



June 16, 2008

Mr. Lane Lanford
Executive Director
Public Utility Commission of Texas
1701 N. Congress Avenue
Austin, TX 78711

Dear Lane,

Please see the following regarding ERCOT's response to the R. W. Beck Workforce Analysis:

Category	#	R. W. Beck Recommendation issued April 15, 2008	ERCOT Response
Strategic Direction	2.1	Critically review and carefully define ERCOT's leadership role with respect to the Texas electric markets and its level of responsibility to the needs and interests of its many stakeholders. Institutionalize this role and responsibilities in the framework of a Strategic Business Plan developed through a sound planning process and, as appropriate, develop associated Board policy.	ERCOT agrees. Under Bob Kahn's direction, the ERCOT leadership team developed a new Vision, Mission, Core Values and a Strategic Plan. These documents were reviewed by the TAC and approved by the Board of Directors in February and shared with the employees.
Board Committees	2.2	Develop a Board policy on committees and, as necessary, modify the ERCOT Bylaws. Review the role of the TAC and consider re-chartering the TAC to clarify and separate its governance advisement role from pseudo-management functions that it also performs. Charter an Executive Committee and separate the Audit Committee of the Board from the Finance Committee.	ERCOT leadership will share these recommendations with the Human Resources & Governance Committee of the Board for consideration and further action.
Interface Between Market Participants and the ERCOT Staff	2.3	Establish a formal process that structures the interface between ERCOT staff below the executive team level and outside parties. As an example, the following guidelines should be used to immediately modify as necessary Protocols Section 21; Process for Protocol Revision (PRR) and the interface process(s) between Working Groups and TAC and ERCOT staff on PRRs.	ERCOT leadership will share these recommendations with the Human Resources & Governance Committee of the Board and TAC for consideration and further action.

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Chief Executive's Span of Control	2.4	Reduce the span of control for the CEO as shown in Figure 2-4. The recommended structure includes five direct reports to the CEO. These executives are:	ERCOT Agrees. Mr. Kahn will reduce the number of direct reports from 10 to 6 which includes the indirect reporting relationship with the Director of Internal Audit. The exact responsibilities of these functions will be reviewed.
		* Chief Operating Officer responsible for operating standards, grid operations, grid planning and commercial operations	
		* Chief Financial Officer responsible for all financial analysis and reporting, accounting, risk management, budgeting and treasury operations	
		* Chief Information Officer responsible for all automated systems supporting commercial operations and grid operations, automated corporate systems and data depositories	
		* Chief Administrative Officer responsible for human resource activities, strategic planning, project management policies and guidelines, procurement activities, facilities and security	
		* General Counsel responsible for legal affairs, communications, and government relations	
		Note: The Internal Auditor's direct reporting relationship is with the Finance and Audit Committee of the Board of Directors. The Internal Auditor reports administratively to the CEO.	
Contract Administration and Procurement	2.5	Move the Contract Administration and Procurement Department from the CFO's division to the CAO's division.	ERCOT respectfully disagrees. With the current Nodal implementation and high volume of significant contracts, ERCOT believes leaving the Contract Administration and Procurement Department under the Finance area will provide the tightest internal controls and accuracy of records.
Program Management	2.6	Move the Program Management Department from the CFO's division to either the CAO or the COO.	ERCOT agrees. This department will be moved in upcoming company realignment.
Operations Standards Department and Regulatory Support and Reporting Department	2.7	Consolidate NERC-related compliance activities in one department under the recommended Chief Operating Officer's division. See recommendation 2-4.	ERCOT agrees that compliance activities should be centralized with a single point of contact. The exact reporting structure will be reviewed in an upcoming company realignment and may either report to the COO or a Compliance Committee, where there will be visibility with the COO and other officers.
Enterprise-wide Risk Management Department	2.8	ERCOT should undertake an effort to clarify, re-organize, and streamline its risk management-related functions including ICMP so that goals, roles and responsibilities, and procedures are more clearly defined along with the appropriate organizational alignment. ERCOT appears to have strong risk management talent, especially within the CFO's division, and existing staff appears well-qualified to complete this reorganization.	ERCOT agrees. Enterprise Risk Management and the Internal Control management Program are two relatively new functions for ERCOT. These programs will be evaluated for unnecessary duplication and for their contributions.
	2.9	To increase visibility and facilitate better access to the executive team, the ERM manager should report directly to the CFO.	ERCOT respectfully disagrees. The ERM manager reports on a regular basis to the Risk Management Committee ("RMC"). The RMC currently has all the officers (including the CFO and the CEO), the Director of Security and the Director of Internal Audit as members. ERCOT believes that a change in the reporting relationship is not required to enhance the ERM's visibility.

Adequacy of ERCOT's Key Performance Measurement Process	3.1	Restructure the format of monthly performance reports to reduce confusion. Clearly state goals and KPIs under each Key Performance Area. Insure the majority of all KPIs are conventionally stated to measure outcomes (or inputs in the case of leading indicators) and not activity-level. State the method used to determine performance described on the dashboard page.	ERCOT will review all KPI's to insure that the goals are clearly stated with measured outcomes based on results and not activities. The performance dashboard has been redesigned, with input from the HR&G Committee of the Board of Directors, due to the elimination of the management incentive plan.
Workforce Analysis	4.1-4.20	R. W. Beck recommended a total staffing level of 711 positions in 2008 and a total of 725 in 2009.	ERCOT believes the Beck analysis confirms our key findings regarding an increase in future staffing needs. Since the timing of the Beck review, ERCOT increased the estimated 2009 staffing requirements from 731 to 753 positions as proposed in the 2009 budget. The majority of these additional positions reside in the IT functions due to the demands of the Nodal program. The estimates do not match precisely, but the Beck report generally tracks ERCOT's assessment of what will be required to complete its responsibilities after the Nodal market begins operations. Detailed department requirements are outlined in the ERCOT deep dive material.
Staffing Levels During the Transition to the Nodal Market	4.21	ERCOT should analyze the contract resources necessary for this critical period following initiation of the Nodal Market. A budget adjustment should be made to account for the appropriate number of and skills for additional staff above the number currently included in the 2008 budget.	ERCOT agrees. There is a need for transition contract resources, which should be included in either the Nodal or base budget, as appropriate.
Human Resources Strategy	4.22	ERCOT should expand its current Human Resource Strategy to include a career development program, succession plans, and a rewards and recognition program. ERCOT should also consider providing additional employee benefits such as flextime and telecommuting in an effort to attract and retain qualified personnel.	ERCOT has expanded the Human Resources Strategy to include succession plans and adopted an employee rewards and recognition program in 2007. ERCOT will be developing a more defined technical career path for employees in 2008. ERCOT is also considering flextime and telecommuting options for both the attraction and retention of employees.
Contractors - Staff Support	5.1	The approach used by ERCOT to obtain contracted labor for Staff Support to support Zonal work activities is sound and should be continued.	ERCOT agrees.
	5.2	The approach used by ERCOT to obtain contracted labor for Staff Support to support Nodal Market development work activities is sound and should be continued.	ERCOT agrees.
Contractors - Defined Deliverables	5.3	The approach used by ERCOT in obtaining Defined Deliverables via contracted services for support of Zonal Market work activities and in support of Nodal Market development work is sound and should be continued.	ERCOT agrees.

Contractors - Outsourced Labor	5.4	ERCOT should continue outsourcing non-core competency functions such as janitorial and security services. In addition, ERCOT management should continually assess other outsourcing options that may become appropriate as ERCOT's business environment and strategic direction change over time.	ERCOT agrees and will continue to assess other outsourcing options in the future.
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Should you have any questions, please call me at 512-225-7010 or Nancy Capezzuti at 512-225-7094.

Respectfully,



Bob Kahn
President and CEO

cc: Nancy Capezzuti