent with Board resolution, the final version of the audit report was deemed accepted by the Board.

Handling Reporting Violations

Mr. Karnei suggested and Committee members agreed to delay the discussion regarding procedures for handling reporting violations until a later date.

Credit Work Group Activities

Amanda List and Cheryl Yager provided an update on the efforts by the Credit Work Group (CWG) and ERCOT staff to develop a Market Credit Risk Standard. Ms. List described the CWG's reluctance to finalize a Standard that set hard limits using the Credit Risk Model until that model had been further vetted by CWG and utilized for a period of time. After a lengthy discussion, Mr. Karnei and Brad Cox suggested that the CWG work to get to agreement on a Standard without hard limits for now and provide an update to the Committee in June. Ms. List commented that the CWG would have difficulty looking at a draft Standard prior to the June meeting given the need to focus on Nodal credit topics.

Committee Briefs

Mr. Byone informed the Committee that ERCOT was recently changed from a 501(c)(6) entity to a 501(c)(4) entity. He noted that the status change would result in substantial savings in the future related to sales and use taxes. He also noted that the status change paves the way for a further change to a 501(c)(3) entity which would enable ERCOT to issue tax free debt. Mr. Byone commended Mike Petterson and Susan Vincent for their forethought and persistence over the past two years in keeping the tax status matter moving forward to a favorable resolution.

Staff provided written reports with information for the following areas:

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

Future Agenda Items

Staff provided the following list of future agenda items:

1. Debt financing for additional Nodal and Zonal costs
2. 2009 Audit planning
3. Review the company's dealings with any financial institutions that are also market participants

Adjournment

Clifton Karnei adjourned the meeting at 10:00 a.m.

Estrellita J. Doolin, Secretary

4. Application of the 2007 Actual vs. Budget Revenue Requirement Variance (Vote) – Mike Petterson

	<u>Amount</u> <u>(\$000s)</u>
<u>Actual revenue requirement</u>	
<i>Operating expense</i>	
Total operating expenses	\$ 149,656
Less:	
Depreciation	33,898
Amortization of regulatory asset	<u>32,034</u>
Adjusted total operating expenses	83,724
<i>Debt Service</i>	
Senior notes principal payment	13,637
Term loan principal payment	12,500
Interest expense	<u>5,474</u>
Debt service	31,611
<i>Revenue-funded projects</i>	
Project expenditures	42,900
Targeted revenue funding	<u>40%</u>
Revenue-funded projects	<u>17,160</u>
<i>Total actual revenue requirement</i>	132,495
<u>Actual revenue and interest income</u>	
<i>System Administration Fee</i>	130,155
<i>Other income</i>	3,737
<i>Interest income</i>	<u>1,138</u>
<i>Total actual revenue and interest income</i>	<u>135,030</u>
<u>Favorable 2007 Financial Variance</u>	<u>\$ 2,535</u>

- **Decision template regarding utilization of favorable 2007 financial variance can be found under Board agenda item 9b.**

4. Application of the 2007 Actual vs. Budget Revenue Requirement Variance (Vote) – Mike Petterson

OPTIONS	PROS / CONS	IMPLICATIONS / APPROVALS
Fund 2008 expenditures incurred in connection with the Met Center relocation initiative	Relatively easy to implement. Enables ERCOT to satisfy Finance and Audit Committee preference to revenue-fund 40% of 2008 project expenditures. Lowest cost to the market.	Finance and Audit Committee approval. Board authorization required for early pay down of long-term debt. <u>ERCOT STAFF RECOMMENDATION</u>
Reduce long-term debt or reduce debt-funding of 2008 projects.	Relatively easy to implement. Historical practice at ERCOT Lowest cost to the market.	Finance and Audit Committee approval. Board authorization required for early pay down of long-term debt.
Increase 2008 project funding to above \$47.6 million	Moderately difficult to implement. Disruption to on-going fee filing proceeding. Higher cost to the market as a result of borrowing costs.	Finance and Audit Committee approval. Reprioritization of the Project Priority List by market participants and Board Committees, Board of Directors, and PUCT.
Issue a refund to QSEs	Difficult to implement. Difficult to devise an acceptable, equitable method of refunding money to the market. Long implementation time Potential windfall to QSEs with no discernable flow-through benefit to consumers. Higher cost to the market as a result of borrowing costs.	Finance and Audit Committee approval. Board approval. Regulatory approval needed for all changes – increases and decreases to ERCOT fees.
Temporarily reduce the ERCOT System Administration Fee	Difficult to implement. Long implementation time. Disruption to on-going fee filing proceeding. Higher cost to the market as a result of borrowing costs.	Finance and Audit Committee approval. Board approval. Regulatory approval needed for all changes – increases and decreases to ERCOT fees.

5. Review Procedures for Handling Reporting Violations

Mike Petterson

- Employees may report their concerns via a number of sources, including:
 - **Manager or Director**
 - **Human Resources**
 - **Legal**
 - **Internal Audit**
 - **EthicsPoint** (anonymous)
 - **PUCT**
 - **Board Members**
- Employees receive training to ensure they are aware of these options
- Reiterated during annual Ethics Reaffirmation process

For discussion

7. Review of Liquidity Management and Debt Capacity

Cheryl Yager

- **Current Debt Position**
- **Projected 2008 Borrowing Needs**
- **Estimated availability at December 31, 2008**
- **Projected 2009 Borrowing Needs**
- **Interest Rate Management Considerations**
- **Refinancing consideration**
- **Current Market Environment**
- **Next Steps**

7. Current Debt Position Cheryl Yager

	December 31, 2007			May 31, 2008		
	Outstanding Balance (in mil)	Total Available (in mil)	Remaining Available (in mil)	Outstanding Balance (in mil)	Total Available (in mil)	Remaining Available (in mil)
Senior Notes	95.5	95.5	-	81.8	81.8	-
Term Loan (fixed)	112.5	212.5	100.0	112.5	212.5	50.0
Term Loan (floating)				50.0		
Revolver	51.0	75.0	24.0	58.0	75.0	17.0
Total	259.0	383.0	124.0	302.3	369.3	67.0
Fixed (incl Term Loan)	208.0			194.3		
Floating	51.0			108.0		
Total	259.0			302.3		
Fixed (incl Term Loan)	80.3%			64.3%		
Floating	19.7%			35.7%		
Total	100.0%			100.0%		

7. Projected 2008 Borrowing Needs

Cheryl Yager

	Previous estimate	Estimate (see Note B)	Increase
	(in mil)	(in mil)	(in mil)
2007 capex funded in 2008 (A/P at YE)	-	24.6	24.6
2008 base capital exp - debt financed	7.0	16.5	9.5
2008 Met Center - debt financed	-	6.2	6.2
2008 projected Nodal - debt financed	23.0	63.3	40.3
Estimated add'l debt funding needed - 2008	30.0	110.6	80.6
Debt repayment		(26.2)	
December 31, 2007 debt outstanding (from previous page)		259.0	
Projected debt outstanding on December 31, 2008		<u>343.4</u>	

Note A: Accounts payable and accrued liabilities were \$18 mil in 2005, \$26 mil in 2006 and \$42 mil in 2007. These are expected to return to around 2005 levels once the Nodal project is completed.

Note B: Estimate is consistent with materials filed with the PUCT in conjunction with the Nodal Surcharge and the requested 2009 Budget. It excludes any impact of potential cost increases associated with delayed Nodal implementation.

7. Estimated availability at December 31, 2008

Cheryl Yager

	Estimated December 31, 2008		
	Estimated	Total	Remaining
	O/S Bal	Available	Available
	(in mil)	(in mil)	(in mil)
Senior Notes	81.8	81.8	-
Term Loan (fixed)	180.0	200.0	-
Term Loan (floating)	20.0		
Revolver	61.6	75.0	13.4
Total	343.4	356.8	13.4
Fixed (incl Term Loan)	261.8		
Floating	81.6		
Total	343.4		
Fixed (incl Term Loan)	76.2%		
Floating	23.8%		
Total	100.0%		

7. Projected 2009 Borrowing Needs

Cheryl Yager

	Estimate
	(in mil)
<u>Estimated Requirements for 2009</u>	
2009 base capital exp - debt financed	16.3
2009 Met Center - debt financed	12.2
2009 Nodal - debt financed	1.6
Estimated debt funding needed - 2009	<u>30.1</u>
Liquidity required (\$30,000 to \$40,000)	40.0
Debt capacity required for 2009	<u>70.1</u>
Debt capacity expected to be available for 2009	13.4
Shortfall	<u>56.7</u>

7. Projected Borrowing Needs

Cheryl Yager

- ERCOT staff has identified the need for additional borrowing capacity to maintain the liquidity level required by the Financial Standard and to meet 2009 funding needs for the debt portion of capital expenditures
 - Liquidity is expected to be within parameters set in the Financial Standard through the third quarter of 2008
- ERCOT staff recommends that debt capacity be increased by \$100 million given currently anticipated needs and to allow for contingencies, including additional costs associated with a delay in the delivery of the Nodal project

7. Interest Rate Management Considerations

Cheryl Yager

- With the execution of the \$50.0 million swap in April 2008, ERCOT believes that the company's fixed rate debt will be within the range required by ERCOT's Financial Standard through 2009
- No current action required

- **As ERCOT considers increasing its debt capacity, it has considered refinancing existing debt**
 - Make-whole provisions in its Senior Notes and Mark-to-Market provisions in its Swap Agreements make refinancing these issues for a similar term uneconomic.
 - Shortening the repayment term may produce net savings
 - Would necessitate further increases in the System Administration Fee or the Nodal Surcharge

- **The debt markets have been somewhat harder (and more expensive) to access since the sub-prime mortgage credit situation came to light**
 - Pricing has been higher for all levels of credit, both investment grade and non-investment grade
- **Generally, the market for funded debt is more accessible than for stand-by lines of credit**
- **ERCOT is in active discussion with lending institutions to develop a recommendation on additional capacity**

- **Obtain input from F&A Committee members regarding additional information needed by the Committee to formulate a recommendation**
- **ERCOT intends to bring a recommendation to the F&A Committee and the Board of Directors for action in July or August**

8. Review the Company's Dealings With Any Financial Institutions That Are Also Market Participants – Cheryl Yager

For discussion

For discussion

10. Review of Delegation of Authority

Mike Petterson

Delegation of Authority Corporate Standard – Matrix of Signature Authority

Position	Authorization To Commit Funds	Disbursement of Funds Approval					Business Expense Reimbursement Approval
		Contract Worker Services		Other Services	Goods		
		Timesheet	No Timesheet		PO	No PO	
Manager	<= 50,000*	<= 50,000	<= 10,000	<= 50,000	Na	<= 10,000	<= 2,500
Director	<= 100,000	<= 100,000	<= 10,000	<= 100,000	Na	<= 10,000	<= 5,000
Executive Director Market Redesign	<= 250,000	<= 250,000	<= 10,000	<= 250,000	Na	<= 10,000	<= 10,000
Vice President	<= 350,000	<= 350,000	<= 10,000	<= 350,000	Na	<= 10,000	<= 10,000
CEO (ERCOT), COO or CEO&CCO (TRE Div.)	<= 500,000	<= 500,000	<= 10,000	<= 500,000	Na	<= 10,000	<= 10,000
CEO (ERCOT) and COO or Vice President (a)	<= 3,000,000	<=3,000,000	Na	<= 3,000,000	Na	<= 10,000	<= 10,000
CEO (ERCOT) and COO or Vice President (b)	<= 1,000,000	<= 1,000,000	Na	<= 1,000,000	Na	<= 10,000	<= 10,000
Board (a)	> 3,000,000	Na	Na	Na	Na	Na	Na
Board (b)	> 1,000,000	Na	Na	Na	Na	Na	Na

10. Review of Delegation of Authority

Mike Petterson

Notes:

- Director: ERCOT personnel with the position titles including the designation of "Director", "Assistant General Counsel", "Treasurer", or "Controller".
- Note that Project Managers and Senior Project Managers have no delegated signature authority.
- ERCOT CEO and COO or Vice President
 - (a) Have delegated authority of \$3 million as long as (1) the item is clearly associated with a specific line item in the current approved budget; (2) the item will not cause the budget category or overall budget to be overrun; and (3) the associated goods or services are obtained in accordance with ERCOT's procurement policies, standards, and procedures.
 - (b) If the requirements listed in (a) are not met, then the CEO and Vice President have delegated authority of up to and including \$1 million.
- For TRE, the Board of Directors must authorize the commitment of funds or disbursement of funds over \$500,000.
- The Board or Finance and Audit Committee is periodically notified in writing of the status of all contracts approved and all vendors with whom ERCOT has spent \$1 million or more in the previous 12-month period.

Discussion of 2007 financial audit – management letter

Q&A only

ERCOT Market Credit Status

as of 4/30/2008

as of 5/31/2008

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	
10	66,060,616	12%	97,031,390	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	49	193,516,430	36%	324,774,304 S
Guarantee Agreements	16	284,140,779	52%	488,446,393 S
Total Exposure	75	543,717,825	100%	

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
11	59,256,577	10%	102,001,112	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	54	243,009,249	41%	496,347,018 S
Guarantee Agreements	19	286,397,750	49%	555,302,618 S
Total Exposure	84	588,663,576	100%	

Other QSEs in the ERCOT Market (ERCOT owes)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

7	(5,663,891)	-8%	52,453,810	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	56	(46,158,040)	-65%	91,620,584 S
Guarantee Agreements	8	(19,621,628)	-28%	214,500,000 S
Total	71	(71,443,559)	-100%	

6	(7,238,765)	-10%	47,453,810	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	54	(53,732,878)	-71%	56,331,752 S
Guarantee Agreements	4	(14,435,450)	-19%	157,000,000 S
Total	64	(75,407,093)	-100%	

Total

146

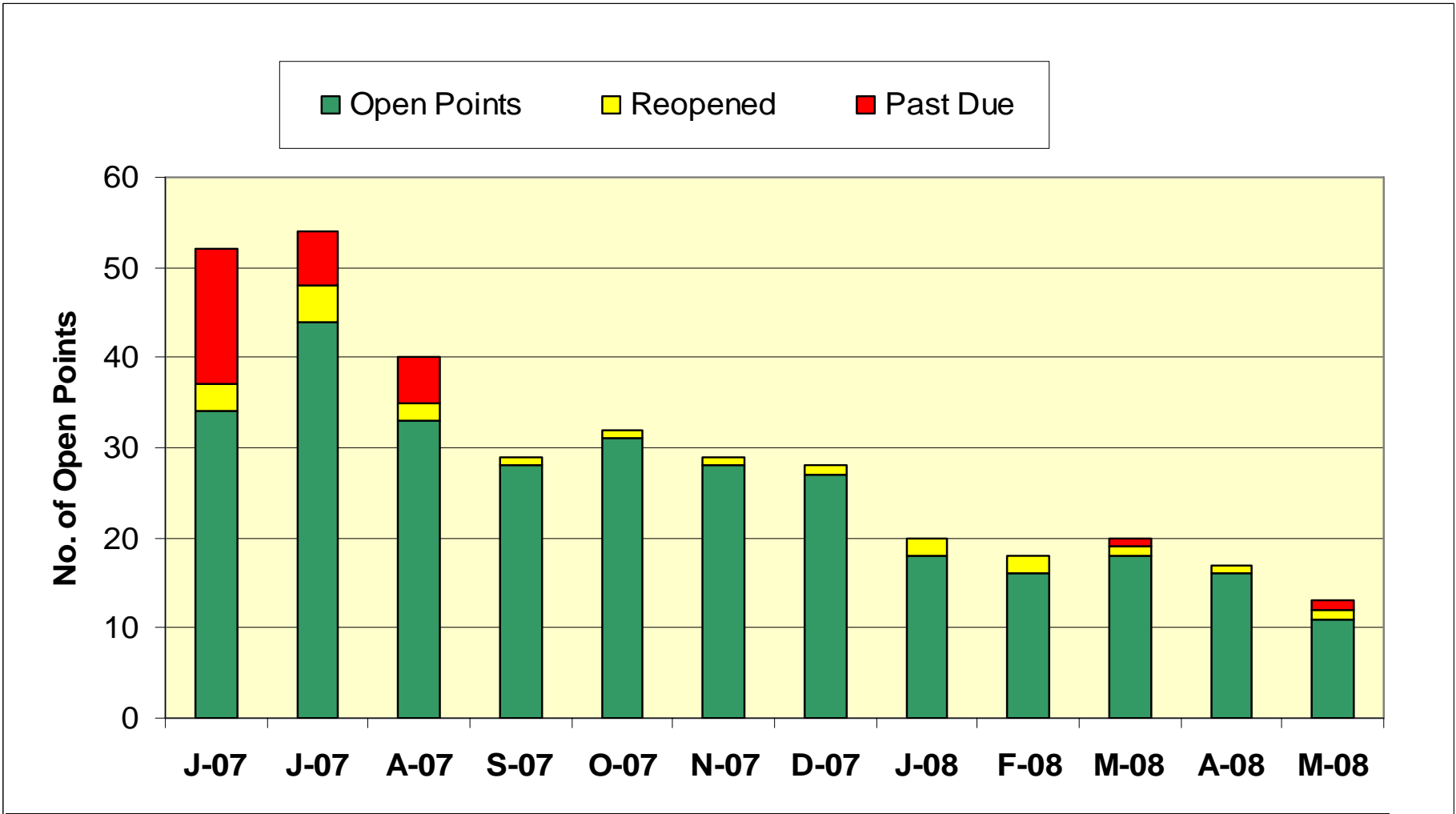
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U: Unsecured since these QSEs meet the creditworthiness standards

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

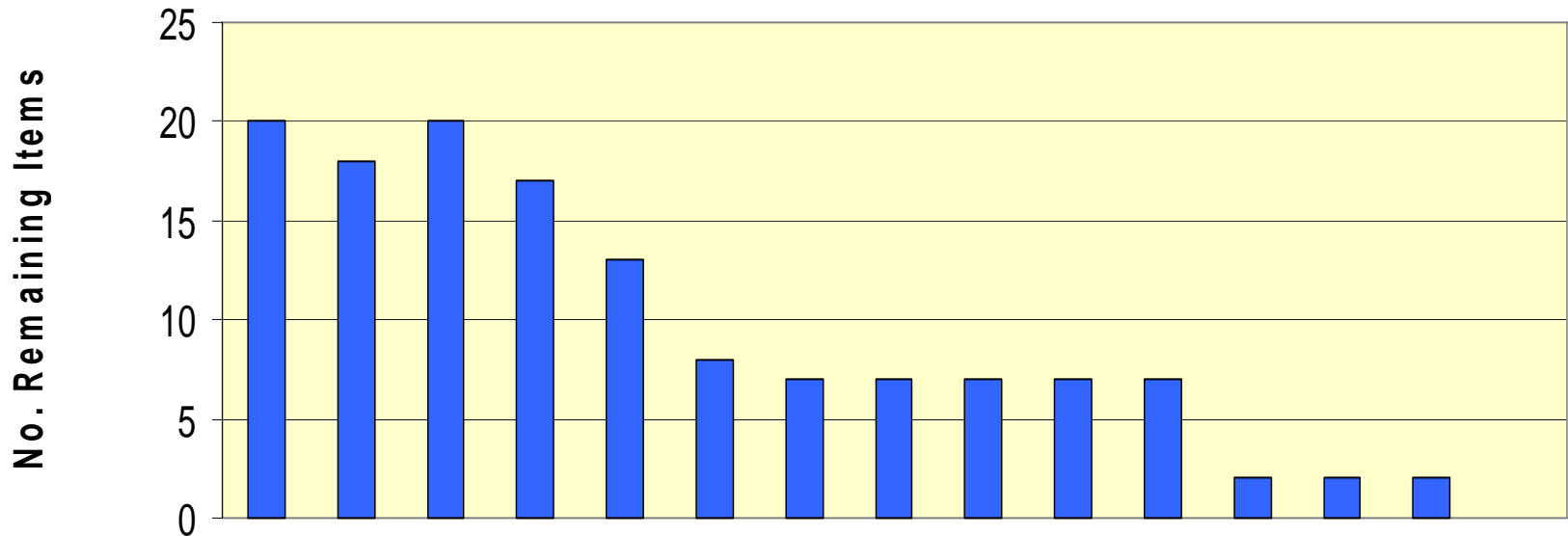
12. Committee Brief: ICMP – Status of Open Audit Points

Cheryl Moseley



Audits Completed	1	4	1	1	3	1	3	0	2	3	2	3
Points Added	3	17	1	4	20	1	5	0	5	11	3	0
Points Completed	13	15	15	15	17	4	6	8	7	9	6	4

Projected Audit Point Progress



	J-08	F-08	M-08	A-08	M-08	J-08	J-08	A-08	S-08	O-08	N-08	D-08	J-09	F-09	M-09
Audit Points	20	18	20	17	13	8	7	7	7	7	7	2	2	2	0

Audits Completed

(last 3 months)

Internal Audits

- MarkeTrak
- Year-end Accrual Validations (Special Request)
- Contractor Ethics
- Business Continuity Plan
- Protocol 1.4 Confidentiality Compliance
- Q1 2008 Fraud Auditing
- Fixed Assets (Review of Plan to Control Personal Computers)

External Audits

- QA Review of Internal Audit (Institute of Internal Auditors)
- 2007 Financial Audit (Pricewaterhouse Coopers)

Open Audits

Internal Audits

- Nodal Project SOWs (AREVA Targeted Review)
- Nodal Spending
- Nodal Compliance w/Procurement Guidelines
- Texas Nodal Program Controls – Review #7 (ERCOT Readiness; IAD performing fieldwork under direction of IBM)
- NERC Critical Infrastructure Protection (CIP) Standards (Pre-Audit Testing; Special Request)

External Audits

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

Planned Audits

(next 3 months)

Internal Audits

- Pre-Audit Testing for the Nodal 2009 SAS70 Audit
- Q2 2008 Fraud Auditing
- Cash and Investments
- Protocol 1.4 Ethics Compliance
- Nodal Contractor/Vendor Billings
- Nodal Implementation and Rollout

External Audits

- Benefit Plan Audit (Maxwell, Locke & Ritter)

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

External Assessments

**Open Consultation/
Analysis Reviews**

External Assessments
1 security assessment

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

External Assessments
1 security assessment
planned for Nodal

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

Strategic	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Legal and Regulatory Compliance
<p>Strategy Development</p> <p>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</p>	<p>Performance Monitoring</p> <p>Clearly defined and actively monitored performance metrics linked to mission and goals : Performance status communicated and corrective action taken.</p>	<p>Customer Choice</p> <p>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</p>	<p>Grid Operations</p> <p>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.</p>	<p>Review Practices</p> <p>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</p>	<p>Legal & Legislative</p> <p>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</p>
<p>Mission and Goals</p> <p>Corporate objectives and performance standards are understood and followed.</p>	<p>Business Practices</p> <p>Business planning, processes and management standards are effective and efficient.</p>	<p>Nodal Implementation Project ↑</p> <p>Nodal Implementation on budget on schedule, and within defined scope.</p>	<p>Planning</p> <p>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</p>	<p>Disclosure</p> <p>Reporting and other disclosures to intended parties is timely, accurate and effective.</p>	<p>Internal Control Compliance</p> <p>Internal Control Compliance, processes and management standards are effective and efficient.</p>
<p>New Strategic Plan needs to be integrated into the latest business planning cycle.</p>	<p>Revisions to Business Continuity, Emergency Response and Pandemic Preparedness plans completed, approved and tested. DR plans and testing (table top only) completed for commercial/corporate applications except Exchange and Citrix which have a plan but have not been tested. Efforts now focused on adding nodal systems to BC/DR Plans to coincide with the start of the 168-hr test.</p>	<p>Delays in the delivery of Common Information Model (CIM) will delay the start of the 168 hour test, making it unlikely we will meet the December 1 go-live date. Currently revising Nodal project schedule to develop a credible and achievable Go-Live date that optimizes cost and schedule. Scope remains green while quality and cost remain amber.</p>	<p>Due to high number of vacancies in engineering positions, the ongoing requirements of the CREZ Transmission Optimization (CTO) Study and the continued higher than normal volume of generation interconnection requests in the five-year horizon, the Long Term System Assessment (LTSA) work has not started. We expect to start the LTSA study following the conclusion of the support for the CREZ case at the PUCT.</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>Reputation ↑</p> <p>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</p>	<p>Workforce</p> <p>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</p>	<p>Counterparty Credit ↑</p> <p>Maintain credit risk exposure for overall market within acceptable limits.</p>	<p>Bulk System Resources ↓</p> <p>Market Participants construct and make available adequate bulk electric grid resources.</p>	<p>Communication</p> <p>Internal & external communications are timely and effective.</p>	<p>Industry Standards</p> <p>Business practices provide stakeholders with required assurances of quality.</p>
<p>Increased publicity associated with the delay of the Nodal market and the potential for associated cost increases, anticipated new fee filings for the nodal surcharge and System Administration fee, high congestion, high price volatility and recent credit defaults have the potential to negatively impact ERCOT's reputation.</p>	<p>ERCOT continues to face a tight demand for the skill sets of many of our employees. New requisitions increased as managers prepare for the 168 hour test. May was a strong hiring month, with open positions falling to 40, the lowest level since Feb'06; however, we continue to expect turnover to be a concern this year as market participants prepare for nodal implementation. ERCOT is currently meeting the objective for training, staffing and nodal preparedness.</p>	<p>A draft credit risk standard has been circulated and is being reviewed with stakeholders. A proposal is expected to be submitted to F&A in August or September. Several QSEs have failed to post required collateral and three have been removed from the market. Processes that were implemented in mid-2006 to switch customers from defaulting QSEs in 3-4 business days were successfully implemented. There is an increased risk of additional defaults by market participants if energy price volatility remains at current levels.</p>	<p>Several new generation interconnection agreements reflected in the May 2008 Capacity, Demand and Reserves report have increased the reserve margins above the 12.5% target through 2012</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. Although current decentralized compliance activities are adequate, ERCOT is in the process of centralizing the compliance function to provide more focus on these issues.</p>
<p>Fiscal Management</p> <p>ISO design requires competent, prudent and cost effective provision of services .</p>	<p>Technology Infrastructure</p> <p>Information systems, supporting facilities and data are effectively managed and are reliable.</p>	<p>Administration, Settlement & Billing</p> <p>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</p>	<p>Operational Responsibility</p> <p>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</p>	<p>Adequacy and Integrity</p> <p>Robust processes exist to support management assertions embodied within financial reports.</p>	<p>Regulatory Filings</p> <p>Evidence, testimony and other supporting materials are compelling and successful.</p>
	<p>Infrastructure environment has been stable since the move to the new IBM (AIX) equipment. Performance has been at or above expectations in most areas. Reliability has been outstanding. Data Center constraints still exist and will be tight until Taylor Data Center expansion and replacement of Met Data Center is complete. Storage requirements continue to grow at a very high rate. An outside review has been ordered to look into storage demands and to ensure ERCOT is doing all possible to control the growth and efficiently manage the environment.</p>	<p>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. A detailed disaster recovery plan with processes and procedures is anticipated upon completion of the Business Continuity project under Steve Grendel.</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 a study indicated can be met. A wind workshop highlighted several operational issues that ERCOT Staff and Market Participant groups will address in the coming months.</p>		<p>Nodal Implementation and System Admin Fee rate case applications will be filed with PUCT in 2008.</p>

Legend: ↑ Elevated Risk Level

↓ Reduced Risk Level

(New Risk Categories / Descriptions Indicated in Green)

12. Committee Brief – PMO

David Troxtell

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.)
CART	Corporate Operations	11	3	6	10	6	4	40	8	1	4	53	4	16
	IT Operations	3	0	2	6	4	3	18	0	0	0	18	6	16
	Market/Retail Operations	1	0	5	7	0	4	17	1	1	13	32	3	12
	System Operations	0	0	1	2	0	2	5	0	0	0	5	1	4
	Totals by Phase	15	3	14	25	10	13	80	9	2	17	108	14	48
	Total Non-Active								28					

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

* Projects Gone Live in May 2008

(IO) PR-70055_01 Additional Production SAN Capacity

(MORO) PR-70048_01 MV90xi System Upgrade

(CO) PR-70053_01 Video Conferencing

12. 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			0	2					1	3	
	ERCOT	15	1	10	7	2	3		7	16	61	
Unexpected Carry Over From 2007											30	
	PUCT										0	
	Market				1		1				2	
	ERCOT		1	1	10	5	8	2	1		28	
New Projects Added (Since PPL Approval in October 2007)											14	
	PUCT										0	
	Market			1							1	
	ERCOT		1	2	5	3	1		1		13	
2008 PPL Totals to Date											108	
	PUCT	0	0	0	0	0	0	0	0	0	0	
	Market	0	0	1	3	0	1	0	0	1	6	
	ERCOT	15	3	13	22	10	12	2	9	16	102	
Totals by Project Phase		15	3	14	25	10	13	2	9	17	108	

12. Committee Brief – PMO

David Troxtell

Year to Date Projects Over \$1 Million

(CART) Project Number and Description	Total Budget	Total Committed	Metrics	
(Duration) Phase (Sponsor)	Scheduled Completion		Schedule	Budget
(IO) PR-70049_01: SAN Hardening	\$880K	\$871K		
<i>(2007) Closed (R. Hinsley)</i>	<i>Go-Live Dec. 2007</i>			
(CO) PR-60099_01: TCC2 Build-Out Phase One	\$2.64M	\$2.19M		
<i>(2007) Currently in Closing (B. Kahn)</i>	<i>Go-Live Oct. 2007</i>			
(IO) PR-60055_01: Enterprise Service Management <i>Schedule metric changed from red to green due to error in reporting. Schedule timeline was met.</i>	\$1.61M	\$1.53M		
<i>(2006-2007) Currently in Execution (R. Hinsley)</i>	<i>Go-Live Mar. 2008</i>			
(CO) PR-60075_01: Identity Access Management	\$2.46M	\$2.05M		
<i>(2006-2007) Currently in Execution (B. Kahn)</i>	<i>Expected Completion 1st Qtr 2009</i>			
(CO) PR-80001_01: (3 sub-projects) MET Center Facility Analysis Deployment Phase 2 PR-80001_01, PR-80001_02 & PR-80001_03 are in Planning	\$70M	\$532K		
<i>(2008) Currently in Planning (B. Kahn)</i>	<i>Expected Completion 4th Qtr 2011</i>			
(IO) PR-80022: Additional SAN Capacity for Projects	\$1.75M	\$1.68M		
<i>(2008) Currently in Execution (R. Hinsley)</i>	<i>Expected Completion 3rd Qtr 2008</i>			
(MO/RO) PR-70007_01: MarkeTrak Enhancements	\$1.62M	\$854K		
<i>(2007-2008) Currently in Execution (R. Giuliani)</i>	<i>Expected Completion 1st Qtr 2009</i>			
(IO) PR-70054_01: Blade Refresh	\$2.50M	\$2.1M		
<i>(2007-2008) Currently in Execution (R. Hinsley)</i>	<i>Expected Completion 4th Qtr 2008</i>			
(IO) PR-70055_01: SAN Capacity (part one) <i>Schedule stop light is orange due to project budget variance under 10% budget to actual</i>	\$1.75M	\$857K		
<i>(2007-2008) Currently in Closing (R. Hinsley)</i>	<i>Expected Completion 2nd Qtr 2008</i>			

12. Committee Brief – PMO David Troxtell

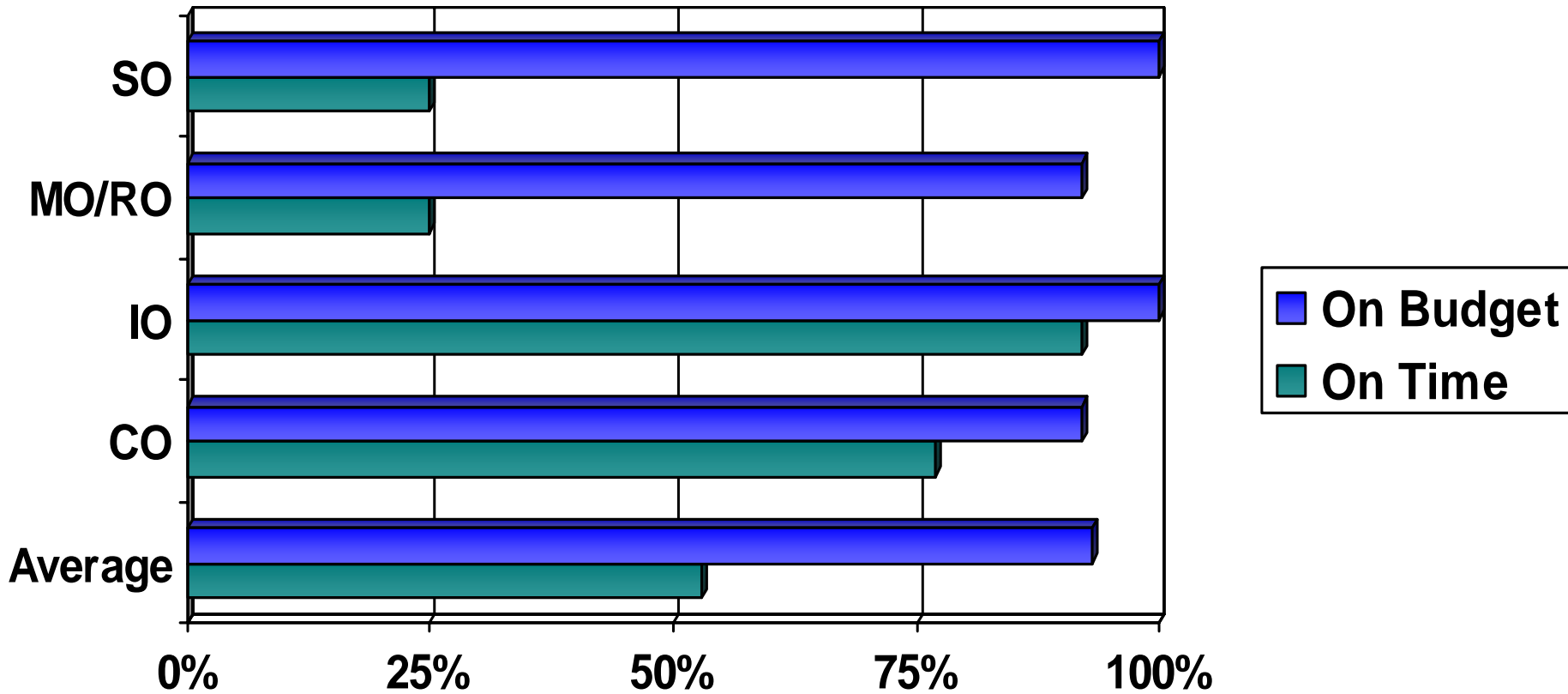
Baseline Budget vs. Actuals for Projects Closed in Lawson for 2008

Project	Description	Year Implemented	Baseline Budget	Actuals	\$ Variance Fav/(Unfav)	% Variance Fav/(Unfav)	Explanation
60097	Desk Side Standardization	2007	\$ 732,080	\$ 522,884	\$ 209,216	29%	Used internal resources more than anticipated (thus reducing the number of hours worked by contracted resources) for the deskside systems replacement effort and Altiris redesign effort. Software purchased for hardware-independent imaging reduced the number of internal labor hours required for creating standards.
60082_01	Dynamic Rating Data to TSP	2007	\$ 108,668	\$ 50,786	\$ 57,914	53%	60082_01 was an unusual project. It took much longer than planned to complete, but it also required much less work than expected. The project turned out to be more of a configuration item than a software development project.
70006_01	SCR 748	2007	\$ 118,428	\$ 57,612	\$ 60,788	51%	Scope change to split to deliver the remaining work in 70006_02.
70026_01	Virtual Tape Backup	2007	\$ 1,350,000	\$ 768,534	\$ 581,466	43%	The \$581,466 variance for the 70026 project was due to price negotiations of hardware. All pricing was negotiated for lower costs than originally expected.
70005_01	MO SAS 70 Proc Optimization	2008	\$ 285,999	\$ 229,827	\$ 56,173	20%	Tasks over estimated by 10% and 10% contingency.
70012_01	Secure Remote Access	2008	\$ 403,041	\$ 337,169	\$ 65,831	16%	Slight reduction in scope based on problems experienced during rollout with drive mapping, memory utilization on intranet controllers, and issues with VMWare.
70035_01	REC 2007	2008	\$ 185,000	\$ 159,280	\$ 25,720	14%	EROCT internal development was able to do the project in a shorter period of time, the work was of high quality with very few software bugs and the contract PM spent less time due to the shorter development time and less testing.
50123_03	Document Management - Ph III	2007	\$ 150,000	\$ 141,913	\$ 8,087	5%	
50024	Enhancements to SCR727	2007	1,607,300	1,674,678	\$ (67,378)	-4%	
50137_02	Maestro Replacement - Ph II	2007	\$ 10,000	\$ 11,207	\$ (1,207)	-12%	Over 1207 accounts for additional expenses not originally budgeted for.
		Count = 13	\$ 4,950,516	\$ 3,953,891	\$ 996,609	20%	

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 2008.
3. Favorable is when a project is delivered under budget. (UnFav)orable is when a project is delivered over budget.
4. Explanations are not required for variance + or - 10%

2008 Active Projects Performance



Note: Includes projects started in previous years.
Projects that change to inactive states will impact results.

Go Live Project for May 2008

- **PR-70048_01: MV90xi System Upgrade**
 - **Scope:** Perform replacement of non-standard hardware and upgrade of software for ERCOT's MV90xi application.
 - **Deliverables:** Installation, testing, and rollout of new hardware and software for ERCOT MV90 System allowing for compliance with ERCOT IT and vendor product standards; In addition, allowance for support of latest metering technologies
 - **Timeline:** September 2007 – May 2008

Go Live Project for May 2008

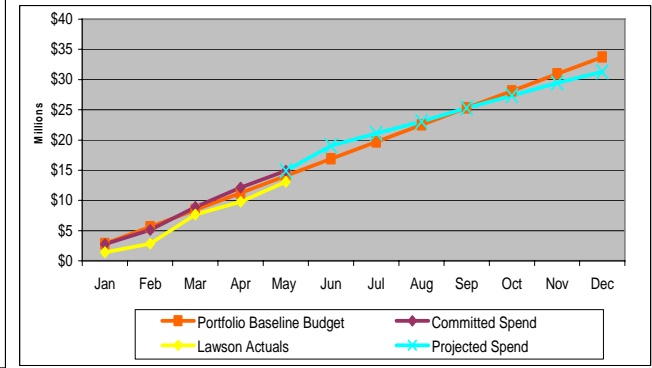
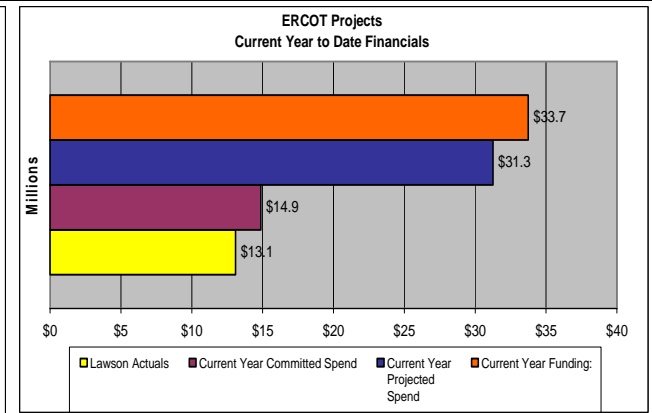
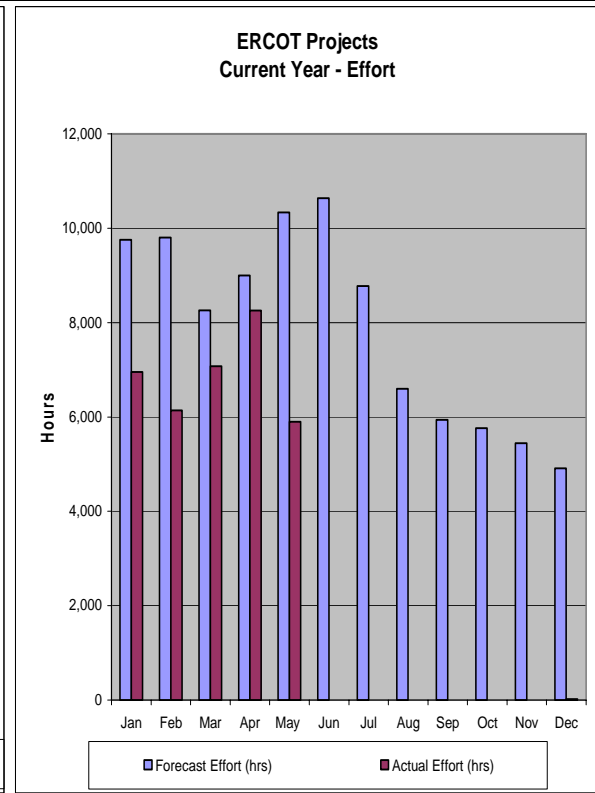
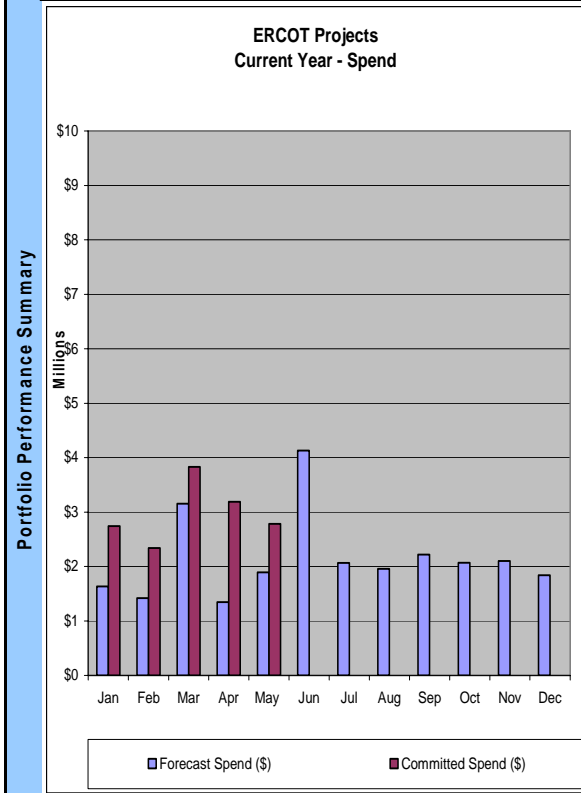
- **PR-70053_01: Video Teleconferencing**
 - **Scope:** To provide a video teleconferencing solution that will minimize travel time and expense between Taylor and Austin and to various identified vendor locations. This solution will minimize travel time and cost, improve productivity and increase the speed and accuracy of decisions.
 - **Deliverables:** Implementation of electrical and cabling in conference rooms for VTC equipment, installation of Polycom equipment and base video/audio interface equipment, and document camera.
 - **Timeline:** October 2007 – May 2008

Go Live Project for May 2008

- **PR-70055_01: Additional Production SAN Capacity**
 - **Scope:** To allow ERCOT to meet the future storage capacity demands that will be increasing in 2008. Production database and server growth requirements will be met by increasing SAN Storage Capacity.
 - **Deliverables:** Implementation of SAN Storage hardware and software installation and delivery for production capacity needs.
 - **Timeline:** October 2007 – May 2008

ERCOT Enterprise Projects Summary Report

ERCOT Overall Projects Report		Reporting Period: 6/3/2008							
ERCOT Projects Leadership		Projects in ERCOT's Portfolio			Portfolio Performance				
Executives		On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget	Milestones
Kent Saathoff	Ray Giuliani	2	3	14	26	10	Y	G	Y
Ron Hinsley	Steve Byone	Closed	13	Total Active		53			
		Cancelled	9	Projects Not Started:		15	Current Year Funding:		\$33,746,880



Notes:
Project/Status Count/Budget Variance:
 CO:(4 Deferred); MORO:(13 Deferred); SO-DPO:(1 NODAL in Execution).



Future Agenda Items – July 2008

- **Status update on the Contingent Workforce Management program**
- **Quarterly review of investment results**
- **Report by Credit Work Group Chair on ERCOT credit policy**
- **Committee briefs**
- **Future agenda items**

F&A Yearly Schedule

Quarter 1

- √ •Elect officers and confirm financial qualifications
- √ •Review of external auditor quality control procedures and independence
- √ •Review scope of annual financial audit
- √ •Vote on CWG Chair/Vice Chair

Quarter 2

- √ •Report results of annual independent audit to the Board
 - Review the procedures for handling Reporting violations
- √ •Review results of annual audit, together with significant accounting policies (including required communications)
 - Review ERCOT Annual Report
- √ •Review operating plan and budget assumptions
- √ •Review and approve Internal Audit Department Charter
- √ •Conduct annual review of insurance coverage(s)
 - Review the Company's dealings with any financial institutions that are also market participants

Quarter 3

- Appoint the independent auditors for upcoming year
- Approval of independent auditor fees for upcoming year
- Review of committee charter
- Approve the Guidelines for Engagements of External auditors for Other Services (pre-approval policy)
- 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
- Review the Company's dealings with any financial institutions that are also market participants

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