



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 168
July 15, 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) (06/17/08)	C. Karnei	8:00am
	Informative	2b. Internal Audit status report	B. Wullenjohn	8:02am
	Informative	2c. Mid-year update on 2008 Internal Audit plan	B. Wullenjohn	8:05am
	Informative	2d. EthicsPoint update	B. Wullenjohn	8:10am
	Informative	2e. Update on 2009 Audit services planning	B. Wullenjohn	8:15am
	For discussion	2f. Discussion of Internal Audit report on AREVA	B. Wullenjohn / B. McElfresh	8:20am
	For discussion	2g. Update on Met Center	S. Grendel	8:30am
		Recess Executive Session		8:40am
		Convene General Session		
3.	Decision required	Approval of general session meeting minutes (Vote) (06/17/08)	C. Karnei	8:40am
4.	For discussion	External Audit update - 2008 SAS 70 status - Financial statement audit wrap-up	S. Barry	8:42am
5.	Informative	Status update on the Contingent Workforce Management program	M. Petterson	9:00am
6.	Informative	Credit update	All	9:10am
7.	Informative	Risk report	P. DiPastena	9:30am
8.	Informative	Zonal PMO update	D. Troxtell	9:35am
9.	Informative	Committee Briefs (Q&A only)	All	9:40am
10.	Informative	Future agenda items	S. Byone	9:45am
		Adjourn ISO meeting	C. Karnei	9:50am

** Background material is enclosed or will be distributed prior to meeting. All times shown in the agenda are approximate.
The next Finance & Audit Committee Meeting will be held Tuesday, August 19, 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 06/17/08

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 **June 17, 2008**. **Miguel Espinosa** confirmed that a quorum was present and called the meeting to order at approximately **8:00 a.m.** The Committee met in Executive Session from **8:00 a.m.** to **8:55 a.m.**

General Session Attendance

Committee members:

Cox, Brad	Tenaska Power Services	Independent Power Marketer	Not 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 Electric Delivery Company	Investor Owned Utility	Not Present
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative	Not Present
Thomas, Robert	Green Mountain Energy Company	Ind. Retail Electric Provider	Present
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility	Present
Patton, A.D.	Unaffiliated Board Member	Unaffiliated Board Member	Present
Ryall, Jean	Constellation Energy Commodities Group	Independent Power Marketer	Present
Smitherman, Barry	PUCT	PUCT Chairman	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Anderson, Troy	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Doggett, Trip	ERCOT
Doolin, Estrellita	ERCOT
Greer, Clayton	J. Aron & Company
Gross, Blake	AEP
Lester, Suzanne	ERCOT
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Stauffer, Tarra	ERCOT
Troxtehl, David	ERCOT
Wullenjohn, Bill	ERCOT
Yager, Cheryl	ERCOT

Previous Minutes

Michehl Gent moved to approve the minutes for the General Session of the Finance & Audit Committee meeting held May 20, 2008; Nick Fehrenbach seconded to motion. The motion passed unanimously.

2007 Budget Variance

Michael Petterson presented information related to the favorable revenue requirement variance from 2007 including the following options for its use: 1) Fund 2008 expenditures incurred in connection with the Met Center relocation initiative; 2) Reduce long-term debt or reduce debt-funding of 2008 projects; 3) Increase 2008 project funding; 4) Issue a refund to QSEs; and 5) Temporarily reduce the ERCOT System Administration Fee. Steve Byone described an additional option suggested to him by Board Member Don Ballard. Mr. Ballard had suggested that the funds be used to help retail customers who had recently been transitioned to POLRs. After extension discussion about the options, **Dan Wilkerson moved to recommend that the Board direct ERCOT staff to apply any favorable budget variances from the 2007 budget year to fund up to forty percent of spending on the Met Center replacement initiative (approved by the ERCOT Board of Directors in February 2008) and employ remaining favorable 2007 financial variance if any to reduce debt-funding of other 2008 projects; Michehl Gent seconded the motion. The motion passed unanimously.**

Procedures for Handling Financial Reporting Violations

Mr. Petterson updated the Committee on the procedures in place to handle employee concerns relating to financial reporting. He explained that employees may report their concerns to any Manager or Director; representatives of the Human Resources, Legal and Internal Audit Departments; PUCT staff; and ERCOT Board Members. He added that employees receive training to ensure they are aware of the options annually during the ethics reaffirmation process.

Credit Update

Cheryl Yager provided an update on recent credit issues. She noted that there had been four instances of mass transitions in the market in May and June and that the range of potential losses was expected to be between 4.5 and 6 million dollars. She confirmed that each of the four defaults resulted from a Rep failing to make a margin call versus failing to pay invoices. She also confirmed that margin calls were not required for Reps that did not rely on the balancing market.

Liquidity Management and Debt Capacity

Ms. Yager provided information regarding ERCOT's liquidity and the current market environment for debt issuance. She noted that ERCOT expects to be within the liquidity parameters set forth in the Financial Standard through the third quarter of 2008. She added that staff would likely recommend in August increasing debt capacity to cover known and anticipated Nodal costs as well as budgeted capital expenditures. Barry Smitherman requested an update on efforts related to converting the company from 501(c)(4) status to 501(c)(3) status. Mr. Byone responded that the process would be lengthy and not likely completed before a decision regarding financing to increase liquidity would be made. Mr. Smitherman suggested that any new financing proposal include a review of the feasibility for early pay-off provisions to allow for replacement by tax-free debt should ERCOT attain 501(c)(3) status.

Financial Institutions That Are Also Market Participants

Ms. Yager informed the Committee of efforts by financial institutions that are also market participants to prevent conflicts of interest. Such efforts include entering into confidentiality agreements and maintaining internal "firewalls."

Investments

Ms. Yager provided an update on discussions with the Credit Work Group (CWG) about using a Prime fund rather than a Government fund for security deposits. The CWG did not state a preference and the decision was made to continue to maintain security deposits in a Government fund at this time. She noted that the Government fund currently used had previously fallen below benchmark rates, but was now performing at an acceptable level. Ms. Yager said that staff would continue to monitor the fund's performance and provide updates to the Committee.

Delegation of Authority

Mr. Petterson briefed the Committee on the signature authority granted to employees pursuant to the Delegation of Authority Corporate Standard. He highlighted several key provisions and recent revision to the document including the addition of the Chief Operating Officer position.

Financial Statement Audit Wrap-Up

Mr. Petterson reviewed issues noted in the management letter from PricewaterhouseCoopers (PwC) because Sean Barry was unable to participate in the meeting as planned. In the letter, PwC formalized previously noted items from the audit including one significant deficiency and one control deficiency identified during the audit of financial statements for the year ended December 31, 2007. Committee members requested its July meeting agenda include an opportunity for Mr. Barry to review the PwC findings.

Committee Briefs

Staff provided written reports with information for the following areas:

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

Mr. Byone highlighted several changes to the Risk Inventory "Stoplight" Report that had occurred during the previous month including changes for the following categories: Reputation (elevated risk level), Nodal Implementation Project (elevated risk level), Counterparty Credit (elevated risk level), and Bulk System Resources (reduced risk level).

Mr. Smitherman asked about the process to consider risk related to a combination of events. Mr. Byone responded that the Executive Committee—made up of company officers—comprised the Risk Committee that made determinations regarding risks that affect the organization.

Future Agenda Items

Mr. Byone noted the following future agenda items:

1. SAS 70 update
2. Debt level update
3. PwC Management Letter review by Sean Barry
4. Consideration of convening ISO F&A Committee meetings and TRE F&A Committee meetings on separate days
5. Contingent Workforce Management Program update
6. Quarterly review of investment results
7. Report by Credit Work Group Chair on ERCOT credit policy
8. Committee briefs

Adjournment

Miguel Espinosa adjourned the meeting at approximately 9:56 a.m.

Estrellita J. Doolin, Secretary



ERCOT, Inc.
2008 SAS 70
Scope and Findings to Date
Finance & Audit Committee
July 15, 2008

Agenda

- Overview
- Project Scope
- Status and Findings to Date
- Audit Timeline
- A Look Forward

Overview

- SAS 70 is an examination of Internal Controls
- ERCOT has been the subject of numerous internal control audits; the SAS 70 audit fits in this way:
 - Covers market activities – not internal accounting (fee matters)
 - Recurring in nature – ERCOT has been issuing SAS 70 reports for several years
 - Primarily for benefit of market participants and their auditors including SarBox 404 requirements
 - Other purpose is internal assurance – management and board governance

Overview

Statements On Auditing Standards Number 70 *Reports on the Processing of Transactions by Service Organizations*

- Also known as a “Third-party Comfort Report”
- Standards documented by the American Institute of Certified Public Accountants (AICPA)



Scope of SAS 70

- Scope comprises 15 total control objectives
 - Unchanged from prior year
 - 11 business processes
 - 4 information systems
- Functions and processes covered:
 - Business processes and general controls that impact or affect financial wholesale market settlement
 - Processes that are otherwise “invisible” to your QSEs and upon which they must rely on ERCOT for controls

Status and Findings to Date

- No negative findings identified in phase 1
 - **No exceptions in our testing procedures**
 - No issues with design of controls
- Phase 1 completed on schedule
 - Completed testing of approximately ½ year of transactions except for a few areas (as planned) – October 2007 through March 2008
 - Project efficiency was very good - building on efficiencies achieved in prior year

Audit Timeline

- Phase 2 testing to be performed in September/October
- SAS 70 Report to be prepared and findings validated in October and November
- Report issuance planned for the first week in December
 - Concurrent conference call with market participants
 - Briefing of F&A Committee in November or December

A Look Forward

- Nodal Project will impact the 2008/9 SAS 70
- Controls will significantly change
 - Changes in business/market functions
 - Changes in systems/applications covered by IT-related controls
- Associated controls risks
 - Risk of design deficiency – controls not adequate
 - Need for interim/temporary controls during initial go-live period
 - Stresses associated with overlapping responsibilities
 - Inherent compliance risk associated with new processes

A Look Forward

- ERCOT management is incorporating controls evaluation into the Nodal project plan
- Structure of 2008/9 SAS 70 will be impacted
 - Period covered by legacy controls, if any
 - Period covered by new controls, terminating September 2008
 - Possible SAS 70 type 1 to address and report on adequacy of new control environment
 - Interaction and feedback from with QSEs
- 2008/9 SAS 70 plan to be refined with management and presented to the F&A Committee

- **November 2007** – ERCOT Board of Directors authorizes management to negotiate and execute contracts with Allegis Group Services for implementation of a contingent workforce management solution for a period of three years
- **May 2008** – Contingent workforce management program implemented at ERCOT

- **Expected Benefits**

- Compliance

- Standardization
- Transparency
- Measurement and reporting

- Time

- Process improvement
- Faster cycle time

- Money

- Competitive
- Efficient

- **Preliminary Operational Results**

- Consistent

- Standardized sourcing, time capture, invoicing, and payment for more than 25 firms and 150 contingent workers

- Efficient

- Average 14 business days from date supplier receives the requirement to offer extended
- Average 7 business days for work order extension
- 14 starts in 40 business days

- Cost effective and fair

- \$72,000 saved in negotiated bill rates
- 14 starts by 9 different suppliers

- **Next steps**

- Phase 2 by August 2008
- Phase 3 by December 2008
- Improved integration with identity and access management tools and vendor contract management database
- Six month status update to Finance & Audit Committee at end of 2008

For discussion

Informative

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. RISK MANAGEMENT EVENT PROFILE MATRIX (as of July 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 Citirx 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. The new schedule is under development and will not be completed until August or September. The Common Information Model importer has not yet been delivered and the new schedule will not be revealed until that module is complete. A revised budget is also under development and will be posted during Q3. A successful test of real-time and load frequency control was completed. The first live CRR auction has been completed.</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 controls covered by ICMP and the SAS70 have been loaded into ControlPath Compliance system. ICMP Control Self Assessment Questionnaires have been issued for Q2. Policies/procedures are reviewed/updated annually. Changes to policies/procedures are periodically communicated to all ERCOT staff and contract workers. Adequate tools are in place to maintain a controlled environment.</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. We continue to be "amber" for ERCOT readiness; however, the benchmark of 98% staffed for nodal critical positions is a tough target for July and the months following before Nodal go-live. June is typically a strong hiring month. We continue to expect turnover to be a concern this year as market participants prepare for nodal implementation.</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 October or November. Several QSEs have failed to post required collateral and five 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 high.</p>	<p>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</p>	<p>Robust processes exist to support management assertions embodied within financial reports.</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 of data storage is expected to start in July.</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 was completed as part of the Business Continuity project. System testing is currently scheduled to be done after nodal implementation.</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 joint ERCOT Staff and Market Participant Wind Operations Task Force is addressing several operational issues regarding wind generation and is making recommendations on changes to more reliably integrate wind generation.</p>		<p>System Admin Fee rate case application was filed with the PUCT on June 17.</p>

Legend: Elevated Risk Level Reduced Risk Level (New Risk Categories / Descriptions Indicated in Green)

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
EVENT PROFILE MATRIX DEFINITIONS**

Strategic Risks	Operational Risks			Reporting Risks	Legal and Regulatory Compliance Risks
	Operational Excellence	Market Facilitation	Grid Reliability		
<p>Strategy Development</p> <p><i>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</i></p>	<p>Performance Monitoring</p> <p><i>Clearly defined and actively monitored performance metrics linked to mission and goals - Performance status communicated and corrective action taken.</i></p>	<p>Customer Choice</p> <p><i>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</i></p>	<p>Grid Operations</p> <p><i>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.</i></p>	<p>Review Practices</p> <p><i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</i></p>	<p>Legal & Legislative</p> <p><i>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</i></p>
<p>Calibrated to Business Climate</p> <p>Risk-Based Resource Allocation</p> <p>Execution Risk Identified & Managed</p> <p>On-Going Event Monitoring</p> <p>Adaptive to Change</p>	<p>Capital Project Program Management</p> <p>Effective Use of Dashboards</p> <p>Metrics Linked to Mission and Goals</p> <p>Effective Status Reporting</p> <p>Clear Standards and Expectations</p> <p>Quantifiable Key Performance Indicators</p>	<p>Effective Response to Change Requests</p> <p>Timely Communication to Participants</p>	<p>Operator Readiness</p> <p>Communications with MP</p> <p>Data Availability & Accuracy</p> <p>Robust Models and Tools are Utilized</p> <p>Operating Assumptions & Judgment</p> <p>Scheduling Process (Congestion Mgt)</p> <p>Adherence to Standards & Rules</p>	<p>Hierarchy of Internal Reviews</p> <p>Auditor Review</p> <p>Board of Directors Review</p> <p>Notification and Escalation of Emerging Items</p> <p>Management Signoff</p>	<p>Contract Administration</p> <p>Comply w/ Applicable Laws, Rules, Regs, Standards</p> <p>Appropriate Legal Review</p> <p>Liability Related to Conduct</p> <p>Fines or Penalties</p> <p>Astute Politically</p> <p>Advocacy Effectiveness</p> <p>Knowledgeable of Legislative Agenda</p> <p>Proposed Rulemaking Practices</p>
<p>Mission and Goals</p> <p><i>Corporate objectives and performance standards are understood and followed.</i></p>	<p>Business Practices</p> <p><i>Business planning, processes and management standards are effective and efficient.</i></p>	<p>Nodal Implementation Project</p> <p><i>Nodal Implementation on budget on schedule, and within defined scope.</i></p>	<p>Planning</p> <p><i>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</i></p>	<p>Disclosure</p> <p><i>Reporting and other disclosures to intended parties is timely, accurate and effective.</i></p>	<p>Internal Control Compliance</p> <p><i>Internal Control Compliance, processes and management standards are effective and efficient.</i></p>
<p>Clear Governance and Oversight</p> <p>Comprehensive Policies/Procedures</p> <p>Clarity of Fiduciary Responsibility</p> <p>Stakeholder Management Practices</p> <p>Clear Mission and Synchronized Cross Divisional Prioritization</p> <p>Ethical Practices</p> <p>Portfolio View of Risks (ERM)</p>	<p>Internal Controls are Effectively Designed & Implemented</p> <p>Business Practices are Cost Effective</p> <p>Responsive to Change</p> <p>Execution Consistency</p> <p>Documentation and Record Keeping</p> <p>Business Continuity & Disaster Recovery</p> <p>Physical Security Standards</p> <p>Safety Practices</p> <p>Adequate Physical Facilities (non-IT)</p>	<p>Project Timeframe on Schedule</p> <p>Project Progressing within Budget</p> <p>Identified staffing positions filled with appropriate resources</p> <p>Scope of project fully identified</p> <p>Project interdependencies identified</p>	<p>Stakeholder Support</p> <p>Planning Assumptions and Processes</p> <p>Data Availability & Accuracy</p> <p>Sufficiency of Models, Forecast and Tools</p> <p>Adherence to Standards & Rules</p>	<p>Prepared in Accordance with Relevant Standards</p> <p>Effective Management Reporting</p> <p>Reports are Transparent and Useful</p>	<p>Internal Control Management</p> <p>Internal Audit Analysis and Findings</p> <p>External Audit Reviews</p>
<p>Reputation</p> <p><i>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</i></p>	<p>Workforce</p> <p><i>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</i></p>	<p>Counterparty Credit</p> <p><i>Maintain credit risk exposure for overall market within acceptable limits.</i></p>	<p>Bulk System Resources</p> <p><i>Market Participants construct and make available adequate bulk electric grid resources.</i></p>	<p>Communication</p> <p><i>Internal and external communications are timely and effective.</i></p>	<p>Industry Standards</p> <p><i>Business practices provide stakeholders with required assurances of quality.</i></p>
<p>Publicity Management</p> <p>Political Position</p> <p>High Public Confidence and Trust</p> <p>Management/Employee Creditability</p> <p>Employee Values and Corporate Culture</p> <p>Good Neighbor Practices</p>	<p>Priorities Linked to Mission/Objectives</p> <p>Compensation Programs Aligned w/ Objectives and Priorities</p> <p>Employee Training and Development</p> <p>Workforce Planning</p> <p>Adequacy and Competency of Staff</p> <p>Organizational Structure</p> <p>Performance Management</p>	<p>MP Credit Worthiness Standards</p> <p>Measurement of exposure</p> <p>QSE Certification/De-certification Process</p> <p>Risk to Market from Sustained/Large Uplifts</p> <p>Proactive identification of risk factors</p>	<p>Generation Resource Adequacy & Availability</p> <p>Transmission Resource Adequacy & Availability</p> <p>Reactive Resource Adequacy & Availability</p> <p>Timeliness of Additions / Modifications</p> <p>Fuel Diversity and Availability</p>	<p>Methods are Appropriate for Audience</p> <p>Message Achieves Desired Purpose</p> <p>Effective Delivery Mechanisms</p> <p>Timeliness and Accuracy</p> <p>Message Consistency over time and audiences</p> <p>Responsiveness to Data Request</p> <p>Employee Opinions and Feedback</p> <p>Open Meetings</p>	<p>SAS 70 Audits</p> <p>NERC Reliability Standards</p> <p>ERCOT Operating Guidelines & Protocols</p>
<p>Fiscal Management</p> <p><i>ISO design requires competent, prudent and cost effective provision of services.</i></p>	<p>Technology Infrastructure</p> <p><i>Information systems, supporting facilities and data are effectively managed and are reliable.</i></p>	<p>Admin, Settlement & Billing</p> <p><i>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</i></p>	<p>Operational Responsibility</p> <p><i>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</i></p>	<p>Adequacy and Integrity</p> <p><i>Robust processes exist to support management assertions embodied within financial reports.</i></p>	<p>Regulatory Filings</p> <p><i>Evidence, testimony and other supporting materials are compelling and successful.</i></p>
<p>Cash and Liquidity Management</p> <p>Efficient and Defensible Cost Structure</p> <p>Effective Use of Leverage</p> <p>Insurance and Liability Management</p> <p>Fraud Prevention and Detection</p> <p>Robust Financial Projections</p> <p>Effective Budget Analysis</p>	<p>Accessibility of Systems</p> <p>Systems Development/Testing Practices</p> <p>Systems Maintenance Practices</p> <p>System Redundancy</p> <p>System Reliability and Performance</p> <p>Efficient Technology Architecture</p> <p>Adequate Physical Facilities (for IT)</p> <p>Data Cleansing and Retention</p> <p>Cyber Security (Data and Systems)</p>	<p>Data Management</p> <p>Dispute Resolution</p> <p>Transparent and Defensible Rules</p> <p>Transaction Processing Efficiency</p> <p>Efficient Customer Switching</p> <p>Effective Market Monitoring</p> <p>Error Rates Within Tolerance</p> <p>Billing Dates Consistently Achieved</p>	<p>Preparation for Weather Events</p> <p>Prudent Maintenance Practices</p> <p>Sufficient Operating Resources</p> <p>Standard Compliance Norms</p>	<p>Completeness</p> <p>Verification methods</p> <p>Valuation and Estimation methods</p> <p>Costs & revenues booked in proper period</p>	<p>Advocacy Effectiveness</p> <p>Responsive to Requests</p> <p>Compliance w/ Current Rules</p> <p>Relationship w/ Commission</p> <p>Positions are Supported by Facts</p>

Color Code Methodology for Ranking Residual Risk

- Green** Assessed levels of residual risk on a forward-looking basis for all identified potential occurrences are **fully within management tolerance levels** when all mitigating activities are considered.
- Green-Yellow** Certain identified residual risks are **outside management tolerance** at the present time given current mitigating activities. The total levels of residual risk present a **minimal threat** to jeopardize the goals and objectives of ERCOT and mitigation plans must be in the process of being implemented in order to lower excessive residual risks to tolerable levels within a short period of time not to exceed **two quarters**.
- Yellow** Certain identified residual risks are **outside management tolerance** at the present time given current mitigating activities. There may be more numerous identified risks than lower ratings or the potential consequences may be greater if any single or group of events occurs. The total levels of residual risk are **more than minimal** but still **not likely to jeopardize the goals and objectives** of ERCOT. Mitigation plans must be in the process of being implemented in order to lower any excessive residual risks to tolerable levels within a reasonable period of time not to exceed **four quarters**.
- Yellow-Red** The residual risk of a given category after accounting for all mitigating activities is **significantly outside management tolerance** levels. Identified risks have a reasonable probability of occurring, which **would jeopardize the goals and objectives** of ERCOT. Proposed mitigation activities are either **inadequate** or would not reduce residual risk within an acceptable timeframe; however **expected loss is not imminent** and time is expected to be adequate to address identified residual risks prior to any likely occurrence.
- Red** The residual risk of a given category after accounting for all mitigating activities is **significantly outside of management tolerance** levels. Identified risks have a **substantial probability of occurrence** which **would jeopardize the goals and objectives** of ERCOT. Proposed mitigation activities are either **inadequate** or would **not reduce** residual risk within an acceptable timeframe and there is a substantial probability that an identified residual **risk will occur** prior to the implementation of a mitigation strategy sufficient to lower the overall risk to a degree consistent with acceptable management tolerance levels.

8. Zonal PMO Update: Hi-lights

David Troxtell

- **Continuing to adjust around Nodal**
 - Many projects delivering late or deferred (mainly Market and Systems Operations)
- **Current projections are to complete 41 projects this year**
 - May have to adjust lower – depends on Nodal impacts
- **Spending projections are \$30.5M out of \$33.7M**
 - Includes \$6.2M for MET Center Disposition project and \$5.3M for Nodal interdependent projects
- **On the right track - Improvements over past couple of years**
 - Project delivery is up → no unfunded Market projects → utilized near 100% of requested funding in 2006 and 2007
 - Better communication and cooperation with market participant groups
 - Improved project/PMO maturity → near double maturity level of industry standard
 - Positioned to Contribute to Nodal effort → current support staff and transition plan
 - Positive Internal Audit Results → No significant findings and currently no open audit issues
 - Positive Market Survey Results → All 4 areas improved (3 of 4 areas significantly improved)
- **Still work to be done**
 - Resource management → need better projections and ability to keep commitments
 - Simplifying/streamline processes → more efficiency-continuous improvements
 - Improve CBA process → more quality numbers → track realized benefits

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	10	2	5	12	7	4	40	8	1	4	53	4	12
	IT Operations	2	0	2	4	4	6	18	0	0	0	18	8	16
	Market/Retail Operations	1	0	5	6	1	4	17	1	1	13	32	4	10
	System Operations	0	0	1	2	0	2	5	0	0	0	5	1	3
	Totals by Phase	13	2	13	24	12	16	80	9	2	17	108	17	41
	Total Non-Active								28					

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

* Projects Gone Live in June 2008

(IO) PR-70030_01 Tellabs DCCS System Replacement

(IO) PR-80022_01 Additional SAN Capacity for Projects

(MORO) PR-60077_01 ERCOT.com Registered Area

8. 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				2					1	3	
	ERCOT	13	1	9	9	3	3		7	16	61	
Unexpected Carry Over From 2007											30	
	PUCT										0	
	Market				1		1				2	
	ERCOT		1		9	5	10	2	1		28	
New Projects Added (Since PPL Approval in October 2007)											14	
	PUCT										0	
	Market			1							1	
	ERCOT			3	3	4	2		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	13	2	12	21	12	15	2	9	16	102	
Totals by Project Phase		13	2	13	24	12	16	2	9	17	108	

8. 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) Closing (R. Hinsley)</i>	<i>Go-Live Dec. 2007</i>			
(CO) PR-60099_01: TCC2 Build-Out Phase One <i>Total committed is reduced due to an audit of the account and removal of misapplied invoices.</i>	\$2.64M	\$2.17M		
<i>(2007) Currently in Closing (B. Kahn)</i>	<i>Go-Live Oct. 2007</i>			
(IO) PR-60055_01: Enterprise Service Management	\$1.61M	\$1.53M		
<i>(2006-2007) Currently in Closing (R. Hinsley)</i>	<i>Go-Live Mar. 2008</i>			
(CO) PR-60075_01: Identity Access Management Schedule stoplight is red due to time taken to re-schedule around Nodal 168 hours test.	\$2.46M	\$2.15M		
<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	\$567K		
<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	\$1.72M		
<i>(2008) Currently in Closing (R. Hinsley)</i>	<i>Expected Completion 3rd Qtr 2008</i>			
(MO/RO) PR-70007_01: MarkeTrak Enhancements	\$1.62M	\$856K		
<i>(2007-2008) Currently in Execution (R. Giuliani)</i>	<i>Expected Completion 1st Qtr 2009</i>			
(IO) PR-70054_01: Blade Refresh	\$2.50M	\$2.19M		
<i>(2007-2008) Currently in Execution (R. Hinsley)</i>	<i>Expected Completion 4th Qtr 2008</i>			
(IO) PR-70055_01: SAN Capacity (part one) Schedule stoplight is orange due to project budget variance under 10% budget to actual.	\$1.75M	\$860K		
<i>(2007-2008) Currently in Closing (R. Hinsley)</i>	<i>Expected Completion 2nd Qtr 2008</i>			

8. Committee Brief – PMO

David Troxtell

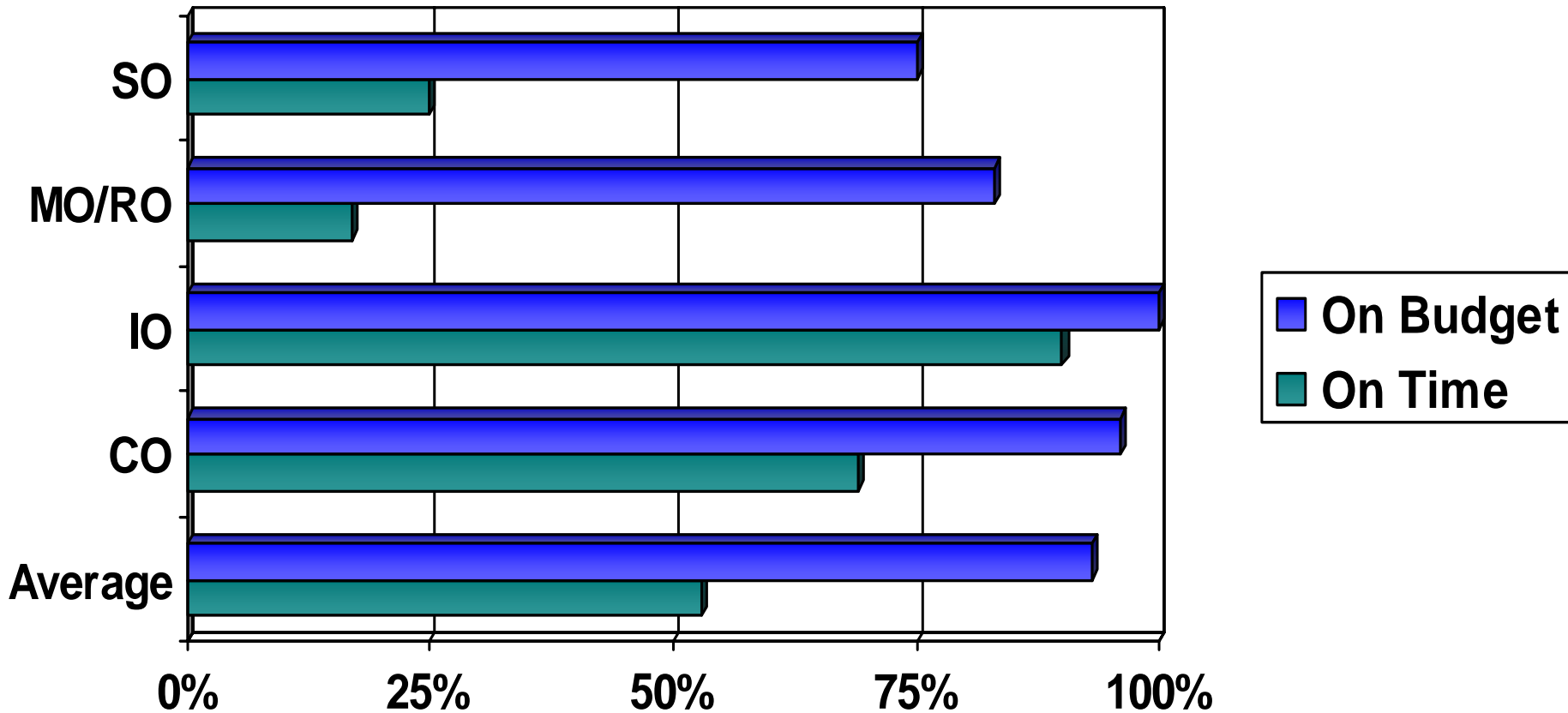
Baseline Budget vs. Actuals for Projects Closed in Lawson for 2008

Project	Description	Year Implemented	Baseline Budget	Actuals	\$ Variance Fav/(Unfav)	% Variance Fav/(Unfav)	Explanation
70044_01	MET Center Analysis	2007	\$ 236,900	\$ 106,252	\$ 130,648	55%	ERCOT labor less than forecasted and consulting fees and contractor costs were 40% less than forecasted. Additionally, should not have included contingency of 10% on the contracted amounts for contractor services and equipment.
60082_01	Dynamic Rating Data to TSP	2007	\$ 108,700	\$ 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	\$ 118,400	\$ 57,612	\$ 60,788	51%	Scope 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.
70037_01	OC-3 Microwave Replacement	2007	\$ 326,000	\$ 229,359	\$ 96,641	30%	Change Control 2, processed on December 17th 2007, decreased the project budget from 350,000.00 to 250,000.00 which left a budget variance of 8.9%. No re-baseline was requested.
60097	Desk Side Standardization	2007	\$ 732,100	\$ 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.
60013_01	Enhanced Digital Certificate Program	2008	\$ 228,100	\$ 168,258	\$ 59,842	26%	The reason for the variance on the 60013_01 project was due to credits received from VeriSign in the amount of \$28,229. There was also \$20,135 for servers and operating systems that was not spent due to Nodal purchasing them for the MPIM project.
70005_01	MO SAS 70 Proc Optimization	2008	\$ 286,000	\$ 229,827	\$ 56,173	20%	Tasks over estimated by 10% and 10% contingency. Slight reduction in scope based on problems experienced during rollout with drive mapping, memory utilization on intranet controllers, and issues with VMWare.
70012_01	Secure Remote Access	2008	\$ 403,000	\$ 337,169	\$ 65,831	16%	Invoices were accrued against the project that should not have been which resulted in the lower actuals of \$318,583.
70039_01	Risk and Compliance Management	2007	\$ 366,800	\$ 318,583	\$ 48,217	13%	
70050_01	EIS ETL Tool Implementation	2007	\$ 478,500	\$ 442,473	\$ 36,027	8%	
50031_01	EDW EMMS Decommission	2007	\$ 485,600	\$ 476,864	\$ 8,736	2%	
50123_03	Document Management - Ph III	2007	\$ 137,400	\$ 141,913	\$ (4,513)	(3)%	
70013_01	Corporate Document Management	2008	\$ 69,700	\$ 72,878	\$ (3,178)	(5)%	
70035_01	REC 2007	2008	\$ 146,300	\$ 159,280	\$ (12,980)	(9)%	
50137_02	Maestro Replacement - Ph II	2007	\$ 10,000	\$ 11,207	\$ (1,207)	(12)%	Over 1207 accounts for additional expenses not originally budgeted for.
50017_02	Collateral Calculation	2008	\$ 359,100	\$ 598,164	\$ (239,064)	(67)%	Several iterations for requirements clarification required.
		Count = 18	\$ 7,449,900	\$ 6,366,721	\$ 1,083,179	15%	

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 June 2008

- **PR-60077_01 ERCOT.com Registered Area**
 - **Scope:** The focus of this project created a Registered Access Area that allows ERCOT to post limited access documents and enhance the Operations and Planning Data sections look and feel to match the ERCOT website.
 - **Deliverables:**
 - Migration of existing TMAPS documents
 - Registration request and approval process
 - Enhanced search and site navigation for documents
 - Multiple Role based authentications to support Public, Market Participants and Transmission Operators
 - **Timeline:** November 2006 – June 2008

Go Live Project for June 2008

- **PR-70030 Tellabs DCCS System Replacement**
 - **Scope:** Replaced the existing Digital Cross-Connect System, which has reached end of life and support.
 - **Deliverables:** Purchase, engineering, and installation of a replacement Digital Cross-Connect System in the Austin and Taylor data centers.
 - **Timeline:** October 2007 – June 2008

Go Live Project for June 2008

- **PR-80022 Additional SAN Capacity for Projects**
 - **Scope:**
 - Acquired additional SAN capacity needed for projects during the first half of 2008 and to maintain a twenty-percent ratio of available to total storage.
 - The purchase of the additional hardware to ensure meeting service level agreements and protocols for storage needs.
 - **Deliverables:** Acquired adequate SAN (and corresponding licensing) needed to meet storage requirements for projects in progress during the first half of 2008.
 - **Timeline:** February 2008 – June 2008

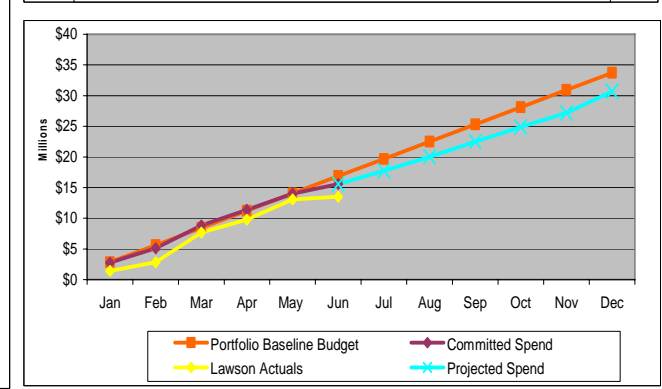
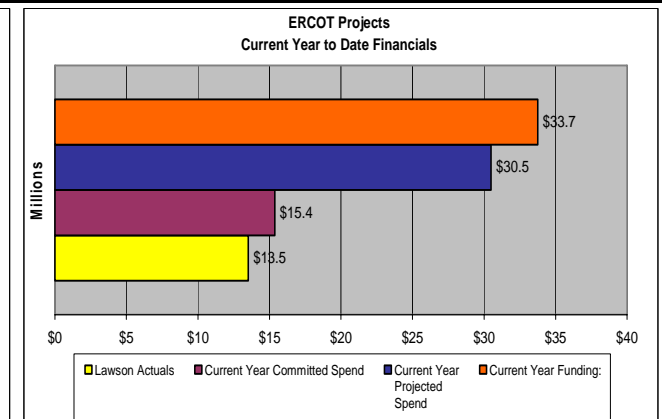
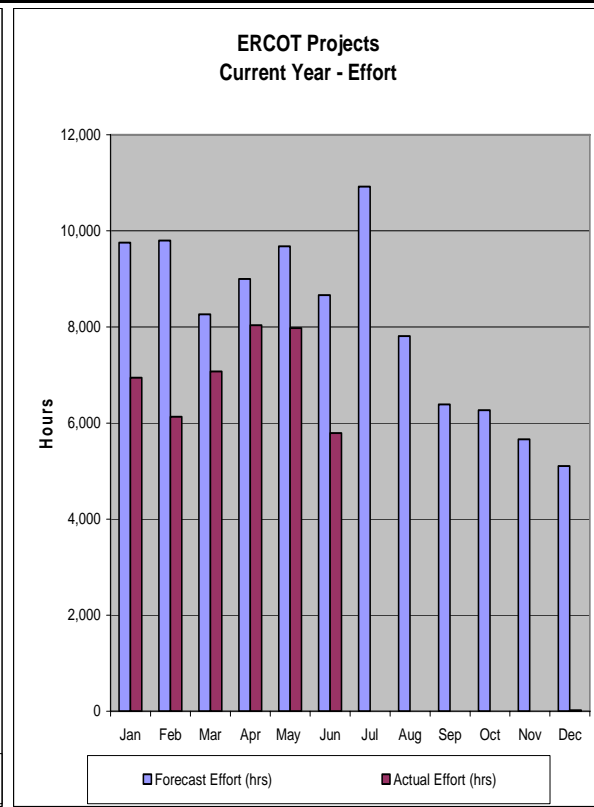
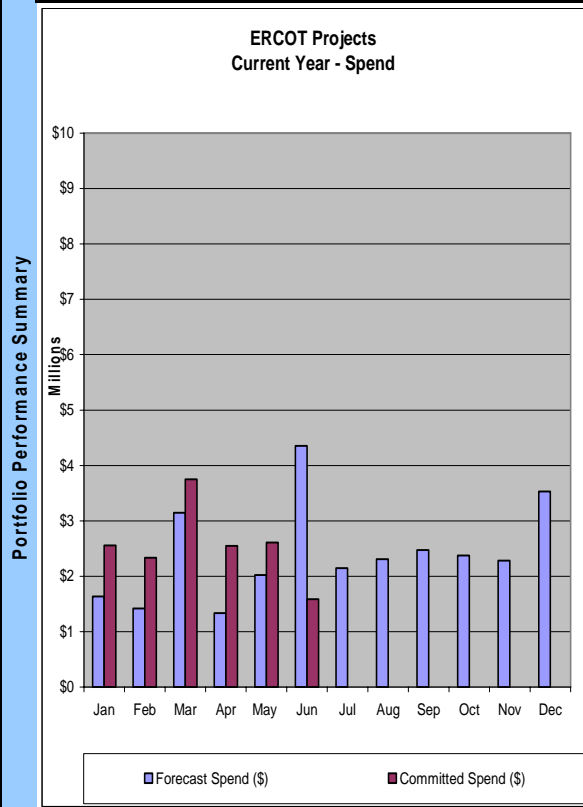
ERCOT Enterprise Projects Summary Report

ERCOT Overall Projects Report

Reporting Period:

7/1/2008

Summary	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	2	13	25	12	Y	G	Y			
Ron Hinsley	Steve Byone	Closed	16	Total Active		52							
		Cancelled	9	Projects Not Started:		13		Current Year Funding:	\$33,746,880				



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



Q&A only

ERCOT Market Credit Status

as of 5/31/2008

as of 6/30/2008

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	
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%	

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
10	109,201,804	9%	162,509,496	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	56	714,101,420	60%	805,014,085 S
Guarantee Agreements	17	375,881,699	31%	540,302,618 S
Total Exposure	83	1,199,184,923	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

6	(7,238,765)	-10%	47,453,810	U
54	(53,732,878)	-71%	56,331,752	S
4	(14,435,450)	-19%	157,000,000	S
Total	64	(75,407,093)	-100%	

8	(9,711,221)	-8%	56,738,073	U
52	(81,000,020)	-64%	47,833,626	S
7	(35,465,341)	-28%	185,500,000	S
Total	67	(126,176,582)	-100%	

Total

148

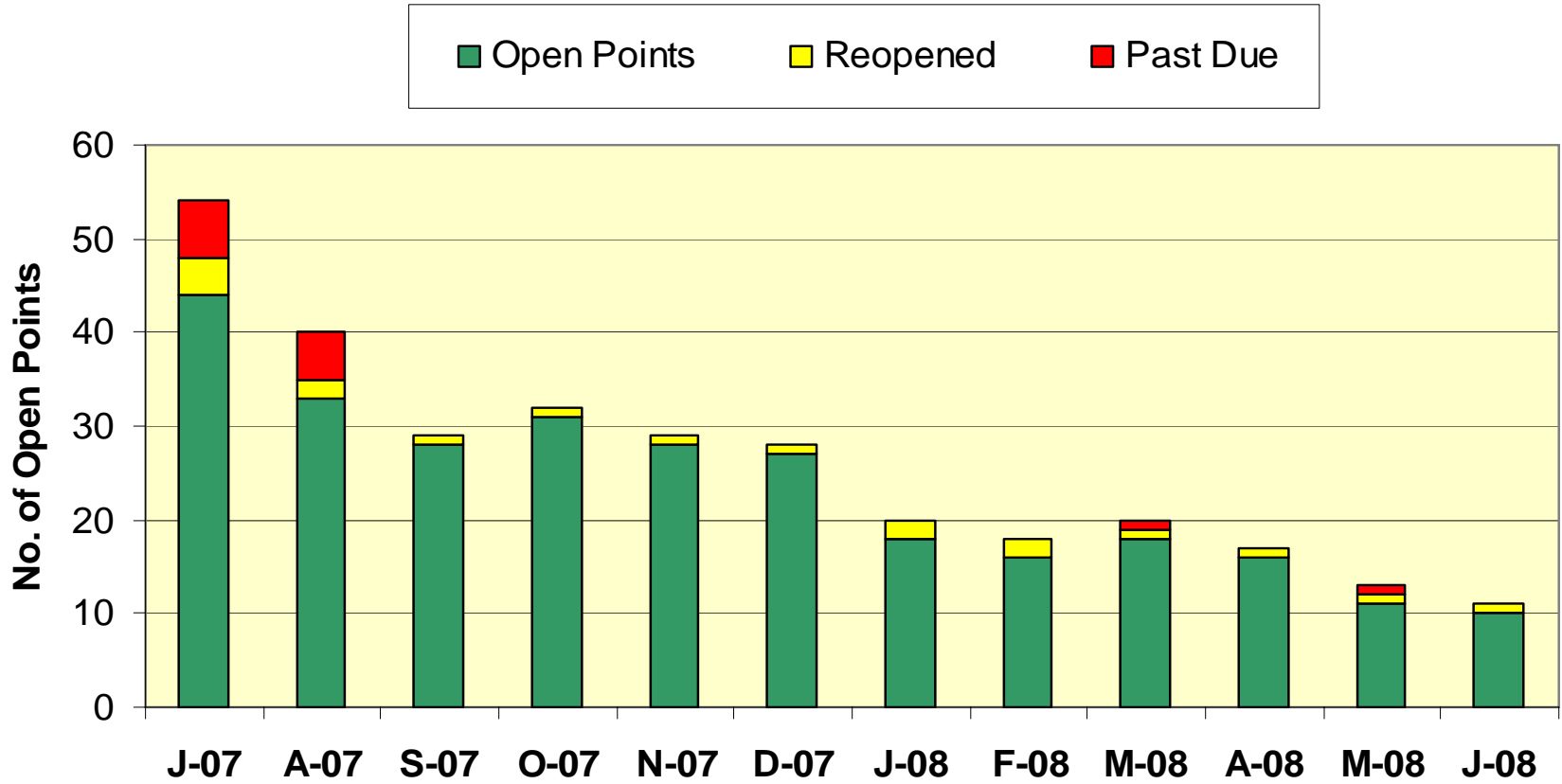
150

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

Open audit points projected to be complete by March 31, 2009.

9. Committee Brief: Audit Cheryl Moseley

Audits Completed

(last 3 months)

Internal Audits

- Contractor Ethics
- Business Continuity Plan
- Protocol 1.4 Confidentiality Compliance
- Q1 2008 Fraud Auditing
- Fixed Assets (Review of Plan to Control Personal Computers)
- Nodal Project SOWs (AREVA Targeted Review)
- Texas Nodal Program Controls – Review #7 (ERCOT Readiness; IAD performing fieldwork under direction of IBM)
- Nodal Spending

External Audits

- 2007 Financial Audit (PricewaterhouseCoopers)

Open Audits

Internal Audits

- Nodal Compliance w/Procurement Guidelines
- NERC Critical Infrastructure Protection (CIP) Standards (Pre-Audit Testing; Special Request)
- Protocol 1.4 Independence Verification
- Nodal Contractor/Vendor Billing

External Audits

- Texas Nodal Program Controls – Review #6 (Nodal Readiness Evaluation) (IBM - Managed by IAD)
- Benefit Plan Audit (Maxwell, Locke & Ritter)
- SAS70 Audit (PricewaterhouseCoopers)

Planned Audits

(next 3 months)

Internal Audits

- Q2 2008 Fraud Auditing
- Cash and Investments
- Protocol 1.4 Ethics Compliance
- Nodal Implementation and Rollout
- Operational Procedure Compliance
- Nodal Operational Change Control – Nodal Release Management
- Background Checks & Drug Screens for Contractors

External Audits

**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

Future Agenda Items – August 2008

- **Quarterly review of investment results**
- **Liquidity update and funding request**
- **Met Center**
- **Selection of independent auditor/approval of fees**
- **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