



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 168
July 17, 2007; 8:00am – 10:00am*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order	C. Karnei	8:00am
2.		Adjourn to Executive Session		
	Decision required	2a. Approval of executive session minutes (Vote) (06/19/07)	C. Karnei	8:00am
	Informative	2b. EthicsPoint update	B. Wullenjohn	8:05am
	For discussion	2c. Internal Audit status report	B. Wullenjohn	8:10am
	For discussion	2d. SAS 70 auditor selection for 2008	B. Wullenjohn	8:20am
		Adjourn to Open Session		8:35am
3.	Decision required	Approval of ISO general session minutes (Vote) (06/19/07)	C. Karnei	8:35am
4.	Decision required	Selection of vendor for third party credit review (Vote)	C. Yager	8:40am
5.	Informative	Credit Workgroup update – creditworthiness standards	M. Davies	8:45am
6.	Informative	Quarterly investment performance update	C. Yager	8:55am
7.	For discussion	Preliminary 2008-2009 budget review	M. Petterson	9:00am
8.	Informative	Committee Briefs (Q&A only)	All	9:45am
9.	Informative	Future agenda items	S. Byone	9:55am
10.		Adjourn ISO meeting		10:00am

*** 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 21, 2007, at ERCOT, 7620 Metro Center Drive, Austin,
 Texas 78744, in Room 168.*

Decision required
For discussion

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:00 A.M.

June 19, 2007

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 8:00 A.M. on **June 19, 2007**. The Meeting was called to order by Clifton Karnei, who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present
Miguel Espinosa, Vice Chair	Unaffiliated Board Member	Unaffiliated Board Member	Present
Nick Fehrenbach	City of Dallas	Consumer	Present
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Present
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member	Present
Tom Standish	Centerpoint Energy	Investor-Owned Utility	
William Taylor	Calpine Corporation	Ind. Generator	Present
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Steve Bartley	CPS Energy	Municipal	Present
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present

ERCOT staff and guests present:

Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Davies, Morgan	Calpine
Doolin, Estrellita	ERCOT
Grimm, Larry	Texas Regional Entity
List, Amanda	Strategic Energy
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Seeley, Chad	ERCOT
Troxtehl, David	ERCOT
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT
Westbrook, Susan	ERCOT
Wullenjohn, William	ERCOT

Executive Session

At 8:01 AM, the Committee meeting was adjourned and the Committee went into Executive Session until approximately 8:36 AM, when the Committee returned to Open Session.

Approval of Previous Minutes

Miguel Espinosa made a motion to approve the minutes of the Committee meeting held on May 16, 2007; Nick Fehrenbach seconded the motion. The motion passed unanimously.

Update on Credit Review RFP

Clifton Karnei explained that while in executive session, Cheryl Yager had provided a brief update on the status of the proposals received in response to the Credit Review Request for Proposal ("RFP"). Mr. Karnei noted that the Committee had set a special Committee meeting for July 16, 2004 from 2:00 P.M. to 4:00 P.M., to be held in executive session, to discuss the vendor proposals in detail.

Approval of Finance & Audit Committee Charter

Clifton Karnei reminded the Committee that it had voted to approve specific credit responsibility language for the Finance & Audit Committee Charter at the previous meeting, which had been the only outstanding issue in the Charter. However, presently the Committee was to take a final look at the Charter and make a formal recommendation to the Board for its vote at today's meeting. Mr. Karnei informed the Committee that he and Steve Byone had discussed one additional item in the Charter, relating to the Committee's responsibility for legal compliance and ethics programs. To clarify that the Committee's responsibility was oversight for compliance and not for approving the ethics program or Ethics Agreement (since this was done by the Human Resources & Governance Committee), Mr. Karnei suggested that the clause, "and to ensure management maintains suitable evidence of compliance" be added at the end of the last sentence of the 5th paragraph. The Committee discussed the Charter provisions briefly.

Michehl Gent made a motion to recommend the modified Finance & Audit Committee Charter to the Board, as set forth in Exhibit A; Nick Fehrenbach seconded the motion. The motion passed by a vote of four to three, with Clifton Karnei, Miguel Espinosa and Dan Wilkerson opposed.

Mr. Karnei explained that, because of his personal concern about deletion from the Charter of language referencing prudent industry standards, maintaining the financial stability of and minimizing risk to the market as benchmarks for the Committee's decisions regarding credit, he would need to vote against the revised Charter at the Board meeting. He noted that he didn't feel he could make the motion to approve the charter at the Board since he would vote against it and asked the Committee members to decide who should make the motion on behalf of the Committee before the Board meeting.

2007 Year-End Financial Projections

Michael Petterson informed the Committee that as of May 31, 2007, both revenue requirements and revenues are slightly lower than budgeted and the latest budget forecast indicates an ability to conduct base operations within the approved fee of \$0.4171 per MWh.

Mr. Petterson noted that the Nodal Program expenditures and Nodal Surcharge amounts are trending as expected and, to date, Nodal Program expenditures exceed Nodal Surcharge collections by approximately \$92 million with the difference covered by borrowed funds. Mr. Petterson also noted that the Texas Regional Entity (TRE) fee income currently exceeds TRE expenditures by approximately \$0.8 million and that the favorable financial result will be considered when establishing the 2008 TRE budget and fee.

Capital Project Portfolio Status

David Troxtell reported that the projected number of Project Pipeline (“PPL”) projects completed is likely to be fewer than originally planned, because 48 projects were behind schedule, not started or still in planning. Mr. Troxtell explained that the project cancellations, delays and deferrals were the result of (1) the decision to accelerate certain elements of the Nodal implementation effort, (2) resource constraints such as staffing shortages and competing demands for data center capacity, and (3) waiting on market approvals (such as MarketTrak Enhancements).

Mr. Troxtell stated he anticipates that total capital expenditures for 2007 will be \$34 million to \$40 million, rather than the \$44 million budgeted. The shortfall is attributable, in part, to the elimination of \$1.4 million for TRE projects that had been duplicated in the TRE budget. Scott Gahn asked if Mr. Troxtell knew the value of the projects that had been deferred or cancelled, which Mr. Troxtell did not have with him. Mr. Gahn asked how ERCOT measured the funds that had been budgeted for deferred or cancelled projects, and Mr. Byone assured him that these funds are fully accounted for and would be reflected in financial statements.

Briefing on Preliminary 2008 Budget Schedule and Assumptions

In response to Mr. Armentrout’s request at the April, 2007 meeting of the Board of Directors, Mike Petterson provided the Committee with a list of assumptions that will be used in the process of preparing the 2008 budget. Mr. Karnei noted that staff will use the same budget-building process used for 2007, but will document the steps more thoroughly for transparency purposes.

Mr. Petterson noted that preliminary budget reviews will start the week of June 25, 2007, with the preliminary budget to be presented to the Committee at its July 17, 2007 meeting which would also be used to solicit public input. The current schedule includes a special meeting of the Committee on August 2, 2007, presentation of the Committee’s recommendations to the Board of Directors on August 21, 2007, with a vote by the Board on September 18.

Several members reported scheduling conflicts with the special Committee meeting set for August 2nd, so the members agreed to hold this special meeting on August 7, 2007, at 9 A.M., CST.

Update on Debt Financing

Cheryl Yager reminded the Committee that ERCOT received a Moody's upgrade from A1 to Aa3, largely as a result of ERCOT's success in obtaining Public Utility Commission of Texas ("PUCT") authorization for its Nodal Surcharge, coupled with ERCOT's established practice of funding a large portion of required expenditures on a current year basis. In response to questions by the Committee, Ms. Yager indicated that she estimated the value of this upgrade in ERCOT's debt financing to be four or five basis points.

Ms. Yager reported that ERCOT executed \$130 million of interest rate swaps (some with forward effective dates) on June 12, 2007 to fix a portion of its floating rate debt. These transactions are expected to allow ERCOT to maintain floating rate debt within the 40% cap set in the Financial Standard until 2010. Ms. Yager told the Committee that the weighted average interest rate for these transactions is 5.54%,

Ms. Yager also informed the Committee that, on June 15, ERCOT executed the \$225 million Term Loan and \$75 million Revolving Credit Facility. She noted that at closing, ERCOT drew \$85 million on the new Term Loan and \$10 million under the new Revolving Credit Facility. The draws under the new Term Loan and Revolver were used to pay-off existing debt under the prior term loan and revolver.

Report of External Auditor Pre-Approval Status and Limits

Mr. Petterson confirmed that all external audit engagements for 2007 had been reviewed and approved by the Finance and Audit Committee. The engagements approved are the financial statement audit by PricewaterhouseCoopers; the SAS 70 Type II audit by PricewaterhouseCoopers; and the benefit plan financial statement audit by Maxwell, Locke & Ritter, LLP. In addition, the Committee approved a subscription to the Comperio accounting reference library maintained by PricewaterhouseCoopers.

Mr. Petterson indicated that he planned to issue a request for proposal for the 2008 financial statements audit in the fall of 2007.

Review the Procedures for Handling Reporting Violations

Mr. Petterson noted that, as required by Finance and Audit Committee charter and consistent with corporate governance best practice, ERCOT management has established procedures for handling reporting violations. Mr. Petterson noted that procedures are described in ERCOT Corporate Standard CS5.38, Fraud Prevention and Whistleblower Corporate Standard, which had previously been reviewed by the Committee. Mr. Petterson confirmed that ERCOT employees are provided with a copy of this Corporate Standard with the Human Resources ("HR") Manual, and employees are required to sign a Receipt and Acknowledgement form when they are given the HR Manual, to evidence their awareness and understanding. Mr. Petterson explained that these procedures are also reinforced during the annual Ethics Reaffirmation process required of all employees.

Committee briefs (Q&A only)

A. Risk Management Event Profile Matrix.

Dan Wilkerson asked Mr. Byone to explain the purpose of the Risk Management Event Profile Matrix. In response, Mr. Byone explained that this matrix differs from the risk matrices used by most businesses, because ERCOT is unique in its obligation to ensure the reliability of the electric market. Because of this, in addition to the risks to the corporation, ERCOT's matrix reflects certain risks to the market, including service reliability. Mr. Byone explained that the reporting of monthly changes in risks are accentuated with the arrows pointing up (an increase in assumed risk) or down (a decrease in assumed risk). The risks listed in the matrix are evaluated monthly by ERCOT management. Mr. Byone noted that the only increased risk noted in the current report pertains to a workforce risk increase in May.

In response to a question from Mr. Espinosa, Mr. Byone indicated that ERCOT's staffing shortages are, in part, the result of the high market demand for specialized technical skills needed for the Nodal project. Mr. Gent asked if increasing salaries would help to attract the needed personnel. Mr. Byone explained that ERCOT was allowed to pay market salaries. The members then discussed factors that may be contributing to the staffing shortage, including compensation levels and uncertainty about employment once the Nodal market implementation is complete. Mr. Byone noted that the HR & Governance Committee was discussing staff retention at its June meeting.

Adjournment

At 9:34 AM, the Committee meeting was adjourned.

The next regular Committee meeting will be held on the morning of Tuesday, July 17, 2007.

Susan Vincent, Secretary

Vote on selection of vendor for third party credit review

5. Credit Work Group update Proposed Creditworthiness Standards Changes

The Creditworthiness Standards is the document that defines how unsecured credit will be assigned.

- Hasn't been updated since 2001 (other than minor corrections)
- Credit Work Group (CWG) is in the process of reviewing this document and expects to propose changes to F&A
- Per the Protocols, the Creditworthiness Standards are approved by the Board of Directors

The CWG has been reviewing these standards and proposes that changes be made progressively

- Make changes currently for “low hanging fruit”
- Obtain additional information about risk characteristics of certain types of MPs either by “piggy-backing” on the pending Credit Review project or through an additional study to be commissioned (issuing a separate RFP)

5. Credit Work Group update

Proposed Creditworthiness Standards Changes

Proposed “low hanging fruit” changes include:

- Lowering the maximum unsecured credit allowed for a MP from \$125 million to \$100 million
- Using Fitch ratings (along with S&P and Moody’s)
- Using Tangible Net Worth rather than straight Shareholders Equity when setting maximum unsecured credit limits
- Establishing modified rules limiting amount of maximum unsecured credit allowed under foreign guarantees when quarterly financials are not provided

Other changes expected once additional information is obtained include:

- Incorporating qualitative as well as quantitative elements when setting unsecured credit limits
 - ***ERCOT estimates that one additional staff with the appropriate expertise is needed to handle the additional work load related to this change. This is not currently included in either the 2007 or the 2008 budget.***

5. Credit Work Group update Proposed Creditworthiness Standards Changes

- CWG expects to bring the “low hanging fruit” changes to the Board in August or September for consideration
 - CWG will review proposed changes with TAC prior to bringing to F&A

Printed materials to follow

ERCOT Market Credit Status

as of 5/31/2007

as of 6/30/2007

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	
4	15,812,939	4%	28,000,000	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	39	203,580,743	53%	312,330,126 S
Guarantee Agreements	13	164,318,563	43%	431,447,955 S
Total Exposure	56	383,712,245	100%	

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
9	21,383,742	6%	60,943,758	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	39	199,072,000	54%	292,321,121 S
Guarantee Agreements	12	145,291,161	40%	419,747,955 S
Total Exposure	60	365,746,903	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

13	(15,529,628)	-27%	108,433,336	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	43	(20,104,656)	-35%	18,681,211 S
Guarantee Agreements	10	(21,950,425)	-38%	181,000,000 S
Total	66	(57,584,709)	-100%	

9	(3,867,227)	-6%	65,906,991	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	46	(28,695,661)	-44%	21,235,661 S
Guarantee Agreements	9	(32,887,850)	-50%	192,700,000 S
Total	64	(65,450,738)	-100%	

Total

122

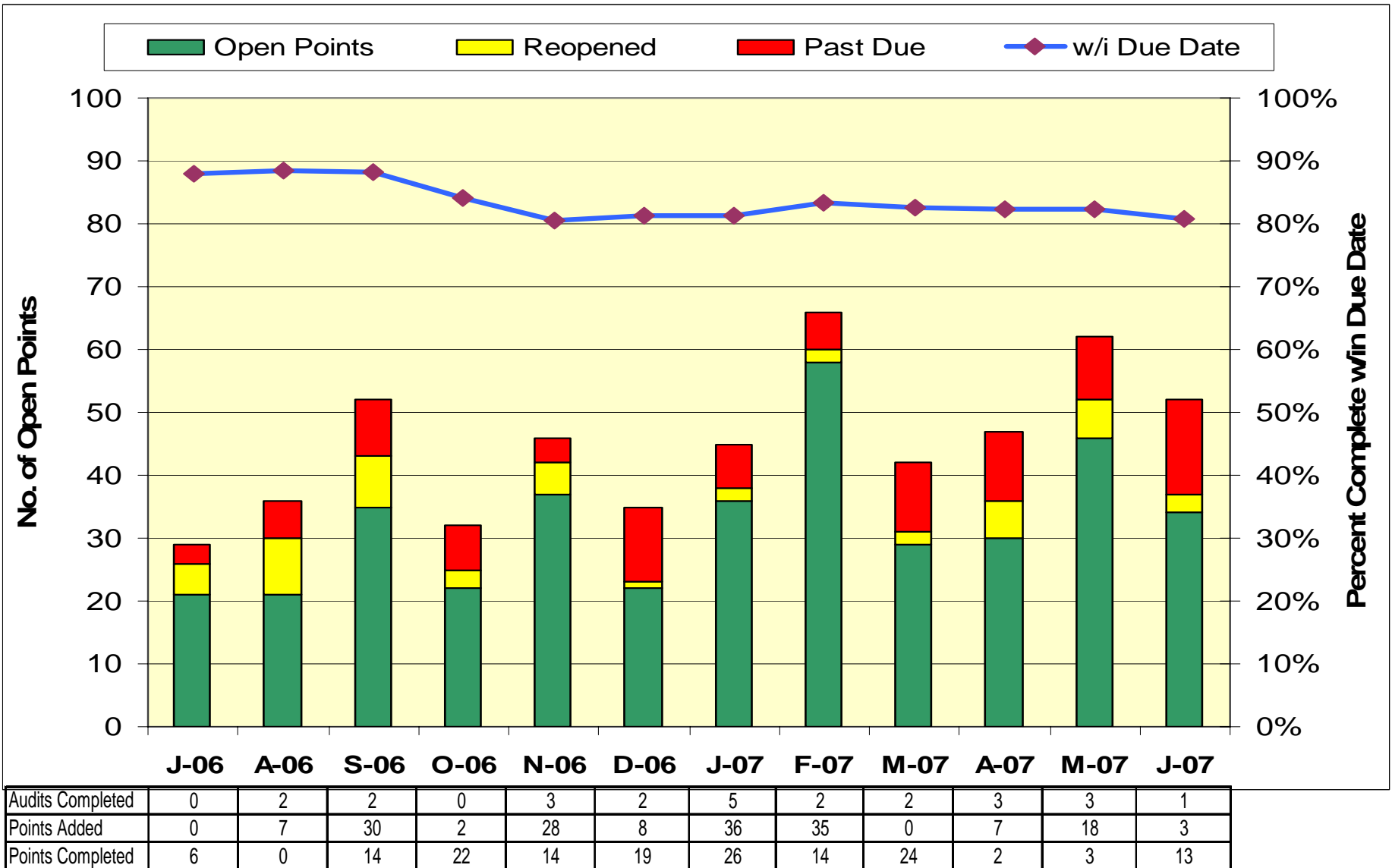
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U: Unsecured since these QSEs meet the creditworthiness standards

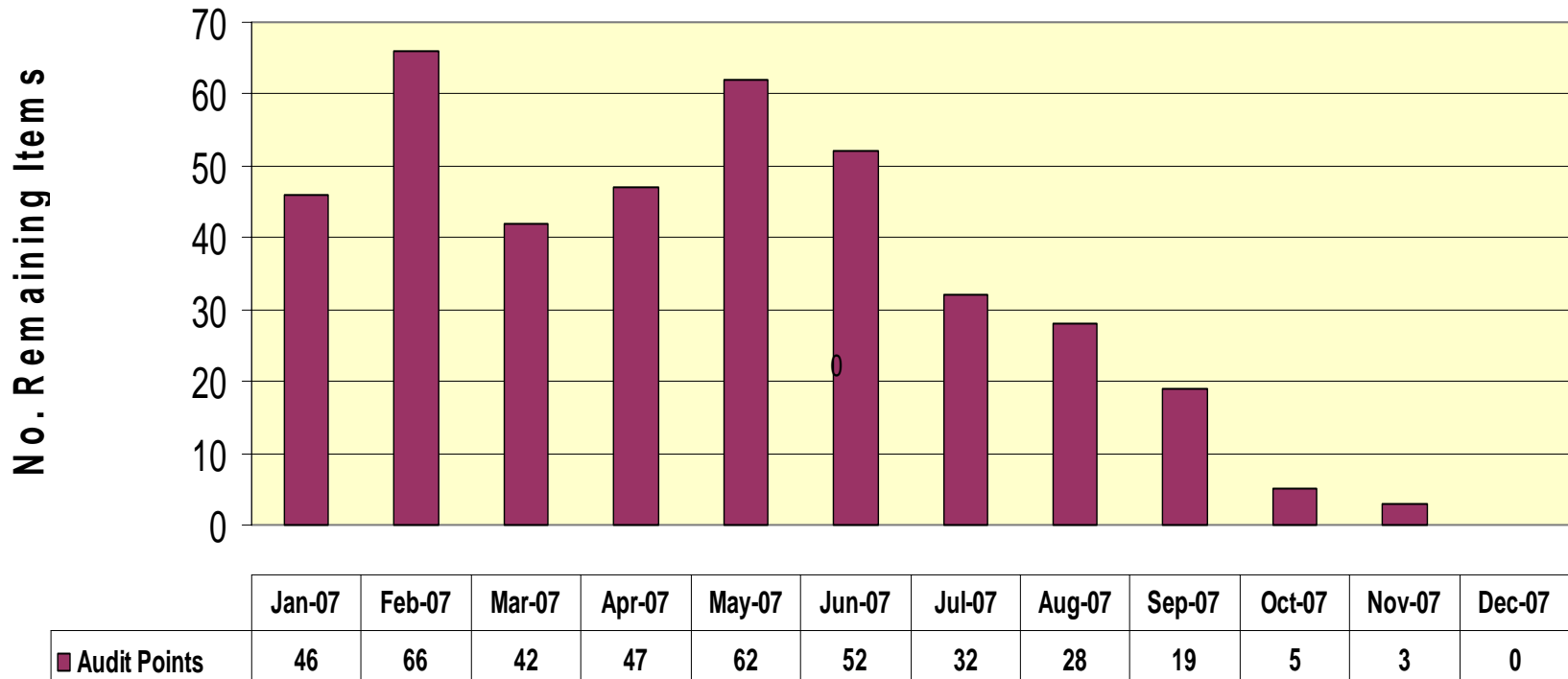
S: Secured i.e. required to post collateral since these QSEs do not meet the creditworthiness standards

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

Cheryl Moseley



Projected Audit Point Progress



Audits Completed (last 3 months)

Internal Audits

- SAS70 Pre-Audit Testing
- Accounts Payable
- Procurement Approval Process (Special Request)
- PMO (Non-Nodal)
- Risk of Event Similar to CAISO Incident
- NERC Compliance*
- Contract Audit of 21st Century

External Audits

- 2006 Financial Audit (PwC)
- 2006 Final MPP
- Texas Nodal Program Controls - Review #3 (IBM-managed by IAD)

Open Audits

Internal Audits

- Nodal Timetracking
- Nodal Signing Authority/Delegation of Authority
- Nodal PMO (Targeted Review)
- Employee Background/Reference Checks (Targeted Review)
- Nodal Compliance w/Procurement Guidelines
- Nodal Acctg./Allocation

External Audits

- 2007 SAS70 (PwC)
- 2007 401K Audit (Maxwell, Locke & Ritter)

Planned Audits (next 3 months)

Internal Audits

- Congestion Mgmt./TCRs
- Nodal Contractor/Vendor Billings
- Cash and Investments
- Disaster Recovery Plan
- Credit

External Audits

- Texas Nodal Program Controls – Review #4 - IBM (Managed by IAD)

* NOTE: Conducted by internal resources other than Internal Audit

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

External Assessments

1 security assessment
completed in June

**Open Consultation/
Analysis Reviews**

External Assessments

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

External Assessments

1 security assessment
planned

ALERT
RISK MANAGEMENT EVENT PROFILE MATRIX (as of July 1st, 2007)

Strategic Position	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Compliance
Strategy Development <i>Objective setting adequately incorporates informed stakeholder input, market realities and management expertise</i>	Performance Monitoring <i>Clearly defined performance metrics linked to mission and goals; actively monitored, status communicated and corrective action taken</i>	Customer Choice <i>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</i>	Grid Operations <i>Information required to operate the grid is efficiently gathered and appropriate tools are prudently configured to efficiently operate the system</i>	Review Practices <i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading</i>	Legal & Legislative <i>Operations are conducted in compliance with all laws and regulations and current and proposed legislation is understood and communicated</i>
<p>ERCOT Board and Staff need awareness of ERCOT's short and long-range strategic plan. The Nodal project and the proposed ERO/RE environment have been adequately factored into plans.</p>	<p>Management has rolled out a revision of the Executive Dashboard based on defined KPI's and have instituted regular Quarterly Business Reviews to discuss key business activities in addition to weekly executive team meetings, constant grid monitoring, IT SLA's, and generation / transmission assessments.</p>	<p>IT components supporting Customer Choice are currently not at the desired levels to meet SLA's. Successful replacement of SeeBeyond Application with TIBCO has had a significant impact on Customer Choice operations which has reduced overall levels of risk, however other IT related Retail issues continue.</p>	<p>Significant improvements made in the State Estimator and the accuracy and availability of SCADA data in preparation for Nodal operation. An Operator Training Simulator is in place and will be used in our operator training program. Load Forecast accuracy improved. Continued improvement must be maintained.</p>	<p>Board of Director's review of management activities on an ongoing basis assists in ensuring proper review and disclosure practices.</p>	<p>Increased efforts have been made to inform members of the legislature about ERCOT and the performance of its functions. Enhanced efforts are being undertaken to maintain records according to established record retention policies.</p>
Mission and Goals <i>Corporate objectives and performance standards are understood and followed</i>	Business Practices <i>Business planning, processes and management standards are effective and efficient</i>	Nodal Implementation <i>Nodal Implementation is progressing in a timely fashion on budget and schedule within a defined scope.</i>	Planning <i>Long-range planning methods enable efficient responses to necessary system changes to maintain reliability standards</i>	Disclosure <i>Reporting and other disclosures to intended parties is timely, accurate and effective</i>	Internal Control Compliance <i>Internal Control Compliance, processes and management standards are effective and efficient</i>
<p>Current management initiatives related to goal setting and the development of Key Performance Indicators (KPI's) have increased awareness of organizational goals and related to high-level corporate objectives and priorities for individual divisions, departments, and employees.</p>	<p>Disaster recovery plans are currently below desired expectations. Additional activities are required to implement and test these procedures. However solid overall business practices are confirmed via: Internal and External audit, Operational review, Regional Entity / Compliance, and RMC and Disclosure Committee review.</p>	<p>Risks continue to exist with scope management and deliverable tracking. Scope management has improved. Vendor resourcing and internal staffing has improved significantly. Risks exists in time line management, software quality (unknown) and software integration. Market readiness assessment is underway. Surcharges have been approved by PUCT and collection began with June billing.</p>	<p>Lack of timely and accurate information necessary to build reasonable system models and forecasts and insufficient resources to conduct long-range (over 5 years out) planning resulting in possible inefficiencies in ERCOT's transmission expansion plan.</p>	<p>A Disclosure Committee has been institutionalized to discuss and report issues related to external reporting and compliance.</p>	<p>Audit findings are actively monitored by management as well as Internal Audit. Additional training activities are required to ensure all staff members are aware of ongoing internal control compliance processes and procedures. Care must be taken to ensure nodal demands do not unreasonably diminish audit finding remediation.</p>
Reputation <i>Positive perceptions by stakeholders typically lead to less cost and greater flexibility resulting in enhanced enterprise value</i>	Workforce <i>Organization design, managerial and technical skills, bench strength and reward systems are aligned with corporate goals</i>	Counterparty Credit <i>Bankruptcies and other capital deficiencies increase the cost for market participants and potentially impact Grid reliability through participant failure</i>	Bulk System Resources <i>Market Participants have constructed and made available adequate bulk electric grid resources</i>	Communication <i>Internal and external communications are timely and effective</i>	Industry Standards <i>Business practices provide stakeholders with required assurances of quality</i>
<p>Approval of Nodal Fee filing and improved performance of retail systems have increased positive perception by stakeholders. It is recognized some specific concerns of Market Participants are to be addressed on an ongoing basis.</p>	<p>We continue to face an increased demand for the skill sets of our employees and turnover has increased to 12.3% (from 11% last year). We are considering a stay bonus/incentive plan for critical Nodal staff. We are also developing organizational structures for all departments indicating the longer term plan for staffing needs in 2008, 2009 and 2010.</p>	<p>The rollout of Texas SET 3.0 at the end of June has reduced credit exposure by an additional 5 days. However, there continues to be a potential for credit losses as a result of the time it takes to remove defaulting participants from the market. A medium to large market participant default could materially impact the ERCOT market, grid reliability, and ERCOT's reputation.</p>	<p>Uncertainty surrounding generation projects, installed and operational capacity, and the high dependency on natural gas in Texas' generation fleet may impact reliability. The risk exists for a hotter than normal summer or cooler winter to increase load demand to a level that reduces reserve margins below acceptable minimum levels. Reserves are expected to drop below the minimum 12.5% level in 2009.</p>	<p>A crisis management project for communications has been completed and ERCOT has restructured its legal and communications departments.</p>	<p>CY2006 SAS 70 Audit and Qualification issues have been remediated. CY2007 SAS 70 Audit underway with no new issues identified to date. New NERC Cyber Security Standards CIP002-009 were approved in CY2006 and will be implemented over next 36 months. Initiation of ERO/TRE reliability standard Compliance Monitoring and Regional Entity Compliance Program in June introduces additional audit and penalty risks.</p>
Fiscal Management <i>ISO design requires competent, prudent and cost effective provision of services</i>	Technology Infrastructure <i>Information systems and data are effectively managed and are reliable</i>	Administration, Settlement & Billing <i>Market rules are fairly applied to all participants and accounting is timely and accurately reflects electricity production and delivery</i>	Operational Responsibility <i>Market participants conduct their operations in a manner which facilitates consistent grid reliability</i>	Adequacy and Integrity <i>Robust processes exist to support management assertions embodied within financial reports</i>	Regulatory Filings <i>Evidence, testimony and other supporting materials are compelling and successful</i>
<p>Current fiscal practices are effective in managing and controlling costs. Continued diligence is necessary to effectively manage the cost of the nodal project.</p>	<p>Loss of Disaster Recovery Coordinator is being managed by Enterprise Architecture team while search for replacement continues. AIX conversion project is underway and risks for database migration to new platforms are being mitigated. Retail systems reliability has improved.</p>	<p>ERCOT's settlement/dispute processes has a significant number of ADR's related to the RPRS policy debate outstanding, however these are being addressed in a timely fashion. Increased levels of ADR's may pose a future risk if they are no longer able to be timely addressed.</p>	<p>Response of generators 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. Increased wind generation will present additional operational challenges.</p>	<p>Financial and Operations management information has been redesigned to enable management to effectively monitor and manage the business.</p>	<p>Filings are completed timely and accurately.</p>

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

Rationale for Category Risk Assessment Changes

Nodal Implementation

Upgrade: Red > Yellow

ERCOT has further scoped the nodal project, hired additional key staff members, and funding has largely been obtained.

8. Committee Brief – PMO

David Troxtell

2007 Year to Date Project Activity by Division

	Phase	Not Started	Initiation	Planning	Execution	Closing	Closed	Cancelled	On Hold	Deferred	Totals by CART	Go-Live*
CART	Corporate Operations	14	2	4	9	1	3	1	0		34	1
	IT Operations	7	0	2	6	2	0	0	0		17	0
	Market/Retail Operations	1	1	6	7	2	5	6	1		29	3
	System Operations	2	0	6	5	4	6	2	3		28	4
	Totals by Phase	24	3	18	27	9	14	9	4	8	116	8

Note: Additional Projects Gone Live this month

PR-40038_01 - TX SET 3.0 incl MassTrans/T&C's (MORO-6/24/07)

8. Committee Brief – PMO













David Troxtell

Year to Date Project Priority List (PPL) Status

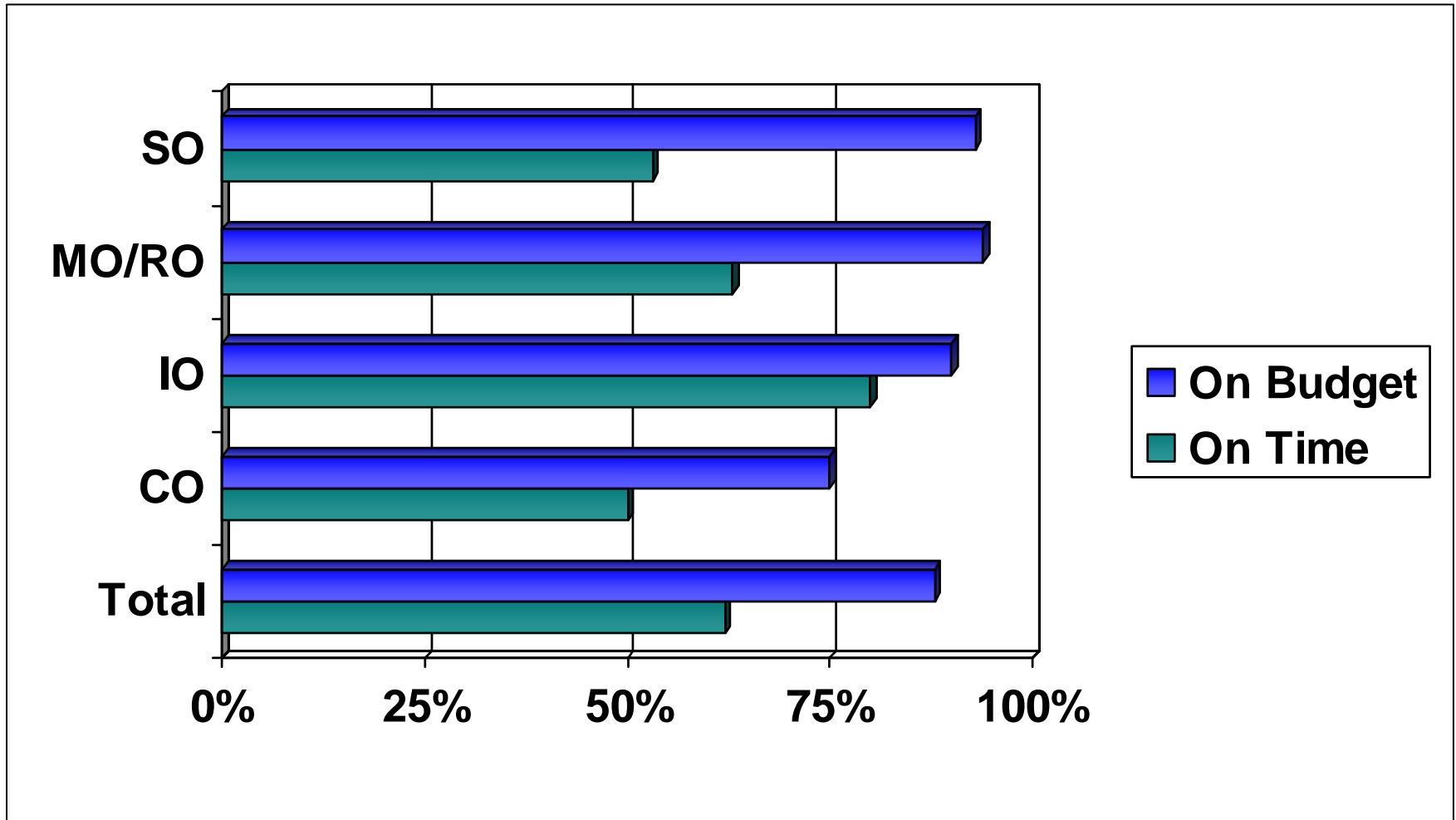
PPL Iterations	Origination	Project Phases								Deferred Projects	Subtotal	Grand Total
		Not Started	Initiation	Planning	Execution	Closing	Closed	On Hold	Cancelled			
Original 2007 PPL											79	
	PUCT	1			1		1	2			5	
	Market		1	1	3		1		5		11	
	ERCOT	20	2	9	10	3	2	1	3	8	58	
	Compliance			3				1	1		5	
	System Maintenance										0	
Unexpected Carry Over From 2006											22	
	PUCT						2				2	
	Market	1				1	3				5	
	ERCOT				6	5	4				15	
	Compliance										0	
	System Maintenance										0	
New Projects Added (Since PPL Approval in August 2006)											15	
	PUCT			1							1	
	Market			1							1	
	ERCOT	2		3	7	1					13	
	Compliance										0	
	System Maintenance										0	
2007 PPL totals to date											116	
	PUCT	1	0	1	1	0	3	2	0	0	8	
	Market	1	1	2	3	1	4	0	5	0	17	
	ERCOT	22	2	12	23	9	6	1	3	8	86	
	Compliance	0	0	3	0	0	0	1	1	0	5	
	System Maintenance	0	0	0	0	0	0	0	0	0	0	
Totals by Project Phase		24	3	18	27	10	13	4	9	8	116	

8. Committee Brief – PMO David Troxtell

Projects Over \$1 Million

Project (CART) Number and Description	Total Budget	Total Committed To Date	Metrics	
(Duration) Phase (Sponsor)	Scheduled Completion		Schedule	Budget
(MO/RO) PR-40038_01: TX SET 3.0	\$1.63M	\$1.30M		
<i>(2007) Currently in Execution (R. Giuliani)</i>	<i>Expected Completion 3rd Qtr 2007</i>			
(SO) PR-40090_02: Operator Training Simulator	\$3.87M	\$3.60M		
<i>(2005-2007) Currently in Execution (S. Jones)</i>	<i>Expected Completion 3rd Qtr 2007</i>			
(MO/RO) PR-50024: Enhancements to SCR727 (consists of 2 sub-projects)	\$1.61M	\$1.45M		
<i>(2005-2007) Currently in Execution (R. Giuliani)</i>	<i>Expected Completion 3rd Qtr 2007</i>			
(CO) PR-60099_01: TCC2 Build-Out Phase One	\$2.65M	\$.331M		
<i>(2007) Currently in Execution (S. Jones)</i>	<i>Expected Completion 3rd Qtr 2007</i>			
(IO) PR-60055_01: Enterprise Service Management	\$1.31M	\$.73M		
<i>(2006-2007) Currently in Execution (R Hinsley)</i>	<i>Expected Completion 4th Qtr 2007</i>			
(CO) PR-60075: Identity to Access Management (consists of 2 sub-projects)	\$1.40M	\$1.18M		
<i>(2006-2007) Currently in Execution (S. Jones)</i>	<i>Expected Completion 4th Qtr 2007</i>			

2007 Completed and Active Projects Performance



8. Committee Brief – PMO David Troxtell

Capital Projects – Budget vs. Actuals for Closed Projects Y.T.D.

Closed Projects In Lawson	Baseline Budget	Actuals	\$ (Over)/Under Baseline Budget	% (Over)/Under Baseline Budget
PR-30105 (Congestion Management Reports)	105,300	86,231	19,069	18%
PR-60002_01 (Increase Number of Seats for Study Markets Clearing Engine)	179,823	86,718	93,105	52%
NOTES:				
(a) Baseline Budget does not include change controls that were approved without granting a new baseline budget.				

Go Live Projects for June

- **PR-40038: TX SET 3.0**

Scope:

- **PUCT Substantive Rule 25.43 (PUCT Project 31416)**
 - Mass Transition, POLR Customer Class, Customer Billing Contact Information File Event
- **PUCT Project 29637 Terms and Conditions (PRR 672 – MVI Only)**
- **18 TX SET Change Controls for transaction efficiency**

Deliverables:

Siebel Automated solution for Mass Transition Event, Paperfree/TIBCO prioritization processing of Priority MVI, NAESB/Paperfree development package for secured transport of Customer Billing Contact Information Files, Paper free Map changes for TX SET Change Controls

Timeline: May 2006 – July 2007

8. Committee Brief - PMO David Troxtell

ERCOT Enterprise Projects Summary Report

ERCOT Overall Projects Report

Reporting Period:

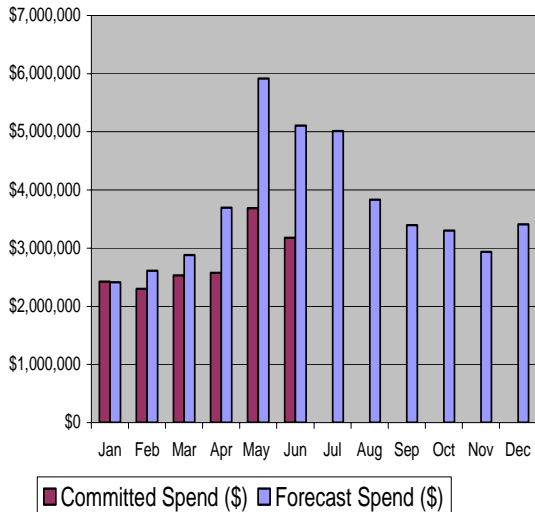
6/29/2007

Summary

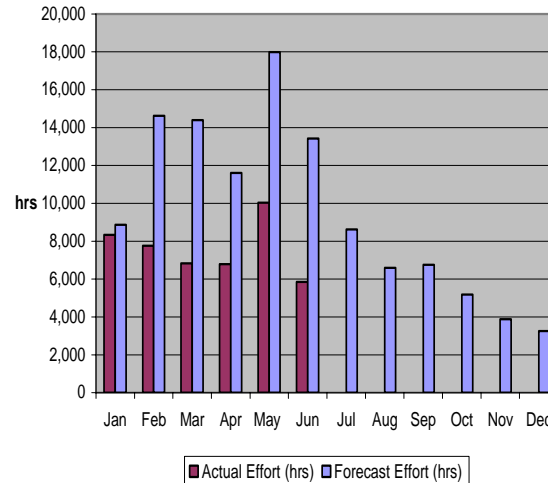
ERCOT Projects Leadership			Projects in ERCOT's Portfolio					Portfolio Performance			
Executives			On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget	Risk	Milestones
Kent Saathoff	Ray Giuliani		3	4	15	28	9	Y	G	G	R
Ron Hinsley	Steve Byone	Closed	14	Total Active		56					
		Cancelled	8	Projects Not Started:		24	Prior Year Funding:	\$0	Current Year Funding:	\$44,000,000	

Portfolio Performance Summary

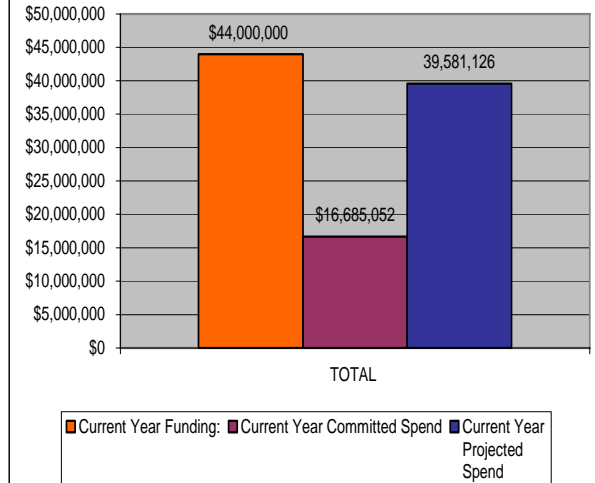
ERCOT Projects
Current Year - Spend



ERCOT Projects
Current Year - Effort



ERCOT Projects
Current Year to Date Financials



Notes

- **Phase 1 testing is complete**
 - A few outstanding audit issues being followed-up
 - No significant issues relating to control objectives or activities
- **Productive debrief between ERCOT and PricewaterhouseCoopers' staff following Phase 1 testing**
- **PWC briefing planned for August 2007 Finance & Audit Committee meeting**

Future Agenda Items – August 2007

- **Standing Internal Audit status report (s)**
- **Update on 2007 SAS 70 (Sean Barry)**
- **Update on third party credit review**
- **Proposal for 2008 budget and preliminary 2009 budget**
- **Committee briefs**

F&A Yearly Schedule

Quarter 1

- √ •Elect officers and confirm financial qualifications
- √ •Review Finance Audit Committee charter
- √ •Approve the Guidelines for Engagements of External auditors for Other Services (pre-approval policy)
- √ •Required written communication and discussion of auditor independence
- √ •Review scope of annual financial audit
- √ •Report by CWG Chair on ERCOT credit policy
- √ •Vote on CWG Chair/Vice Chair

Quarter 2

- √ •Report results of annual independent audit to the Board
- √ •Report of external auditor pre-approval status/limits
- √ •Review the procedures for handling reporting violations
 - Review conflict of interest and ethics policies (Transferring to HR & Gov)
- √ •Review results of annual audit (including required communications)
- √ •Review and approve ERCOT Annual Report (N/A)
 - Review operating plan and budget assumptions
- √ •Review and approve Internal Audit Department Charter

Quarter 3

- Appoint the independent auditors for upcoming year
- Approval of independent auditor fees for upcoming year
- Assessment of compliance, the internal control environment and systems of internal controls
- Review and approval of annual operating budget
- Report by CWG Chair on ERCOT credit policy
- Review updated year-end forecast

Quarter 4

- Approve audit committee meeting planner for the upcoming year, confirm mutual expectations with management and the auditors
- Review and approval of Financial & Investment policies
- Approve scope of internal auditing plan for upcoming year
- Assessment of the adequacy and effectiveness of the Internal Audit staff
- Perform Finance & Audit committee Self Assessment
- Review requirements for membership in CWG
- Review and approve CWG charter
- Review updated year-end forecast

Recurring Items

- Review minutes of previous meeting
- Report monthly matters to the Board (chair)
- Review EthicsPoint activity
- Review significant audit findings and status relative to annual audit plan
- Review investment results quarterly

PUC/NERC/FERC Filings - FINANCE and AUDIT Excerpt as of July 17, 2007

Docket / Project No.	Docket Description	Status
P-24055	Protocol Revision Informational Filings by the Electric Reliability Council of Texas (includes Protocol Revisions and Nodal Protocol Revisions)	Systems Implementation – Cost Benefit Analysis
P-24462	PUC Proceeding to Establish Performance Measures Relating to the Competitive Retail Electric Market	08/14/07 2 nd Quarter Report Filing
P-27706	Reports of the Electric Reliability Council of Texas	08/14/07 2 nd Quarter Report Filing (Financials and Audits) Filing
P-28109	Competitive Metering Services Market Readiness Project Subst. R. §25.311(e)	08/14/07 2 nd Quarter Report Filing
D-30456	PUC Proceeding Regarding ERCOT Fee	File Quarterly Reports and Presentations at PUC Open Meetings
P-30634	Activities Related to Implementation of Recommendations from the Potomac Economics 2004 Reports on the Operation of the ERCOT Wholesale Electricity Market	Commission Staff Appeal of PRR 590 – Potomac Recommendation #14 – Procedures to Monitor QSE Reserve Obligations in Real-time – System Changes and Cost to design and installation of monitoring equipment in ERCOT Control Rooms
P-31111	Rulemaking to Address Independent Market Monitor for the Wholesale Electric Market in ERCOT	Final Order Issued 04/21/06 - ERCOT to Fund IMM
D-31243	Complaint of TXU Portfolio Management Company LP and TXU Energy Retail Company LP and Against the Electric Reliability Council of Texas	08/09/06 Final Order Issued - Load Imbalance Charges
P-31416	Evaluation of Default Service for Residential Customers and Review of Rules Relating to the Price to Beat and Provider of Last Resort	07/11/06 Order Adopting - Create two different POLR small non-residential customer classifications - Automated process is in place no later than July 1, 2007
P-31575	Improvements to the ERCOT Zonal Market Design	01/19/07 ERCOT Controllable Load Pilot Summary Report
P-31600	Transition to an ERCOT Nodal Market Design	06/26/06 PUC Market Oversight Evaluation of Options PRR 307 Controllable Loads – ERCOT Project Priority List 2001 and Estimates \$500,000 - \$1,000,000
P-31852	Rulemaking Relating to Renewable Energy Amendments	12/04/06 ERCOT Filed Analysis of Transmission Alternative for Competitive Renewable Energy Zones in Texas
P-31972	Rulemaking Concerning Resource Adequacy and Market Power in the Electric Reliability Council of Texas Power Region	Potential Resource and System Impacts
D-32025	Petition of the Electric Reliability Council of Texas for Approval of Amended and Restated Bylaws	Costs for Unaffiliated Board of Directors and TAC Representative

PUC/NERC/FERC Filings - FINANCE and AUDIT Excerpt as of July 17, 2007

Docket / Project No.	Docket Description	Status
P-32100	PUC Market Oversight Activities	03/07/07 Potomac Economics Presentation (IMM Report) – ERCOT Wholesale Market Review
D-32492	Petition of the Electric Reliability Council of Texas (ERCOT) for Approval of Unaffiliated Director	06/29/06 Final Order - Costs for Unaffiliated Board of Directors
D-32573	Petition of Commission Staff to Revoke the Retail Electric Provider Certificate of Usave Energy Services, Inc.	05/15/06 ERCOT Intervened Amount due by Usave to ERCOT is \$212,202.90 11/13/06 PUC Final Order Issued
D-32574	Petition of Commission Staff to Revoke the Retail Electric Provider Certificate of Azor Energy, L.P.	08/14/06 Final Order Issued Azor owes ERCOT \$26,394.07
D-32686	Application of the Electric Reliability Council of Texas for Approval of a Nodal Market Implementation Surcharge and Request for Interim Relief	05/23/05 Final Order Issued
P-32853	Evaluation of Demand Response Programs in the Competitive Electric Market	
D-32992	Compliance Proceeding Pursuant to Final Order in Docket No. 31243 (Complaint of TXU Portfolio Management Company LP; and TXU Energy Retail Company LP and Against the Electric Reliability Counsel of Texas)	02/28/07 Order - ERCOT Ordered to Re-settle see TXU Complaint Docket No. 31243
D-33047	Notice of Violation and Settlement Agreement Relating to FPL Energy Power Marketing Inc.'s Violation of PURA §39.151(j) and PUC Subst. R. §25.503(f)(2); Relating to Failure to Adhere to ERCOT Protocols §6.5.4(1) and §6.5.4(7) Concerning Responsive Reserve Service	09/08/06 Final Order – FPL Energy to Pay ERCOT \$2,287
P-33049	PUC Rulemaking Proceeding to Amend Commission Subst. R. §25.88 Retail Market Performance Measures Reporting	Potential Resource and System Impacts
D-33177	Notice of Violation and Settlement Agreement Relating to Constellation Energy Commodities Group, Inc.'s Violation of PURA §39.151(j) and PUC Subst. R. §25.503(f)(2); Relating to Failure to Adhere to ERCOT Protocols 6.5.4(1) and 6.5.4(7) Concerning Responsive Reserve Service	10/13/06 Final Order – Constellation to Pay ERCOT \$1,103
D-33183	Petition of the Electric Reliability Council of Texas (ERCOT) for Approval of Unaffiliated Director (Jan L. Newton)	12/15/06 Order of Approval - Costs for Unaffiliated Board of Directors
D-33185	Petition of the Electric Reliability Council of Texas (ERCOT) for Approval of Re-election of Unaffiliated Director (Mark Armentrout)	12/15/06 Order of Approval - Costs for Unaffiliated Board of Directors
D-33416	Constellation NewEnergy's Appeal and Complaint of ERCOT Decision to Approve PRR 676, PRR 674 and Request for Expedited Relief	04/13/07 Final Order
P-33457	PUC Rulemaking Concerning a Demand-Response Program for ERCOT Emergency Conditions	Potential Resource and System
P-33490	Rulemaking Proceeding to Amend 25.502 Pricing Safeguards in Markets Operated by the Electric Reliability Council of Texas	(Project 31972 Pending 3 rd Court of Appeals) Potential Resource and System Impacts
D-33491	Petition of Staff of Public Utility Commission of Texas to Revoke Retail Electric Provider Certificate No. 10078 of Freedom Group, LLC, d/b/a Freedom Power	Parties in Settlement Discussions

PUC/NERC/FERC Filings - FINANCE and AUDIT Excerpt as of July 17, 2007

Docket / Project No.	Docket Description	Status
P-33492	Rulemaking Relating to the Target for Renewable Energy Resources other than Wind Power	Potential Resource and System Impacts
P-33495	Rulemaking Project to Amend Rule Relating to the Independent Market Monitor for ERCOT	04/10/07 Order Adopting - Potential Resource and System Impacts
D-33500	Complaint of Constellation Commodities Group, Inc. Against the Electric Reliability Council of Texas	ERCOT Calculation of Constellation's RPRS Under-Scheduling Settlement Charges Questioned
D-33672	Commission Staff's Petition for Designation of Competitive Renewable Energy Zones	Potential Resource and System Impacts
D-33687	Entergy Gulf States, Inc.'s Transition to Competition Plan	Potential Resource and System Impacts – if EGSI Joins the ERCOT Region Case Abated – Hearing Resumes 07/25-27/07
P-34019	PUC Request for Proposals for a Workforce Analysis of the Electric Reliability Council of Texas	Eight Companies have submitted responses to PUC's Request for Proposal
P-34039	Rulemaking to Amend PUC SUBST. R. §25.107 Relating to Certification of Retail Electric Providers	Potential Resource and System Impacts
P-34108	Commission Staff's Requests for Qualifications Pursuant to PUC SUBST. R. §25.174(c) (to Construct Transmission Lines from the Designated CREZ)	Potential Resource and System Impacts
P-34202	Rulemaking to Repeal Subst. R. §25.53 and §25.51 and Adopting New Rule Relating to Emergency Operations Plans Under New Chapter 29	Potential Resource and System Impacts
D-34427	Petition of the Electric Reliability Council of Texas for Approval of Amended and Restated Bylaws	07/21/07 Petition Filed – TRE Included in Amended Bylaws
NERC	FERC Docket No. RR07-1-000 – Texas Regional Entity (TRE) Delegation Agreement with NERC Electric Reliability Organization (ERO)	