



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 168
October 16, 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) (09/18/07)	C. Karnei	8:00am
	For discussion	2b. Review draft of 2008 internal audit plan	B. Wullenjohn	
	For discussion	2c. Internal Audit status report	B. Wullenjohn	
	Informative	2d. EthicsPoint update	B. Wullenjohn	
		Adjourn to Open Session		
3.	Decision required	Approval of general session minutes (Vote) (09/18/07)	C. Karnei	8:30am
4.	Decision required	Review and approval of standard guarantee and letter of credit agreement modification(s) (Vote)	S. Vincent	8:31am
5.	For discussion	Update on ERCOT ERM program	P. DiPastena	8:35am
6.	Informative	Quarterly investment performance update	S. Byone	9:05am
7.	Informative	Review of PwC non audit fees - 2008 subscription renewal	M. Petterson	9:10am
8.	For discussion	Texas RE/ISO independence discussion	L. Grimm/ S. Byone	9:15am
9.	Informative	Committee Briefs (Q&A only)	All	9:30am
10.	Informative	Future agenda items	S. Byone	9:40am
		Adjourn ISO meeting		9:45am

*** 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, November 13, 2007, 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 09/18/07

Draft MINUTES OF THE ERCOT ISO FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:30 A.M.

September 18, 2007

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 8:30 A.M. on **September 18, 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	Present
William Taylor	Calpine Corporation	Ind. Generator	Not Present
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Bob Helton	International Power America	Ind. Generator	Not Present
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present

ERCOT staff and guests present:

Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Doolin, Estrellita	ERCOT
Frederick, Neal	PUCT
Gallo, Andrew	ERCOT
Garcia, Diana	Maxwell, Locke & Ritter
Hancock, Misti	ERCOT
Kahn, Bob	ERCOT
Kolodzies, Eddie	Customized Energy Solutions
Petterson, Mike	ERCOT
Porter, Lea Anne	ERCOT
Tietjen, Darryl	PUCT
Troxell, David	ERCOT
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT
Wullenjohn, William	ERCOT
Zimmerhanel, A. J.	Maxwell, Locke & Ritter

Executive Session

At 8:31 A.M., the Committee meeting was adjourned and the Committee went into Executive Session until 9:02 A.M., 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 August 21, 2007; Nick Fehrenbach seconded the motion. The motion passed unanimously.

Acceptance of 401k Savings Plan Audit Report

Representatives of Maxwell Locke & Ritter LLP (MLR) briefed the Committee on the results of the annual audit of ERCOT's 401k Savings Plan. A. J. Zimmerhanzel reported that they had issued a standard report, with no issues identified. The Committee discussed the report and the 401(k) Savings Plan financials with the MLR representatives.

Miguel Espinosa made a motion to recommend the Board accept the 2006 audited financial statements for ERCOT's 401(k) Savings Plan as presented by Maxwell, Locke & Ritter, LLP.; Michehl Gent seconded the motion. The motion passed unanimously.

Update on Third-Party Credit Review

Cheryl Yager informed the Committee that Oliver Wyman had signed a contract with ERCOT and started work. Ms. Yager noted that an open workshop would be held with Credit Work Group members and other interested market participants tomorrow, Wednesday September 19th to obtain input on the Credit Scoring component of the model. She noted that another market participant workshop was planned for late October or early November to obtain input from the market on aspects of the other modules of the model. Ms. Yager also explained that a Steering Committee (comprised of Steve Byone, Cheryl Yager, Betty Day, and Morgan Davies) had been created to monitor and review results from the project. Ms. Yager informed the Committee that she would participate in a workshop next week (organized by the Public Utility Commission of Texas in connection with its rule-making process) to provide information about how ERCOT handles credit issues involving entities with more than one million customers.

Update on 2007 Financial Forecast

Misti Hancock distributed and reviewed a document entitled Year-End 2007 Financial Projection with the Committee. She noted that the favorable variance of approximately \$4.2 million was primarily due to uncertainty related to the Texas Nodal Market Implementation Program when the 2007 budget was developed. Steve Byone explained that some expenses previously allocated to cover Nodal-related expenses were credited back to base operations after the Nodal fee was approved.

Committee Briefs (Q&A only)

Committee members were provided written reports with information for the following areas:

1. Market Credit
2. Internal Control Management Program (ICMP)
3. Enterprise Risk Management (ERM)

4. Project Management Organization (PMO)

Recommendation of 2008 Budget

Committee discussed the budget status and affirmed its recommendation that the Board adopt the budget as it was presented during the Board of Directors meeting held August 21, 2007.

Future Agenda Items

Steve Byone noted that in October, staff would bring the Market Participant Guarantee Agreements and Letter of Credit form to the Committee for proposed very slight modifications, to conform to the new Standard Form Agreements. Other future agenda items include: standing Internal Audit status report(s); review of Credit Work Group matters; update on ERM program; and Committee Briefs.

Mr. Byone also proposed removing from future Board meeting materials the PUC/NERC/FERC Filings Report. The Committee confirmed that the removing this report from the meeting materials was acceptable and that a member would notify Mr. Byone if they desired to reinstate this Report.

Adjournment

At 9:45 A.M. the Committee meeting was adjourned.

The next regular Committee meeting will be held on the morning of Tuesday, October 16, 2007.

Susan Vincent, Secretary

Modifications to accommodate the new single Standard Form Market Participant Agreement to the following:

- Standard market participant guarantee agreement
- Standard market participant foreign guarantee agreement
- Standard market participant letter of credit



Date: October 9, 2007
To: ERCOT ISO Board of Directors
From: Clifton Karnei, Chair, Finance & Audit Committee
Subject: Approval

Issue for the ERCOT Board of Directors

ERCOT ISO Board of Director Meeting Date:

Agenda Item No.: 11a

Issue: ERCOT staff requests the ERCOT Board of Directors (Board) approve revised versions of the ERCOT standard form guarantee and letter of credit agreements which accommodate changes due to the new single Standard Form Market Participant ("MP") Agreement for each Entity doing business with ERCOT. The standard form guarantee and letter of credit agreements incorporate all Market Participant financial obligations except Transmission Congestion Rights (TCRs), and will include Congestion Revenue Rights (CRRs), once these financial instruments begin in the Nodal market.

Background/History: ERCOT currently has the following standard form credit agreements for Market Participants: (1) QSE Guarantee Agreement for U.S. company guarantors, (2) QSE Foreign Guarantee Agreement for foreign company guarantors, (3) TCR Guarantee Agreement for U.S. company guarantors, (4) TCR Foreign Guarantee Agreement for foreign company guarantors and (5) Irrevocable and Unconditional Standby Letter of Credit ("LOC"). ERCOT would like to retain but slightly revise the LOC standard form and to have one domestic and one foreign Guarantee Agreement standard form which would cover all financial obligations of a Market Participant under its Standard Form MP Agreement. However, ERCOT will continue to use the currently approved TCR Guarantee Agreement and Foreign TCR Guarantee Agreement for any TCR activities, until TCRs are eliminated from the Nodal market. Sections 16.2.5.1.2(1) and (2) of the ERCOT Protocols require that Market Participants provide corporate guarantees and letters of credit in the standard form approved by the ERCOT Board.

The revisions are attached hereto as follows:

Exhibit A: ERCOT Market Participant Guarantee Agreement (redlined to show changes from the ERCOT QSE Guarantee Agreement approved on March 15, 2005);

Exhibit B: ERCOT Foreign Market Participant Guarantee Agreement (redlined to show changes from the ERCOT Foreign QSE Guarantee Agreement approved on March 15, 2005); and

Exhibit C: ERCOT Irrevocable and Unconditional Standby Letter of Credit (redlined to show changes from the LOC approved on March 15, 2005).



Key Factors Influencing Issue: All Market Participants must sign the new Standard Form MP Agreement by October 15, 2007. The requested changes modify the credit agreements to more correctly refer to the new Standard Form MP Agreement.

Alternatives:

1. Do nothing and continue to use the same forms. This option would not allow ERCOT's credit agreements to correctly refer to the Standard Form MP Agreement.
 2. Make different modifications to the credit agreements.
-

Conclusion/Recommendation: Approve the requested changes to the standard form Guarantee Agreements and the Irrevocable and Unconditional Standby Letter of Credit.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
ISO BOARD OF DIRECTORS RESOLUTION

WHEREAS, Board of Directors (“Board”) of Electric Reliability Council of Texas, Inc. (“ERCOT”) deems it desirable and in the best interest of ERCOT to approve revisions to the standard form Guarantee Agreement for U.S. company guarantors, the standard form Foreign Guarantee Agreement for foreign company guarantors, the standard form Irrevocable and Unconditional Standby Letter of Credit; and

THEREFORE, be it RESOLVED, that the Market Participant Guarantee Agreement, which is attached hereto as Attachment A is hereby authorized and approved in each and every respect to be accepted by ERCOT as the standard form guarantee agreement for qualified U.S. company guarantors utilized pursuant to Section 16.2.5.1.2(1) of the ERCOT Protocols; and

RESOLVED, that the Foreign Market Participant Guarantee Agreement, which is attached hereto as Attachment B is hereby authorized and approved in each and every respect to be accepted by ERCOT as the standard form guarantee agreement for qualified foreign companies utilized pursuant to Section 16.2.5.1.2(1) of the ERCOT Protocols; and

RESOLVED, that the Irrevocable and Unconditional Standby Letter of Credit, which is attached hereto as Attachment C is hereby authorized and approved in each and every respect to be accepted by ERCOT as the standard form letter of credit utilized pursuant to Section 16.2.5.1.2(2) of the ERCOT Protocols.

CORPORATE SECRETARY’S CERTIFICATE

I, _____, Assistant Corporate Secretary of ERCOT, do hereby certify that, at the _____, 200__ ERCOT ISO Board Meeting, the Board of Directors of ERCOT approved the above referenced Resolution. The Motion passed by unanimous voice vote with no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____, 200__.

Assistant Corporate Secretary



QSEMARKET PARTICIPANT GUARANTEE AGREEMENT

~~THIS-This~~ GUARANTEE (~~this~~ “*Guarantee*”) is made by the undersigned entity (“*Guarantor*”) in favor of ~~the~~ ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. (“*ERCOT*”) in consideration of ERCOT’s entering into a Standard Form Qualified Scheduling Entity Market Participant Agreement (~~the~~ “QSE “*Agreement*”) with the Qualified Scheduling Entity Market Participant identified on the signature page hereof (“QSE Participant”). Guarantor is the beneficial owner of a direct or indirect interest in QSE Participant and will directly benefit from the extension of credit to QSE Participant under the QSE Agreement.

In consideration of credit heretofore or hereafter granted by ERCOT to QSE Participant pursuant to the QSE Agreement, Guarantor hereby unconditionally, absolutely and irrevocably guarantees to ERCOT the due and punctual payment of any and all amounts which QSE Participant may now or in the future owe ERCOT under the QSE Agreement, ~~including, but not limited to, of usage charges, grid management charges, grid operations charge, ancillary services fees, congestion management fees and wheeling charges~~ pursuant to the ERCOT Protocols as defined in the QSE Agreement (collectively, the “*Obligations*”). Notwithstanding the foregoing, the maximum amount for which Guarantor shall be liable hereunder shall not exceed \$_____, plus Expenses (as defined below); provided, however, that Guarantor acknowledges and agrees that if QSE’s Participant’s required creditworthiness limit exceeds such amount at any time, and if ERCOT provides notice to QSE Participant and Guarantor of such fact, ERCOT may require that, if the QSE Agreement is to continue, the amount of Obligations guaranteed hereby be increased to an amount required by the QSE Agreement and the ERCOT Protocols. Guarantor is liable for the full payment of the Obligations, subject to the immediately preceding sentence, as a primary obligor. This is a continuing guarantee for payment and not of collection.

If QSE Participant defaults in the punctual payment of any of the Obligations, Guarantor shall, immediately on demand and without presentment, protest, notice of protest, notice of nonpayment, notice of intent to accelerate, notice of acceleration or any other notice whatsoever (all of which are expressly waived), pay the amount due thereon (subject to the foregoing limitation) to ERCOT.

The obligations of Guarantor hereunder are absolute and unconditional irrespective of (i) the invalidity or unenforceability of the QSE Agreement, (ii) the bankruptcy or insolvency of QSE Participant, (iii) any claim for setoff or any defense which QSE Participant could assert on the Obligations, including, without limitation, force majeure, breach of warranty, and fraud, (iv) any substitution, release or exchange of any other guaranty of or security for any of the Obligations, (v) the existence or terms of any other agreements between Guarantor and any party, including the QSE Participant, and (vi) to the fullest extent permitted by applicable law, irrespective of any other circumstances whatsoever that might otherwise constitute a legal or equitable discharge or defense of a guarantor, it being the intent of this Guarantee that the obligations of Guarantor hereunder shall be absolute and unconditional under any and all circumstances. However, with respect to any payments made by Guarantor to ERCOT under this Guarantee, Guarantor may succeed to any rights of the QSE Participant under the QSE Agreement and the ERCOT Protocols. Guarantor does not waive or release any rights of subrogation, reimbursement or contribution which Guarantor may have, after full and final payment of the Obligations, against others liable on the Obligations. Guarantor's rights of subrogation and reimbursement are subordinate in all respects to the rights and claims of ERCOT, and Guarantor may not exercise any rights it may acquire by way of subrogation under this ~~Guaranty, Guarantee,~~ by payment made hereunder or otherwise, until all of the Obligations have been fully and finally paid.

It is not necessary for ERCOT, in order to enforce Guarantor’s payment hereunder, first to proceed against QSE Participant or resort to any collateral, security or other guarantors or obligors, if any, or pursue any other remedy. Any collateral, security or obligations of any other guarantors or obligors, if

any, may be sold, released, surrendered, exchanged, settled, compromised, waived, subordinated or modified, in each case without consideration and on any terms or conditions, without notice, apart from ERCOT's initial demand under this Guarantee, or further assent from Guarantor. Guarantor's liability is several and independent of any other guarantees in effect with respect to any part of the Obligations and may be enforced regardless of the existence of any other guarantees.

Notwithstanding any other provision in this Guarantee, this Guarantee shall continue in effect or shall be reinstated if at any time payment, or any part thereof, by QSEParticipant to ERCOT with respect to any of the Obligations is rescinded, or must otherwise be repaid by ERCOT as a result of bankruptcy or reorganization of QSEParticipant.

No payment by Guarantor shall entitle Guarantor, by subrogation or otherwise, to any right against QSEParticipant, including any payment by QSEParticipant or out of property of QSEParticipant, except after the full payment and discharge of all of the Obligations. All remedies, rights, powers and privileges granted to ERCOT pursuant to this Guarantee are cumulative. The exercise of any or all such rights by ERCOT shall not reduce, limit, impair, discharge, terminate, or otherwise affect the liability of Guarantor. No failure or delay by ~~the~~ ERCOT in exercising any remedy, right, power or privilege pursuant to this Guarantee shall operate as a waiver, and any such remedy, right, power or privilege may be exercised by ERCOT at any time. No partial exercise of any such rights shall preclude further exercise or the exercise of any other remedy, right, power or privilege. No notice or demand by ERCOT upon Guarantor or any other guarantor of the Obligations shall preclude ERCOT from taking further action without notice or demand.

Guarantor hereby expressly waives any and all rights to which it may be entitled by virtue of the laws of the State of Texas governing suretyship and guaranties/guarantees, including, without limitation, any rights under Rule 31, Texas Rules of Civil Procedure, Chapter 51 of the Texas Property Code, Section 17.001 of the Texas Civil Practice and Remedies Code and Chapter 34 of the Texas Business and Commerce Code, as any or all of the same may be amended or construed from time to time, or the common law of the State of Texas at all relevant times.

The term of this Guarantee shall be for a period of one (1) year, commencing on the date set forth below. Notwithstanding the foregoing, this Guarantee may be terminated by Guarantor at any time by a written notification of termination given by Guarantor to ERCOT at the address shown below. Such termination shall be effective thirty (30) days after the receipt by ERCOT of such notification of termination. Guarantor acknowledges that this Guarantee applies to all Obligations arising prior to the effective date of the termination of this Guarantee, whether by notification of termination, or by expiration of the term.

Guarantor agrees to pay to ERCOT, upon demand, all costs and expenses, including third-party attorneys' fees, that may be incurred by ERCOT in attempting to cause satisfaction of Guarantor's liability under this Guarantee ("*Expenses*").

For purposes of giving any notices hereunder, the addresses, telephone numbers, and facsimile numbers of the parties are set forth on the signature page of this Guarantee.

This Guarantee shall bind the heirs, personal representatives, successors and assigns of Guarantor and shall inure to the benefit of ERCOT, its successors and assigns.

No modification of this Guarantee or waiver shall be valid unless in writing and signed by ERCOT and Guarantor and then only to the extent specifically set forth in such writing.

This Guarantee shall be governed by, and constructed in accordance with, the laws of the State of Texas, without regard to any rule or provision on conflict of laws.

This Guarantee supersedes and terminates any prior guarantee to ERCOT by Guarantor on behalf of the QSEParticipant.

QSEParticipant: _____
[Name of QSEParticipant]
a _____
[Type of entity/jurisdiction of organization]

Date of QSEStandard Form Market Participant Agreement: _____, 200__.

EXECUTED by GUARANTOR this ____ day of _____, 200__:

[Name of Guarantor]
a _____
[Type of entity/jurisdiction of organization]

Address: _____

Telephone: _____
Facsimile: _____

By: _____
Name: _____
Title: _____

ACCEPTED by ERCOT this ____ day of _____, 200__:

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Address: 7620 Metro Center Drive
Austin, Texas 78744
[For notice and payment]

By: _____
Name: _____
Title: _____

Telephone: _____
Facsimile: 512.225.7020



ERCOT FOREIGN QSE MARKET PARTICIPANT GUARANTEE AGREEMENT

~~THIS~~ This GUARANTEE (~~this~~ “*Guarantee*”) is made by the undersigned entity (“*Guarantor*”) in favor of ~~the~~ ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. (“*ERCOT*”) in consideration of ERCOT’s entering into a Standard Form Qualified Scheduling Entity Market Participant Agreement (~~the~~ “QSE Agreement”) with the Qualified Scheduling Entity Market Participant identified on the signature page hereof (“QSE Participant”). Guarantor is the beneficial owner of a direct or indirect interest in QSE Participant and will directly benefit from the extension of credit to QSE Participant under the QSE Agreement.

In consideration of credit heretofore or hereafter granted by ERCOT to QSE Participant pursuant to the QSE Agreement, Guarantor hereby unconditionally, absolutely and irrevocably guarantees to ERCOT the due and punctual payment of any and all amounts which QSE Participant may now or in the future owe ERCOT under the QSE Agreement, ~~including, but not limited to, of usage charges, grid management charges, grid operations charge, ancillary services fees, congestion management fees and wheeling charges~~ pursuant to the ERCOT Protocols as defined in the QSE Agreement (collectively, the “*Obligations*”). Notwithstanding the foregoing, the maximum amount for which Guarantor shall be liable hereunder shall not exceed \$ _____, plus Expenses (as defined below); provided, however, that Guarantor acknowledges and agrees that if QSE’s Participant’s required creditworthiness limit exceeds such amount at any time, and if ERCOT provides notice to QSE Participant and Guarantor of such fact, ERCOT may require that, if the QSE Agreement is to continue, the amount of Obligations guaranteed hereby be increased to an amount required by the QSE Agreement and the ERCOT Protocols. Guarantor is liable for the full payment of the Obligations, subject to the immediately preceding sentence, as a primary obligor. This is a continuing guarantee for payment and not of collection.

If QSE Participant defaults in the punctual payment of any of the Obligations, Guarantor shall, immediately on demand and without presentment, protest, notice of protest, notice of nonpayment, notice of intent to accelerate, notice of acceleration or any other notice whatsoever (all of which are expressly waived), pay the amount due thereon (subject to the foregoing limitation) to ERCOT.

The obligations of Guarantor hereunder are absolute and unconditional irrespective of (i) the invalidity or unenforceability of the QSE Agreement, (ii) the bankruptcy or insolvency of QSE Participant, (iii) any claim for setoff or any defense which QSE Participant could assert on the Obligations, including, without limitation, force majeure, breach of warranty, and fraud, (iv) any substitution, release or exchange of any other guaranty of or security for any of the Obligations, (v) the existence or terms of any other agreements between Guarantor and any party, including the QSE Participant, and (vi) to the fullest extent permitted by applicable law, irrespective of any other circumstances whatsoever that might otherwise constitute a legal or equitable discharge or defense of a guarantor, it being the intent of this Guarantee that the obligations of Guarantor hereunder shall be absolute and unconditional under any and all circumstances. However, with respect to any payments made by Guarantor to ERCOT under this Guarantee, Guarantor may succeed to any rights of the QSE Participant under the QSE Agreement and the ERCOT Protocols. Guarantor does not waive or release any rights of subrogation, reimbursement or contribution which Guarantor may have, after full and final payment of the Obligations, against others liable on the Obligations. Guarantor's rights of subrogation and reimbursement are subordinate in all respects to the rights and claims of ERCOT, and Guarantor may not exercise any rights it may acquire by way of subrogation under this ~~Guaranty, Guarantee,~~ by payment made hereunder or otherwise, until all of the Obligations have been fully and finally paid.

It is not necessary for ERCOT, in order to enforce Guarantor’s payment hereunder, first to proceed against QSE Participant or resort to any collateral, security or other guarantors or obligors, if any, or pursue any other remedy. Any collateral, security or obligations of any other guarantors or obligors, if

any, may be sold, released, surrendered, exchanged, settled, compromised, waived, subordinated or modified, in each case without consideration and on any terms or conditions, without notice, apart from ERCOT's initial demand under this Guarantee, to or further assent from Guarantor. Guarantor's liability is several and independent of any other guarantees in effect with respect to any part of the Obligations and may be enforced regardless of the existence of any other guarantees.

Notwithstanding any other provision in this Guarantee, this Guarantee shall continue in effect or shall be reinstated if at any time payment, or any part thereof, by QSEParticipant to ERCOT with respect to any of the Obligations is rescinded, or must otherwise be repaid by ERCOT as a result of bankruptcy or reorganization of QSEParticipant.

No payment by Guarantor shall entitle Guarantor, by subrogation or otherwise, to any right against QSEParticipant, including any payment by QSEParticipant or out of property of QSEParticipant, except after the full payment and discharge of all of the Obligations. All remedies, rights, powers and privileges granted to ERCOT pursuant to this Guarantee are cumulative. The exercise of any or all such rights by ERCOT shall not reduce, limit, impair, discharge, terminate, or otherwise affect the liability of Guarantor. No failure or delay by ~~the~~ ERCOT in exercising any remedy, right, power or privilege pursuant to this Guarantee shall operate as a waiver, and any such remedy, right, power or privilege may be exercised by ERCOT at any time. No partial exercise of any such rights shall preclude further exercise or the exercise of any other remedy, right, power or privilege. No notice or demand by ERCOT upon Guarantor or any other guarantor of the Obligations shall preclude ERCOT from taking further action without notice or demand.

Guarantor hereby expressly waives any and all rights to which it may be entitled by virtue of the laws of the State of Texas governing suretyship and guaranties/guarantees, including, without limitation, any rights under Rule 31, Texas Rules of Civil Procedure, Chapter 51 of the Texas Property Code, Section 17.001 of the Texas Civil Practice and Remedies Code and Chapter 34 of the Texas Business and Commerce Code, as any or all of the same may be amended or construed from time to time, or the common law of the State of Texas at all relevant times.

The term of this Guarantee shall be for a period of one (1) year, commencing on the date set forth below. Notwithstanding the foregoing, this Guarantee may be terminated by Guarantor at any time by a written notification of termination given by Guarantor to ERCOT at the address shown below. Such termination shall be effective thirty (30) days after the receipt by ERCOT of such notification of termination. Guarantor acknowledges that this Guarantee applies to all Obligations arising prior to the effective date of the termination of this Guarantee, whether by notification of termination, or by expiration of the term.

Guarantor agrees to pay to ERCOT, upon demand, all costs and expenses, including third-party attorneys' fees, that may be incurred by ERCOT in attempting to cause satisfaction of Guarantor's liability under this Guarantee ("**Expenses**").

For purposes of giving any notices hereunder, the addresses, telephone numbers, and facsimile numbers of the parties and the Guarantor's email address are set forth on the signature page of this Guarantee. Such information regarding a party may be changed by such party by written notice to the other party. In addition, Guarantor shall maintain, at all times, a registered agent in Texas. Guarantor's registered agent in Texas is set forth on the signature page of this Guarantee, and Guarantor shall provide ERCOT with written notification of any change of its registered agent or the address thereof.

This Guarantee shall bind the heirs, personal representatives, successors and assigns of Guarantor and shall inure to the benefit of ERCOT, its successors and assigns.

No modification of this Guarantee or waiver shall be valid unless in writing and signed by ERCOT and Guarantor and then only to the extent specifically set forth in such writing.

All references in this Guarantee to sums denominated in dollars or with the symbol "\$" refer to the lawful currency of the United States of America. If, for the purposes of obtaining or enforcing judgment against Guarantor in any court in any jurisdiction in connection with this Guarantee, it becomes necessary to convert into any other currency (such other currency being referred to as the "**Judgment Currency**") an amount due in any currency (~~the~~ "**Obligation Currency**") other than the Judgment Currency under this Guarantee, the conversion shall be made at the rate of exchange prevailing on the business day immediately preceding the date of actual payment of the amount due, in the case of any proceeding in the courts of the State of Texas or in the courts of any other jurisdiction that would give effect to such conversion being made on such date, or, the date on which the judgment is given, in the case of any proceeding in the courts of any other jurisdiction (the applicable date as of which such conversion is made pursuant to this paragraph being hereinafter referred to as the "**Judgment Conversion Date**"). If, in the case of any proceeding in the court of any jurisdiction referred to in the preceding sentence, there is a change in the rate of exchange prevailing between the Judgment Conversion Date and the date of actual receipt for value of the amount due, Guarantor shall pay such additional amount (if any and in any event not a lesser amount) as may be necessary to ensure that the amount actually received in the Judgment Currency, when converted at the rate of exchange prevailing on the date of payment, will produce the amount of the Obligation Currency which could have been purchased with the amount of the Judgment Currency stipulated in the judgment or judicial order at the rate of exchange prevailing on the Judgment Conversion Date.

This Guarantee shall be governed by, and constructed in accordance with, the laws of the State of Texas, without regard to any rule or provision on conflict of laws.

Any dispute relating in any manner to this Guarantee shall be resolved through binding arbitration. Arbitration proceedings shall be conducted pursuant to the International Arbitration Rules of the American Arbitration Association (AAA) in effect at the time the dispute first arises by one (1) or three (3) arbitrator(s) appointed in accordance with such Rules within ten (10) calendar days of submission of the dispute. The number of arbitrators forming the arbitral panel shall be mutually agreed upon by the parties, but if they cannot agree, then the AAA shall determine same. The arbitration shall be held in such city as is agreed upon by the parties, but if they cannot agree, then such arbitration shall be held in Austin, State of Texas, United States of America. The arbitration shall be conducted simultaneously in English and in the primary language of Guarantor. The English version of this Guarantee shall be the controlling document in the arbitration proceeding. The procedural laws of the civil district courts of the State of Texas, U.S.A. shall govern the arbitral proceeding regardless of the situs of the arbitration. The arbitral panel shall set a limited time period and establish procedures designed to reduce the cost and time for discovery, while allowing the parties an adequate opportunity, in the discretion of the arbitral panel, to discover relevant information from opposing parties about the subject matter of the dispute. The arbitral panel shall award actual damages to the prevailing party, but may not award any special, indirect, punitive or consequential damages nor reasonable attorneys fees and arbitration costs to either party. The arbitral award shall fully and finally settle the dispute. Recognition and enforcement of the arbitral award shall be governed by the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Judgment upon the award may be entered in any court in any country, or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the law of such jurisdiction may require or allow. Each party shall bear its own costs and fees, including, but not limited to its share of any arbitration fees, unless otherwise ordered by the arbitrator(s).

BY AGREEING TO BINDING ARBITRATION, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM. FURTHERMORE, WITHOUT INTENDING IN ANY WAY TO LIMIT THIS AGREEMENT TO ARBITRATE, TO THE EXTENT ANY CLAIM IS NOT ARBITRATED, THE

PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF SUCH CLAIM. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THIS GUARANTEE.

This Guarantee supersedes and terminates any prior guarantee to ERCOT by Guarantor on behalf of the QSEParticipant.

QSEParticipant: _____
[Name of QSEParticipant]
a _____
[Type of entity/jurisdiction of organization]

Date of QSEStandard Form Market Participant Agreement: _____, 200__.

EXECUTED by GUARANTOR this ___ day of _____, 200__:

[Name of Guarantor]

Address: _____

a _____
[Type of entity/jurisdiction of organization]

Telephone: _____
Facsimile: _____
Email Address: _____

By: _____
Name: _____
Title: _____

Guarantor's Registered Agent in Texas:

Name: _____
Address: _____

Attest: _____
Name: _____
Title: _____

ACCEPTED by ERCOT this ___ day of _____, 200__:

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Address: 7620 Metro Center Drive
Austin, Texas 78744
[For notice and payment]

By: _____
Name: _____
Title: _____

Telephone: _____
Facsimile: 512.225.7020



**IRREVOCABLE AND UNCONDITIONAL
STANDBY LETTER OF CREDIT**

~~Qualified Scheduling Entity (QSE)~~ Market Participant Applicant:

Amount:

Expiration Date:

Date of Issuance:

Electric Reliability Council of Texas, Inc. (ERCOT)

7620 Metro Center Drive

Austin, Texas 78744

Attn: Finance

To Whom It May Concern:

We hereby establish in your favor, effective immediately, our ~~irrevocable~~ Irrevocable and Unconditional Standby Letter of Credit ~~no.~~ No. _____ (“Letter of Credit”) which is available for payment upon your advice of demand to the attention of _____ by telephone at _____, or by fax at _____ and presentation to us by fax of: (i) your written demand for payment containing the text of Exhibit I and (ii) your statement containing the text of Exhibit II.

Funds may be drawn under this Letter of Credit, from time to time, in one or more drawings, in amounts not exceeding in the aggregate the amount specified above.

Upon presentation to us in conformity with the foregoing, we will, not later than the close of business on the next banking day after such presentation, but without any other delay whatsoever, irrevocably and without reserve or condition issue payment instructions to the Federal Reserve wire transfer system in proper form to transfer to the account at the bank designated by you in the demand, the full amount demanded by you in the same-day funds which are immediately available to you in Austin, Texas. We agree that if, on the expiration date of this Letter of Credit, the office specified above is not open for business, this Letter of Credit will be duly honored if the specified statements are presented by you within three (3) full banking days after such office is reopened for business.

Payment hereunder shall be made regardless of: (a) any written or oral direction, request, notice or other communication now or hereafter received by us from the ~~QSE~~ Market Participant Applicant or any other person except you, including without limitation any communication regarding fraud, forgery, lack of authority or other defect not apparent on the face of the documents presented by you, but excluding solely an effective written order issued otherwise than at our instance by a court of competent jurisdiction which order is legally binding upon us and specifically orders us not to make such payment; (b) the solvency, existence or condition, financial or other, of the ~~QSE~~ Market Participant Applicant or any other person or property from whom or which we may be entitled to reimbursement for such payment; and (c) without limiting clause (b) above, whether we are in receipt of or expect to receive funds or other property as reimbursement in whole or in part for such payment. We agree that we will not take any action to cause the issuance of an order described in clause (a) of the preceding sentence. We agree that the time set forth herein for payment of any demand(s) for payment is sufficient to enable us to examine such demand(s) and the related documents(s) referred to above with care so as to ascertain that on their face they appear to comply with the terms of this Letter of Credit and that if such demand(s) and document(s) on their face

appear to so comply, failure to make any such payment within such time shall constitute dishonor of such demand(s) and this Letter of Credit.

The stated amount of this Letter of Credit may be increased or decreased, and the expiration date of this Letter of Credit may be extended, by an amendment to this Letter of Credit in the form of Exhibit III. Any such amendment shall become effective only upon acceptance by your signature on a hard copy amendment.

You shall not be bound by any written or oral agreement of any type between us and the QSEMarket Participant Applicant or any other person relating to this Letter of Credit, whether now or hereafter existing.

We hereby engage with you that your demand(s) for payment in conformity with the terms of this Letter of Credit will be duly honored as set forth above. All fees and other costs associated with the issuance of and any drawing(s) against this Letter of Credit shall be for the account of the QSEMarket Participant Applicant. All of the rights of ERCOT set forth above shall inure to the benefit of your successors. In this connection, in the event of a drawing made by a party other than ERCOT, such drawing must be accompanied by the following signed certification:

“The undersigned does hereby certify that _____ [drawer] _____ is the successor by operation of law to ERCOT, a beneficiary named in [nameName of Bank] Letter of Credit ~~no~~No. _____ and we attach herewith copies of official documents proving our legal status as successor.

_____ [nameName and titleTitle]

Except so far as otherwise expressly stated herein, this Irrevocable and Unconditional Standby Letter of Credit is subject to the “Uniform Customs and Practices for Documentary Credits²²,” International Chamber of Commerce, in effect on the date of issuance of this Letter of Credit.

Yours faithfully,

~~(name of issuing bank)~~

By _____

(Name of Issuing Bank)

By: _____

Title: _____

EXHIBIT I

DEMAND FOR PAYMENT

Re: Irrevocable and Unconditional Standby Letter of Credit

No. _____ Dated: _____, _____

To Whom It May Concern:

Demand is hereby made upon you for payment to us of \$_____ by deposit to our account no. _____ at [~~insert name~~Name of ~~bank~~Bank]. This demand is made under, and is subject to and governed by, your Irrevocable and Unconditional Standby Letter of Credit ~~no.~~No. _____ dated _____, _____ in the amount of \$-_____ established by you in our favor for the account of _____ as the ~~QSE~~Market Participant Applicant.

DATED: _____, _____.

Electric Reliability Council of Texas, Inc.

_____ By _____

_____ By: _____

Title: _____

EXHIBIT II

STATEMENT

Re: Irrevocable and Unconditional Standby Letter of Credit
No. _____ Dated: _____, _____

To Whom It May Concern:

Reference is made to your Irrevocable and Unconditional Standby Letter of Credit ~~no.~~No. _____ dated _____, _____ in the amount of \$_____ established by you in our favor for the account of _____.

We hereby certify to you that \$_____ is due and owing to us by the QSEMarket Participant Applicant, under and in accordance with the ERCOT Protocols.

DATED: _____, _____.

Electric Reliability Council of Texas, Inc.

By _____

By: _____

Title: _____

**EXHIBIT III
AMENDMENT**

Re: Irrevocable and Unconditional Standby Letter of Credit

No. _____ Dated: _____, _____

Beneficiary:

OSE Market Participant Applicant:

Electric Reliability Council of Texas, Inc. (ERCOT)
7620 Metro Center Drive
Austin, Texas 78744
Attn: Finance

[Name and Address]

To Whom It May Concern:

The above referenced Irrevocable and Unconditional Standby Letter of Credit is hereby amended as follows: by increasing / decreasing / leaving unchanged (*strike two*) the stated amount by \$_____ to a new stated amount of \$_____ or by extending the expiration date to _____ from _____. All other terms and conditions of the Irrevocable and Unconditional Letter of Credit remain unchanged.

This amendment is effective only when accepted by ERCOT, which acceptance may only be valid by a signature of an authorized representative.

Dated: _____

Yours faithfully,

_____ [name of issuing bank]

By _____ [Name of

Issuing Bank]

By: _____

Title: _____

ACCEPTED:

Electric Reliability Council of Texas, Inc.

By: _____

Title: _____

Date: _____



MARKET PARTICIPANT GUARANTEE AGREEMENT

This GUARANTEE ("*Guarantee*") is made by the undersigned entity ("*Guarantor*") in favor of ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. ("*ERCOT*") in consideration of ERCOT's entering into a Standard Form Market Participant Agreement ("*Agreement*") with the Market Participant identified on the signature page hereof ("*Participant*"). Guarantor is the beneficial owner of a direct or indirect interest in Participant and will directly benefit from the extension of credit to Participant under the Agreement.

In consideration of credit heretofore or hereafter granted by ERCOT to Participant pursuant to the Agreement, Guarantor hereby unconditionally, absolutely and irrevocably guarantees to ERCOT the due and punctual payment of any and all amounts which Participant may now or in the future owe ERCOT under the Agreement, and pursuant to the ERCOT Protocols as defined in the Agreement (collectively, the "*Obligations*"). Notwithstanding the foregoing, the maximum amount for which Guarantor shall be liable hereunder shall not exceed \$_____, plus Expenses (as defined below); provided, however, that Guarantor acknowledges and agrees that if Participant's required creditworthiness limit exceeds such amount at any time, and if ERCOT provides notice to Participant and Guarantor of such fact, ERCOT may require that, if the Agreement is to continue, the amount of Obligations guaranteed hereby be increased to an amount required by the Agreement and the ERCOT Protocols. Guarantor is liable for the full payment of the Obligations, subject to the immediately preceding sentence, as a primary obligor. This is a continuing guarantee for payment and not of collection.

If Participant defaults in the punctual payment of any of the Obligations, Guarantor shall, immediately on demand and without presentment, protest, notice of protest, notice of nonpayment, notice of intent to accelerate, notice of acceleration or any other notice whatsoever (all of which are expressly waived), pay the amount due thereon (subject to the foregoing limitation) to ERCOT.

The obligations of Guarantor hereunder are absolute and unconditional irrespective of (i) the invalidity or unenforceability of the Agreement, (ii) the bankruptcy or insolvency of Participant, (iii) any claim for setoff or any defense which Participant could assert on the Obligations, including, without limitation, force majeure, breach of warranty, and fraud, (iv) any substitution, release or exchange of any other guaranty of or security for any of the Obligations, (v) the existence or terms of any other agreements between Guarantor and any party, including the Participant, and (vi) to the fullest extent permitted by applicable law, irrespective of any other circumstances whatsoever that might otherwise constitute a legal or equitable discharge or defense of a guarantor, it being the intent of this Guarantee that the obligations of Guarantor hereunder shall be absolute and unconditional under any and all circumstances. However, with respect to any payments made by Guarantor to ERCOT under this Guarantee, Guarantor may succeed to any rights of the Participant under the Agreement and the ERCOT Protocols. Guarantor does not waive or release any rights of subrogation, reimbursement or contribution which Guarantor may have, after full and final payment of the Obligations, against others liable on the Obligations. Guarantor's rights of subrogation and reimbursement are subordinate in all respects to the rights and claims of ERCOT, and Guarantor may not exercise any rights it may acquire by way of subrogation under this Guarantee, by payment made hereunder or otherwise, until all of the Obligations have been fully and finally paid.

It is not necessary for ERCOT, in order to enforce Guarantor's payment hereunder, first to proceed against Participant or resort to any collateral, security or other guarantors or obligors, if any, or pursue any other remedy. Any collateral, security or obligations of any other guarantors or obligors, if any, may be sold, released, surrendered, exchanged, settled, compromised, waived, subordinated or modified, in each case without consideration and on any terms or conditions, without notice, apart from ERCOT's initial demand under this Guarantee, or further assent from Guarantor. Guarantor's liability is several and

independent of any other guarantees in effect with respect to any part of the Obligations and may be enforced regardless of the existence of any other guarantees.

Notwithstanding any other provision in this Guarantee, this Guarantee shall continue in effect or shall be reinstated if at any time payment, or any part thereof, by Participant to ERCOT with respect to any of the Obligations is rescinded, or must otherwise be repaid by ERCOT as a result of bankruptcy or reorganization of Participant.

No payment by Guarantor shall entitle Guarantor, by subrogation or otherwise, to any right against Participant, including any payment by Participant or out of property of Participant, except after the full payment and discharge of all of the Obligations. All remedies, rights, powers and privileges granted to ERCOT pursuant to this Guarantee are cumulative. The exercise of any or all such rights by ERCOT shall not reduce, limit, impair, discharge, terminate, or otherwise affect the liability of Guarantor. No failure or delay by ERCOT in exercising any remedy, right, power or privilege pursuant to this Guarantee shall operate as a waiver, and any such remedy, right, power or privilege may be exercised by ERCOT at any time. No partial exercise of any such rights shall preclude further exercise or the exercise of any other remedy, right, power or privilege. No notice or demand by ERCOT upon Guarantor or any other guarantor of the Obligations shall preclude ERCOT from taking further action without notice or demand.

Guarantor hereby expressly waives any and all rights to which it may be entitled by virtue of the laws of the State of Texas governing suretyship and guarantees, including, without limitation, any rights under Rule 31, Texas Rules of Civil Procedure, Chapter 51 of the Texas Property Code, Section 17.001 of the Texas Civil Practice and Remedies Code and Chapter 34 of the Texas Business and Commerce Code, as any or all of the same may be amended or construed from time to time, or the common law of the State of Texas at all relevant times.

The term of this Guarantee shall be for a period of one (1) year, commencing on the date set forth below. Notwithstanding the foregoing, this Guarantee may be terminated by Guarantor at any time by a written notification of termination given by Guarantor to ERCOT at the address shown below. Such termination shall be effective thirty (30) days after the receipt by ERCOT of such notification of termination. Guarantor acknowledges that this Guarantee applies to all Obligations arising prior to the effective date of the termination of this Guarantee, whether by notification of termination, or by expiration of the term.

Guarantor agrees to pay to ERCOT, upon demand, all costs and expenses, including third-party attorneys' fees, that may be incurred by ERCOT in attempting to cause satisfaction of Guarantor's liability under this Guarantee ("*Expenses*").

For purposes of giving any notices hereunder, the addresses, telephone numbers, and facsimile numbers of the parties are set forth on the signature page of this Guarantee.

This Guarantee shall bind the heirs, personal representatives, successors and assigns of Guarantor and shall inure to the benefit of ERCOT, its successors and assigns.

No modification of this Guarantee or waiver shall be valid unless in writing and signed by ERCOT and Guarantor and then only to the extent specifically set forth in such writing.

This Guarantee shall be governed by, and constructed in accordance with, the laws of the State of Texas, without regard to any rule or provision on conflict of laws.

This Guarantee supersedes and terminates any prior guarantee to ERCOT by Guarantor on behalf of the Participant.

Participant: _____
[Name of Participant]
a _____
[Type of entity/jurisdiction of organization]

Date of Standard Form Market Participant Agreement: _____, 200__.

EXECUTED by GUARANTOR this _____ day of _____, 200__:

[Name of Guarantor]
a _____
[Type of entity/jurisdiction of organization]

Address: _____

Telephone: _____

Facsimile: _____

By: _____
Name: _____
Title: _____

ACCEPTED by ERCOT this _____ day of _____, 200__:

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Address: 7620 Metro Center Drive
Austin, Texas 78744
[For notice and payment]

By: _____
Name: _____
Title: _____

Telephone: _____
Facsimile: 512.225.7020



FOREIGN MARKET PARTICIPANT GUARANTEE AGREEMENT

This GUARANTEE ("*Guarantee*") is made by the undersigned entity ("*Guarantor*") in favor of ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. ("*ERCOT*") in consideration of ERCOT's entering into a Standard Form Market Participant Agreement ("*Agreement*") with the Market Participant identified on the signature page hereof ("*Participant*"). Guarantor is the beneficial owner of a direct or indirect interest in Participant and will directly benefit from the extension of credit to Participant under the Agreement.

In consideration of credit heretofore or hereafter granted by ERCOT to Participant pursuant to the Agreement, Guarantor hereby unconditionally, absolutely and irrevocably guarantees to ERCOT the due and punctual payment of any and all amounts which Participant may now or in the future owe ERCOT under the Agreement and pursuant to the ERCOT Protocols as defined in the Agreement (collectively, the "*Obligations*"). Notwithstanding the foregoing, the maximum amount for which Guarantor shall be liable hereunder shall not exceed \$ _____, plus Expenses (as defined below); provided, however, that Guarantor acknowledges and agrees that if Participant's required creditworthiness limit exceeds such amount at any time, and if ERCOT provides notice to Participant and Guarantor of such fact, ERCOT may require that, if the Agreement is to continue, the amount of Obligations guaranteed hereby be increased to an amount required by the Agreement and the ERCOT Protocols. Guarantor is liable for the full payment of the Obligations, subject to the immediately preceding sentence, as a primary obligor. This is a continuing guarantee for payment and not of collection.

If Participant defaults in the punctual payment of any of the Obligations, Guarantor shall, immediately on demand and without presentment, protest, notice of protest, notice of nonpayment, notice of intent to accelerate, notice of acceleration or any other notice whatsoever (all of which are expressly waived), pay the amount due thereon (subject to the foregoing limitation) to ERCOT.

The obligations of Guarantor hereunder are absolute and unconditional irrespective of (i) the invalidity or unenforceability of the Agreement, (ii) the bankruptcy or insolvency of Participant, (iii) any claim for setoff or any defense which Participant could assert on the Obligations, including, without limitation, force majeure, breach of warranty, and fraud, (iv) any substitution, release or exchange of any other guaranty of or security for any of the Obligations, (v) the existence or terms of any other agreements between Guarantor and any party, including the Participant, and (vi) to the fullest extent permitted by applicable law, irrespective of any other circumstances whatsoever that might otherwise constitute a legal or equitable discharge or defense of a guarantor, it being the intent of this Guarantee that the obligations of Guarantor hereunder shall be absolute and unconditional under any and all circumstances. However, with respect to any payments made by Guarantor to ERCOT under this Guarantee, Guarantor may succeed to any rights of the Participant under the Agreement and the ERCOT Protocols. Guarantor does not waive or release any rights of subrogation, reimbursement or contribution which Guarantor may have, after full and final payment of the Obligations, against others liable on the Obligations. Guarantor's rights of subrogation and reimbursement are subordinate in all respects to the rights and claims of ERCOT, and Guarantor may not exercise any rights it may acquire by way of subrogation under this Guarantee, by payment made hereunder or otherwise, until all of the Obligations have been fully and finally paid.

It is not necessary for ERCOT, in order to enforce Guarantor's payment hereunder, first to proceed against Participant or resort to any collateral, security or other guarantors or obligors, if any, or pursue any other remedy. Any collateral, security or obligations of any other guarantors or obligors, if any, may be sold, released, surrendered, exchanged, settled, compromised, waived, subordinated or modified, in each case without consideration and on any terms or conditions, without notice, apart from ERCOT's initial demand under this Guarantee, to or further assent from Guarantor. Guarantor's liability is several

and independent of any other guarantees in effect with respect to any part of the Obligations and may be enforced regardless of the existence of any other guarantees.

Notwithstanding any other provision in this Guarantee, this Guarantee shall continue in effect or shall be reinstated if at any time payment, or any part thereof, by Participant to ERCOT with respect to any of the Obligations is rescinded, or must otherwise be repaid by ERCOT as a result of bankruptcy or reorganization of Participant.

No payment by Guarantor shall entitle Guarantor, by subrogation or otherwise, to any right against Participant, including any payment by Participant or out of property of Participant, except after the full payment and discharge of all of the Obligations. All remedies, rights, powers and privileges granted to ERCOT pursuant to this Guarantee are cumulative. The exercise of any or all such rights by ERCOT shall not reduce, limit, impair, discharge, terminate, or otherwise affect the liability of Guarantor. No failure or delay by ERCOT in exercising any remedy, right, power or privilege pursuant to this Guarantee shall operate as a waiver, and any such remedy, right, power or privilege may be exercised by ERCOT at any time. No partial exercise of any such rights shall preclude further exercise or the exercise of any other remedy, right, power or privilege. No notice or demand by ERCOT upon Guarantor or any other guarantor of the Obligations shall preclude ERCOT from taking further action without notice or demand.

Guarantor hereby expressly waives any and all rights to which it may be entitled by virtue of the laws of the State of Texas governing suretyship and guarantees, including, without limitation, any rights under Rule 31, Texas Rules of Civil Procedure, Chapter 51 of the Texas Property Code, Section 17.001 of the Texas Civil Practice and Remedies Code and Chapter 34 of the Texas Business and Commerce Code, as any or all of the same may be amended or construed from time to time, or the common law of the State of Texas at all relevant times.

The term of this Guarantee shall be for a period of one (1) year, commencing on the date set forth below. Notwithstanding the foregoing, this Guarantee may be terminated by Guarantor at any time by a written notification of termination given by Guarantor to ERCOT at the address shown below. Such termination shall be effective thirty (30) days after the receipt by ERCOT of such notification of termination. Guarantor acknowledges that this Guarantee applies to all Obligations arising prior to the effective date of the termination of this Guarantee, whether by notification of termination, or by expiration of the term.

Guarantor agrees to pay to ERCOT, upon demand, all costs and expenses, including third-party attorneys' fees, that may be incurred by ERCOT in attempting to cause satisfaction of Guarantor's liability under this Guarantee ("*Expenses*").

For purposes of giving any notices hereunder, the addresses, telephone numbers, and facsimile numbers of the parties and the Guarantor's email address are set forth on the signature page of this Guarantee. Such information regarding a party may be changed by such party by written notice to the other party. In addition, Guarantor shall maintain, at all times, a registered agent in Texas. Guarantor's registered agent in Texas is set forth on the signature page of this Guarantee, and Guarantor shall provide ERCOT with written notification of any change of its registered agent or the address thereof.

This Guarantee shall bind the heirs, personal representatives, successors and assigns of Guarantor and shall inure to the benefit of ERCOT, its successors and assigns.

No modification of this Guarantee or waiver shall be valid unless in writing and signed by ERCOT and Guarantor and then only to the extent specifically set forth in such writing.

All references in this Guarantee to sums denominated in dollars or with the symbol "\$" refer to the lawful currency of the United States of America. If, for the purposes of obtaining or enforcing judgment against

Guarantor in any court in any jurisdiction in connection with this Guarantee, it becomes necessary to convert into any other currency (such other currency being referred to as the “**Judgment Currency**”) an amount due in any currency (“**Obligation Currency**”) other than the Judgment Currency under this Guarantee, the conversion shall be made at the rate of exchange prevailing on the business day immediately preceding the date of actual payment of the amount due, in the case of any proceeding in the courts of the State of Texas or in the courts of any other jurisdiction that would give effect to such conversion being made on such date, or, the date on which the judgment is given, in the case of any proceeding in the courts of any other jurisdiction (the applicable date as of which such conversion is made pursuant to this paragraph being hereinafter referred to as the “**Judgment Conversion Date**”). If, in the case of any proceeding in the court of any jurisdiction referred to in the preceding sentence, there is a change in the rate of exchange prevailing between the Judgment Conversion Date and the date of actual receipt for value of the amount due, Guarantor shall pay such additional amount (if any and in any event not a lesser amount) as may be necessary to ensure that the amount actually received in the Judgment Currency, when converted at the rate of exchange prevailing on the date of payment, will produce the amount of the Obligation Currency which could have been purchased with the amount of the Judgment Currency stipulated in the judgment or judicial order at the rate of exchange prevailing on the Judgment Conversion Date.

This Guarantee shall be governed by, and constructed in accordance with, the laws of the State of Texas, without regard to any rule or provision on conflict of laws.

Any dispute relating in any manner to this Guarantee shall be resolved through binding arbitration. Arbitration proceedings shall be conducted pursuant to the International Arbitration Rules of the American Arbitration Association (AAA) in effect at the time the dispute first arises by one (1) or three (3) arbitrator(s) appointed in accordance with such Rules within ten (10) calendar days of submission of the dispute. The number of arbitrators forming the arbitral panel shall be mutually agreed upon by the parties, but if they cannot agree, then the AAA shall determine same. The arbitration shall be held in such city as is agreed upon by the parties, but if they cannot agree, then such arbitration shall be held in Austin, State of Texas, United States of America. The arbitration shall be conducted simultaneously in English and in the primary language of Guarantor. The English version of this Guarantee shall be the controlling document in the arbitration proceeding. The procedural laws of the civil district courts of the State of Texas, U.S.A. shall govern the arbitral proceeding regardless of the situs of the arbitration. The arbitral panel shall set a limited time period and establish procedures designed to reduce the cost and time for discovery, while allowing the parties an adequate opportunity, in the discretion of the arbitral panel, to discover relevant information from opposing parties about the subject matter of the dispute. The arbitral panel shall award actual damages to the prevailing party, but may not award any special, indirect, punitive or consequential damages nor reasonable attorneys fees and arbitration costs to either party. The arbitral award shall fully and finally settle the dispute. Recognition and enforcement of the arbitral award shall be governed by the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Judgment upon the award may be entered in any court in any country, or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the law of such jurisdiction may require or allow. Each party shall bear its own costs and fees, including, but not limited to its share of any arbitration fees, unless otherwise ordered by the arbitrator(s).

BY AGREEING TO BINDING ARBITRATION, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM. FURTHERMORE, WITHOUT INTENDING IN ANY WAY TO LIMIT THIS AGREEMENT TO ARBITRATE, TO THE EXTENT ANY CLAIM IS NOT ARBITRATED, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF SUCH CLAIM. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THIS GUARANTEE.

This Guarantee supersedes and terminates any prior guarantee to ERCOT by Guarantor on behalf of the Participant.

Participant: _____
[Name of Participant]
a _____
[Type of entity/jurisdiction of organization]

Date of Standard Form Market Participant Agreement: _____, 200__.

EXECUTED by GUARANTOR this ___ day of _____, 200__:

[Name of Guarantor] Address: _____

a _____
[Type of entity/jurisdiction of organization] Telephone: _____
Facsimile: _____
Email Address: _____
By: _____
Name: _____
Title: _____
Guarantor's Registered Agent in Texas:
Name: _____
Address: _____

Attest: _____
Name: _____
Title: _____

ACCEPTED by ERCOT this ___ day of _____, 200__:

ELECTRIC RELIABILITY COUNCIL OF
TEXAS, INC. Address: 7620 Metro Center Drive
Austin, Texas 78744
[For notice and payment]
By: _____ Telephone: _____
Name: _____ Facsimile: 512.225.7020
Title: _____



**IRREVOCABLE AND UNCONDITIONAL
STANDBY LETTER OF CREDIT**

Market Participant Applicant:
Amount:
Expiration Date:
Date of Issuance:

Electric Reliability Council of Texas, Inc. (ERCOT)
7620 Metro Center Drive
Austin, Texas 78744
Attn: Finance

To Whom It May Concern:

We hereby establish in your favor, effective immediately, our Irrevocable and Unconditional Standby Letter of Credit No. _____ (“Letter of Credit”) which is available for payment upon your advice of demand to the attention of _____ by telephone at _____, or by fax at _____ and presentation to us by fax of: (i) your written demand for payment containing the text of Exhibit I and (ii) your statement containing the text of Exhibit II.

Funds may be drawn under this Letter of Credit, from time to time, in one or more drawings, in amounts not exceeding in the aggregate the amount specified above.

Upon presentation to us in conformity with the foregoing, we will, not later than the close of business on the next banking day after such presentation, but without any other delay whatsoever, irrevocably and without reserve or condition issue payment instructions to the Federal Reserve wire transfer system in proper form to transfer to the account at the bank designated by you in the demand, the full amount demanded by you in the same-day funds which are immediately available to you in Austin, Texas. We agree that if, on the expiration date of this Letter of Credit, the office specified above is not open for business, this Letter of Credit will be duly honored if the specified statements are presented by you within three (3) full banking days after such office is reopened for business.

Payment hereunder shall be made regardless of: (a) any written or oral direction, request, notice or other communication now or hereafter received by us from the Market Participant Applicant or any other person except you, including without limitation any communication regarding fraud, forgery, lack of authority or other defect not apparent on the face of the documents presented by you, but excluding solely an effective written order issued otherwise than at our instance by a court of competent jurisdiction which order is legally binding upon us and specifically orders us not to make such payment; (b) the solvency, existence or condition, financial or other, of the Market Participant Applicant or any other person or property from whom or which we may be entitled to reimbursement for such payment; and (c) without limiting clause (b) above, whether we are in receipt of or expect to receive funds or other property as reimbursement in whole or in part for such payment. We agree that we will not take any action to cause the issuance of an order described in clause (a) of the preceding sentence. We agree that the time set forth herein for payment of any demand(s) for payment is sufficient to enable us to examine such demand(s) and the related documents(s) referred to above with care so as to ascertain that on their face they appear to comply with the terms of this Letter of Credit and that if such demand(s) and document(s) on their face

appear to so comply, failure to make any such payment within such time shall constitute dishonor of such demand(s) and this Letter of Credit.

The stated amount of this Letter of Credit may be increased or decreased, and the expiration date of this Letter of Credit may be extended, by an amendment to this Letter of Credit in the form of Exhibit III. Any such amendment shall become effective only upon acceptance by your signature on a hard copy amendment.

You shall not be bound by any written or oral agreement of any type between us and the Market Participant Applicant or any other person relating to this Letter of Credit, whether now or hereafter existing.

We hereby engage with you that your demand(s) for payment in conformity with the terms of this Letter of Credit will be duly honored as set forth above. All fees and other costs associated with the issuance of and any drawing(s) against this Letter of Credit shall be for the account of the Market Participant Applicant. All of the rights of ERCOT set forth above shall inure to the benefit of your successors. In this connection, in the event of a drawing made by a party other than ERCOT, such drawing must be accompanied by the following signed certification:

The undersigned does hereby certify that _____ **[drawer]** _____ is the successor by operation of law to ERCOT, a beneficiary named in [Name of Bank] Letter of Credit No. _____ and we attach herewith copies of official documents proving our legal status as successor.

[Name and Title]

Except so far as otherwise expressly stated herein, this Irrevocable and Unconditional Standby Letter of Credit is subject to the "Uniform Customs and Practices for Documentary Credits," International Chamber of Commerce, in effect on the date of issuance of this Letter of Credit.

Yours faithfully,

(Name of Issuing Bank)

By: _____

Title: _____

EXHIBIT I

DEMAND FOR PAYMENT

Re: Irrevocable and Unconditional Standby Letter of Credit

No. _____ Dated: _____, _____

To Whom It May Concern:

Demand is hereby made upon you for payment to us of \$_____ by deposit to our account no. _____ at [Name of Bank]. This demand is made under, and is subject to and governed by, your Irrevocable and Unconditional Standby Letter of Credit No. _____ dated _____, _____ in the amount of \$_____ established by you in our favor for the account of _____ as the Market Participant Applicant.

DATED: _____, _____.

Electric Reliability Council of Texas, Inc.

By: _____

Title: _____

EXHIBIT II

STATEMENT

Re: Irrevocable and Unconditional Standby Letter of Credit
No. _____ Dated: _____, _____

To Whom It May Concern:

Reference is made to your Irrevocable and Unconditional Standby Letter of Credit No. _____ dated _____, _____ in the amount of \$_____ established by you in our favor for the account of _____.

We hereby certify to you that \$_____ is due and owing to us by the Market Participant Applicant, under and in accordance with the ERCOT Protocols.

DATED: _____, _____.

Electric Reliability Council of Texas, Inc.

By: _____

Title: _____

EXHIBIT III
AMENDMENT

Re: Irrevocable and Unconditional Standby Letter of Credit

No. _____ Dated: _____, _____

Beneficiary:

Market Participant Applicant:

Electric Reliability Council of Texas, Inc. (ERCOT)
7620 Metro Center Drive
Austin, Texas 78744
Attn: Finance

[Name and Address]

To Whom It May Concern:

The above referenced Irrevocable and Unconditional Standby Letter of Credit is hereby amended as follows: by increasing / decreasing / leaving unchanged (*strike two*) the stated amount by \$_____ to a new stated amount of \$_____ or by extending the expiration date to _____ from _____. All other terms and conditions of the Irrevocable and Unconditional Letter of Credit remain unchanged.

This amendment is effective only when accepted by ERCOT, which acceptance may only be valid by a signature of an authorized representative.

Dated: _____

Yours faithfully,

[Name of Issuing Bank]

By: _____

Title: _____

ACCEPTED:

Electric Reliability Council of Texas, Inc.

By: _____

Title: _____

Date: _____

For discussion

- **Reassess monthly risk reporting currently provided to Board of Directors**
 - *Are we highlighting the top risks ?*
 - *Is the information relevant and “fresh” ?*
 - *Is the information presented clearly ?*

- **Canvassed the Organization**

- Officers
- Directors
- Managers

- **Results**

- Management confirms current reporting highlights the key risks faced by ERCOT
- Improvements implemented to more clearly convey risk information
 - Provide description of methodology behind risk ratings
 - Highlight issues that are outside Management's risk tolerance by eliminating elaboration on "Green" Stoplight boxes
 - Include explanatory notes to describe report structure / formatting
 - Explain role of Risk Matrix & Mitigation reports

- **The risk rating methodology currently used is provided on the following page**
- **Basis supporting initial effort to compare and rank risk *across the enterprise***
- **A task force is working on improvements to methodology**
 - More objective
 - More quantifiable
 - Target implementation of revised methodology in time for Feb '08 Audit, Compliance and ERM update to the Board

5. Risk Rating Methodology (Current)

Philip DiPastena



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.



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 achievement of the goals and objectives of ERCOT. 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.



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 achievement of 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.



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 achievement of 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.



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 achievement of 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.

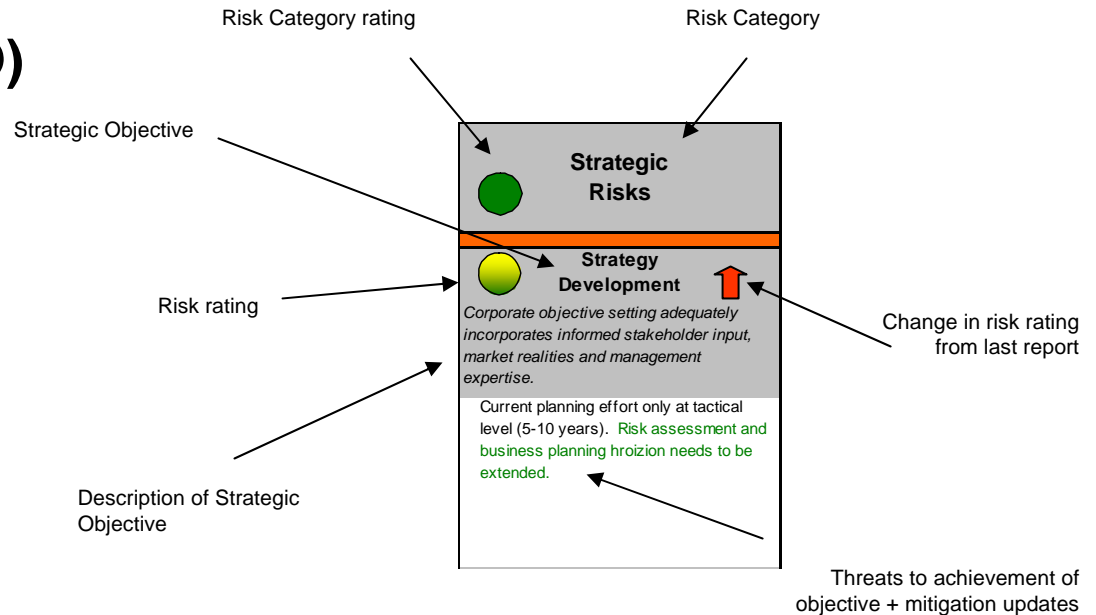
5. Overview: Stoplight Report (Public)

Philip DiPastena

- **High level executive overview (snapshot)**

- **Risk Categories (COSO)**

- Strategic
- Operational
 - Operational Excellence
 - Market Facilitation
 - Grid Reliability
- Reporting
- Compliance



- **Within each Risk Category**

- Four Strategic Objectives
 - Description
 - Brief explanation of specific risk issue if status is other than green; update on mitigation effort; changes from prior month in **green**

5. Overview: Risk Matrix Report

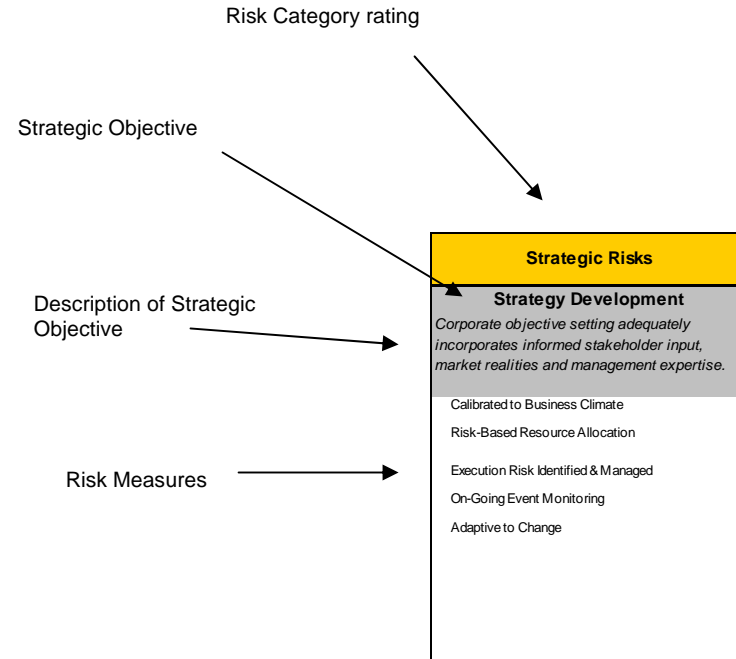
Philip DiPastena

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		
Strategy Development <i>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</i>	Performance Monitoring <i>Clearly defined and actively monitored performance metrics linked to mission and goals – Performance 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. 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. Impacts of current and proposed legislation are understood and communicated.</i>
<ul style="list-style-type: none"> Calibrated to Business Climate Risk-Based Resource Allocation Execution Risk Identified & Managed On-Going Event Monitoring Adaptive to Change 	<ul style="list-style-type: none"> Capital Project Program Management Effective Use of Dashboards Metrics Linked to Mission and Goals Effective Status Reporting Clear Standards and Expectations Quantifiable Key Performance Indicators 	<ul style="list-style-type: none"> Effective Response to Change Requests Timely Communication to Participants 	<ul style="list-style-type: none"> Operator Readiness Communications with MP Data Availability & Accuracy Robust Models and Tools are Utilized Operating Assumptions & Judgment Scheduling Process (Congestion Mgt) Adherence to Standards & Rules 	<ul style="list-style-type: none"> Hierarchy of Internal Reviews Auditor Review Board of Directors Review Notification and Escalation of Emerging Items Management Signoff 	<ul style="list-style-type: none"> Contract Administration Comply w/ Applicable Laws, Rules, Regs, Standards Appropriate Legal Review Liability Related to Conduct Fines or Penalties Astute Politically Advocacy Effectiveness Knowledgeable of Legislative Agenda Proposed Rulemaking Practices
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 Project <i>Nodal Implementation on budget on schedule, and within defined scope.</i>	Planning <i>Long-range planning methods enable efficient responses to system changes that are necessary 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>
<ul style="list-style-type: none"> Clear Governance and Oversight Comprehensive Policies/Procedures Clarity of Fiduciary Responsibility Stakeholder Management Practices Clear Mission and Synchronized Cross Divisional Prioritization Ethical Practices Portfolio View of Risks (ERM) 	<ul style="list-style-type: none"> Internal Controls are Effectively Designed & Implemented Business Practices are Cost Effective Responsive to Change Execution Consistency Documentation and Record Keeping Business Continuity & Disaster Recovery Physical Security Standards Safety Practices Adequate Physical Facilities (non-IT) 	<ul style="list-style-type: none"> Project Timeframe on Schedule Project Progressing within Budget Identified staffing positions filled with appropriate resources Scope of project fully identified Project interdependencies identified 	<ul style="list-style-type: none"> Stakeholder Support Planning Assumptions and Processes Data Availability & Accuracy Sufficiency of Models, Forecast and Tools Adherence to Standards & Rules 	<ul style="list-style-type: none"> Prepared in Accordance with Relevant Standards Effective Management Reporting Reports are Transparent and Useful 	<ul style="list-style-type: none"> Internal Control Management Internal Audit Analysis and Findings External Audit Reviews
Reputation <i>Positive perceptions by stakeholders 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 aligned with corporate goals.</i>	Counterparty Credit <i>Maintain credit risk exposure for overall market within acceptable limits.</i>	Bulk System Resources <i>Market Participants construct and make 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>
<ul style="list-style-type: none"> Publicity Management Political Position High Public Confidence and Trust Management/Employee Creditability Employee Values and Corporate Culture Good Neighbor Practices 	<ul style="list-style-type: none"> Priorities Linked to Mission/Objectives Compensation Programs Aligned w/ Objectives and Priorities Employee Training and Development Workforce Planning Adequacy and Competency of Staff Organizational Structure Performance Management 	<ul style="list-style-type: none"> MP Credit Worthiness Standards Measurement of exposure QSE Certification/De-certification Process Risk to Market from Sustained/Large Uplifts Proactive identification of risk factors 	<ul style="list-style-type: none"> Generation Resource Adequacy & Availability Transmission Resource Adequacy & Availability Reactive Resource Adequacy & Availability Timeliness of Additions / Modifications Fuel Diversity and Availability 	<ul style="list-style-type: none"> Methods are Appropriate for Audience Message Achieves Desired Purpose Effective Delivery Mechanisms Timeliness and Accuracy Message Consistency over time and audiences Responsiveness to Data Request Employee Opinions and Feedback Open Meetings 	<ul style="list-style-type: none"> SAS 70 Audits NERC Reliability Standards ERCOT Operating Guidelines & Protocols
Fiscal Management <i>ISO design requires competent, prudent and cost effective provision of services.</i>	Technology Infrastructure <i>Information systems, supporting facilities and data are effectively managed and are reliable.</i>	Admin, Settlement & Billing <i>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</i>	Operational Responsibility <i>Market participant 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>
<ul style="list-style-type: none"> Cash and Liquidity Management Efficient and Defensible Cost Structure Effective Use of Leverage Insurance and Liability Management Fraud Prevention and Detection Robust Financial Projections Effective Budget Analysis 	<ul style="list-style-type: none"> Accessibility of Systems Systems Development/Testing Practices Systems Maintenance Practices System Redundancy System Reliability and Performance Efficient Technology Architecture Adequate Physical Facilities (for IT) Data Cleansing and Retention Cyber Security (Data and Systems) 	<ul style="list-style-type: none"> Data Management Dispute Resolution Transparent and Defensible Rules Transaction Processing Efficiency Efficient Customer Switching Effective Market Monitoring Error Rates Within Tolerance Billing Dates Consistently Achieved 	<ul style="list-style-type: none"> Preparation for Weather Events Prudent Maintenance Practices Sufficient Operating Resources Standard Compliance Norms 	<ul style="list-style-type: none"> Completeness Verification methods Valuation and Estimation methods Costs & revenues booked in proper period 	<ul style="list-style-type: none"> Advocacy Effectiveness Responsive to Requests Compliance w/ Current Rules Relationship w/ Commission Positions are Supported by Facts

• Supplement to Stoplight Report

- Format parallels Stoplight report
- Sample of risk measures that affect ERCOT's ability to achieve mission and goals
- Green risk rating on Stoplight implies these issues are within risk tolerance
- **Caution:** the "Risk Measures" identified on this report are examples designed to assist the casual user of the Stop Light in understanding the types of risks included within a given Strategic Objective category. It is not an exhaustive list of ERCOT risks



5. Overview: Mitigation Report (Confidential)

Philip DiPastena

- **High level summary**
 - Mitigation plans to manage risks
 - Also includes
 - Description of the inherent risks
 - Key Dates
 - Dependencies

Market Facilitation

Customer Choice

Owner

Key Risk Identified: IT components supporting Customer Choice are currently not at the desired levels to meet SLA's.

Ray Giuliani

Mitigation Action Plan: Working to improve database backup processes and failover processes in case of emergencies

Mitigation Date: 1st Qtr 2008

Dependencies: On hold due to the implementation of many retail system infrastructure changes.

Status Update: 2-Oct-07

Next Review Date:

5. Stoplight Report Philip DiPastena

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. RISK MANAGEMENT EVENT PROFILE MATRIX (as of October 1st, 2007 - Draft)

Strategic Risks	Operational Risks			Reporting Risk	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>Current planning effort only at tactical level (5-10 years). Risk assessment and business planning horizon needs to be extended.</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>Residual risk concerns related to DR where work to improve database backup processes and failover processes in case of emergencies is on hold due to the implementation of many retail system infrastructure changes. We are currently not sure we can meet stakeholder expectations for recovery in all cases.</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>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>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>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>Disaster recovery plans are currently below desired expectations. Business Continuity Plan coordinator has been selected. Gap analysis complete. Business Impact Assessment is underway.</p>	<p>Nodal Implementation Project</p> <p><i>Nodal Implementation on budget on schedule, and within defined scope.</i></p> <p>Scope is green, budget quality and timeline remain amber. Major milestones have been reached to date. Many base systems have been delivered. Baseline 1 and 2 systems are in various delivery phases. Staffing issues remain in some areas. Testing Czar issue is progressing with selection of a responsible party.</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>Completed study of need for transmission and generation capacity over longer-term (over 5 years out) scenarios. Plan to perform additional studies for multiple generation interconnection scenarios. Reviewing requirements stakeholder requests for longer (10-20 yr) planning studies.</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>Training requirements are ongoing; a fully operational plan is expected by 11/30/07.</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>Retention plan for employees adopted at August Board meeting. However we continue to face an increased demand for the skill sets of our employees (50 positions currently open). Developing organizational structures for all departments including the longer term plan for staffing needs in 2008-2009.</p>	<p>Counterparty Credit</p> <p><i>Maintain credit risk exposure for overall market within acceptable limits.</i></p> <p>Developing enhanced metrics to measure the residual credit risk assumed by market participants and the associated probabilities that the market could withstand such an event. A determination of the acceptable level of residual credit risk exposure will be made by the ERCOT Board of Directors.</p>	<p>Bulk System Resources</p> <p><i>Market Participants construct and make available adequate bulk electric grid resources.</i></p> <p>Load forecast for 2007 is 500 MW above last year's forecast for the same period. Reserves dropped by 1% in ERCOT. The planning process is increasingly "open" to all affected stakeholders improving data corrections and highlighting the importance of model assumptions.</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>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.</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>Risks are decreasing. AIX migration project is progressing with 8% of databases remaining to be moved, including ODS. Application migrations are underway. Enterprise Architecture team is working with BCP effort to ensure DR coordination. EMS failovers between sites continues monthly with success. SAIC has started review of retail systems and report is anticipated in December or January.</p>	<p>Administration, 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>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 are currently being defined in a special study.</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>

Legend: Elevated Risk Level Reduced Risk Level

(New Risk Categories / Descriptions Indicated in Green)

Rationale for Category Risk Assessment Changes

Business Practices Downgrade: Red/Yellow > Yellow Business Continuity Plan - Gap analysis complete. Business impact assessment underway

- **Yellow-Red**

- Business Practices

- **Yellow**

- Workforce
- Technology Infrastructure
- Customer Choice
- Nodal Implementation Project
- Counterparty Credit
- Industry Standards
- Bulk System Resources

- **Yellow-Green**

- Strategy Development
- Grid Operations
- Operational Responsibility
- Internal Control Compliance
- Planning

Group Discussion

October report drill down

Management available to answer specific questions

Informative

Informative



MEMORANDUM

To: Finance & Audit Committee
From: M. Petterson
Date: October 16, 2007
Re: Approval of engagement of external auditors for other services

Objective

1. As required by the Finance and Audit Committee charter, alert members of the Finance and Audit Committee in writing that ERCOT has renewed for 2008 its subscription to Comperio, a comprehensive, web-based accounting database provided by PricewaterhouseCoopers, ERCOT's independent audit firm, costing approximately \$2,000 per year.

Background

1. In early 2006, the Finance and Audit Committee amended its charter to include language consistent with the requirements established in Section 202 of Sarbanes-Oxley.
2. That Section of the law calls for preapproval from the Finance and Audit Committee for engagement of external auditors for "other services".
3. It was agreed at the time of the charter amendment that generally ERCOT staff should make the request for "preapproval" using the standard decision template (with other essential supporting documentation) used for Board and Board Committee meetings.
4. It was also agreed at the time of the charter amendment that engagements for "other services" totaling less than \$5,000 should be communicated in writing to the members of the Finance and Audit Committee at the first meeting following the engagement for the "other services" at issue. This threshold amount is well below the de minimus exceptions provided for in Section 202.
5. Attached Exhibit 1 details the requirements of Section 202.

- **Texas RE as division of ERCOT, Inc.**
 - ERCOT, Inc. ultimately liable for all Texas RE actions
 - Maintaining fiduciary oversight of Texas RE actions in light of strict independence requirements
 - Conflict and issue escalation and resolution

- **Other matters for consideration**
 - Ethics agreement administration
 - Whistleblower (EthicsPoint) matters
 - Corporate Policies
 - All ERCOT Inc. applicable to Texas RE (via proposed policy umbrella)
 - Exceptions – CCO granted same authority as ERCOT, Inc. CEO

- **Other matters for consideration *cont.***
 - Audit matters
 - Internal – non operational included in scope of ERCOT, Inc.
 - Financial – carve out with PwC
 - Oversight of CCO – other matters such as expense reporting and out of office - TBD

Q&A only

ERCOT Market Credit Status

as of 8/31/2007

as of 9/30/2007

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	
8	22,078,042	6%	53,016,082	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	44	206,503,665	56%	322,134,702 S
Guarantee Agreements	11	140,718,835	38%	437,979,236 S
Total Exposure	63	369,300,542	100%	

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
8	8,666,562	2%	55,675,094	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	42	230,142,206	57%	339,891,614 S
Guarantee Agreements	15	162,044,982	40%	520,279,236 S
Total Exposure	65	400,853,750	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

10	(23,418,283)	-28%	89,933,684	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	44	(27,685,488)	-33%	19,410,255 S
Guarantee Agreements	10	(32,927,675)	-39%	206,000,000 S
Total	64	(84,031,446)	-100%	

9	(21,617,364)	-31%	87,074,672	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	46	(36,772,443)	-53%	49,407,692 S
Guarantee Agreements	8	(11,697,718)	-17%	175,700,000 S
Total	63	(70,087,525)	-100%	

Total

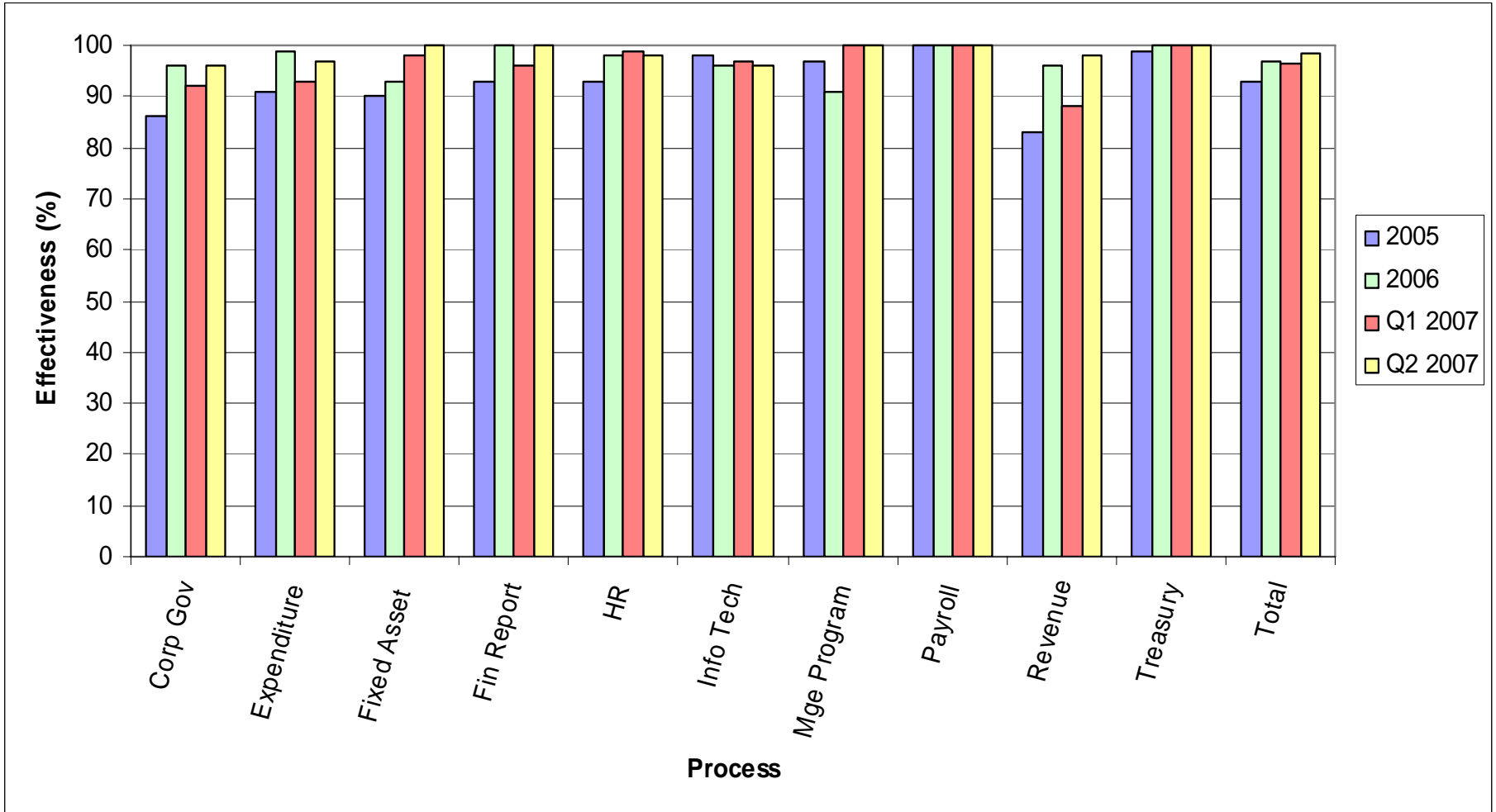
127

128

U: Unsecured since these QSEs meet the creditworthiness standards

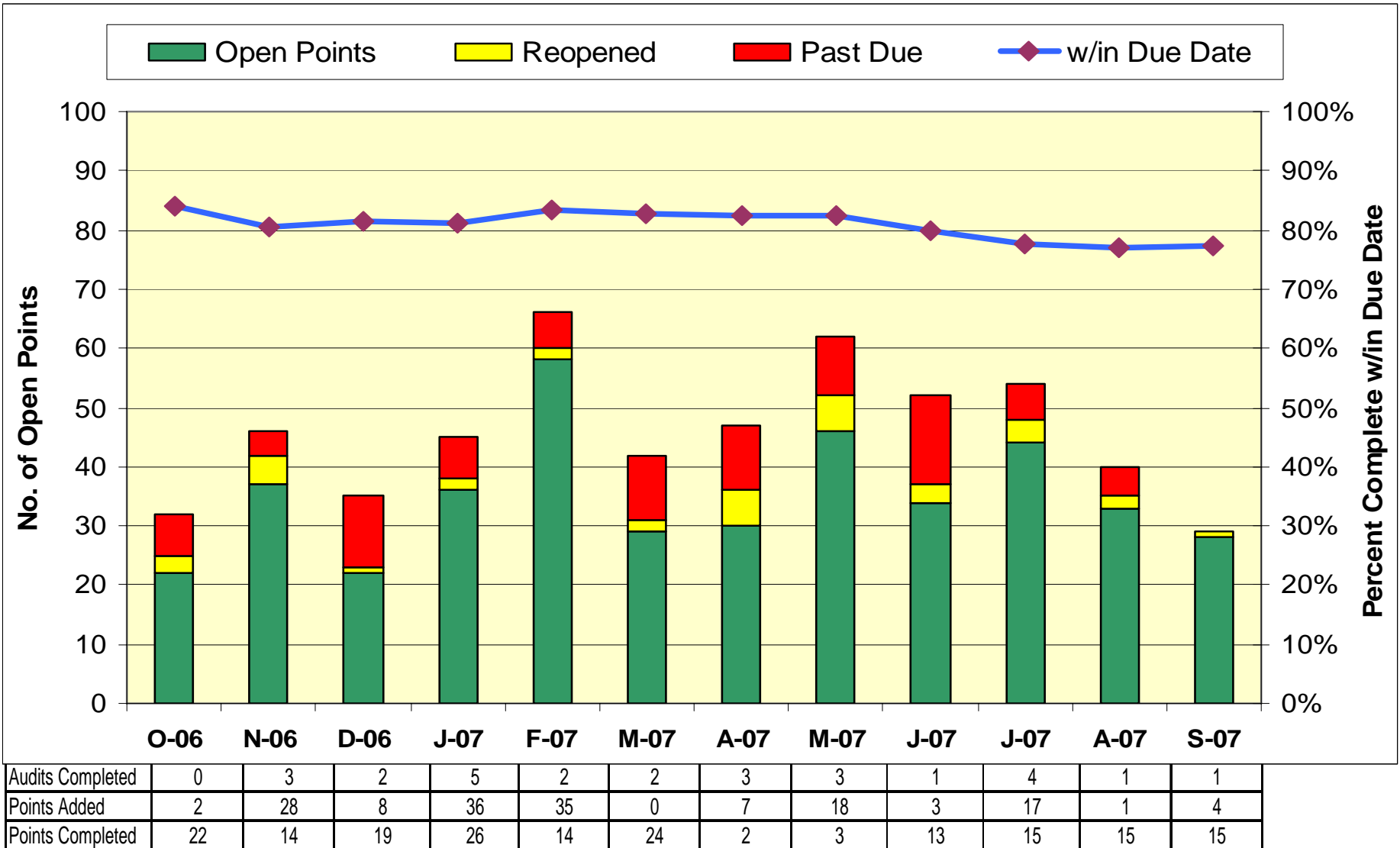
S: Secured i.e. required to post collateral since these QSEs do not meet the creditworthiness standards

9. Committee Brief: ICMP - CSA Questionnaire Results Cheryl Moseley

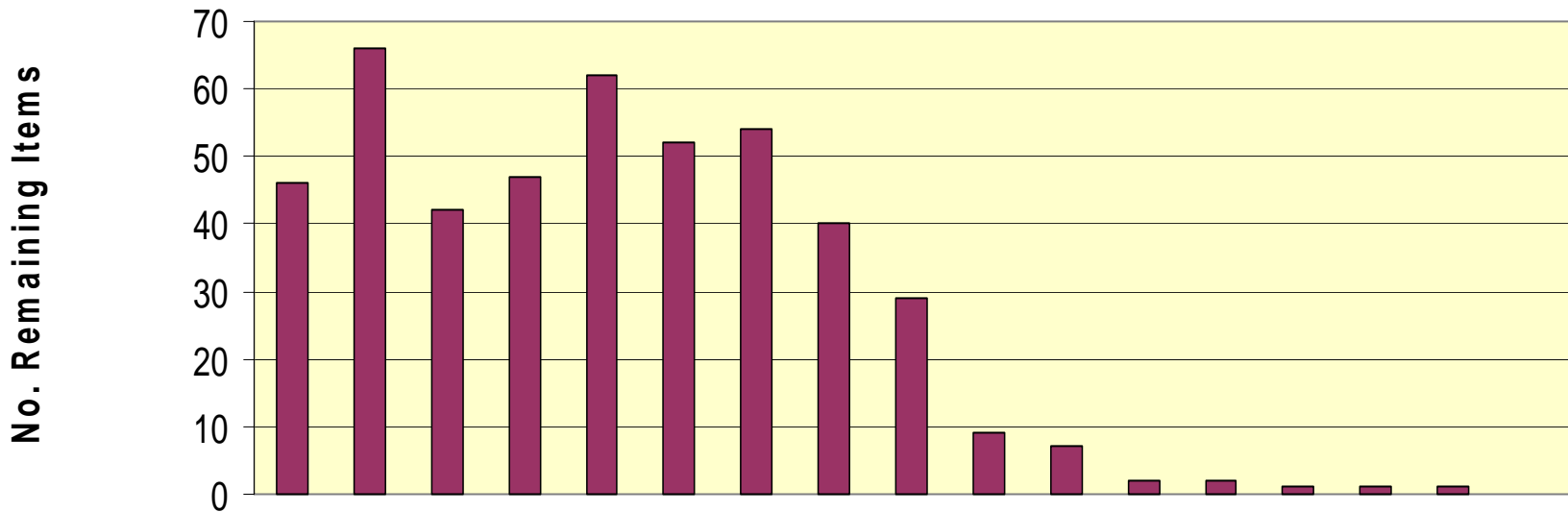


9. Committee Brief: ICMP – Status of Open Audit Points

Cheryl Moseley



Projected Audit Point Progress



	J-07	F-07	M-07	A-07	M-07	J-07	J-07	A-07	S-07	O-07	N-07	D-07	J-08	F-08	M-08	A-08	M-08
Audit Points	46	66	42	47	62	52	54	40	29	9	7	2	2	1	1	1	0

Audits Completed

(last 3 months)

Internal Audits

- Contract Audit of 21st Century
- Nodal Timetracking
- Nodal Delegation of Authority
- Employee Background/ Reference Checks & Drug Screens (Targeted Review)
- Nodal Procurement
- Cash & Investments

External Audits

- 2007 401K Audit (Maxwell, Locke & Ritter)
- Texas Nodal Program Controls – Review #4 (Managed by IAD)

Open Audits

Internal Audits

- Nodal Acctg./Allocation
- Nodal Vendor Billings
- Non-Nodal Vendor Billings
- QSE Credit
- Contractor Background/ Reference Checks & Drug Screens (Targeted Review)

External Audits

- 2007 SAS70 (PwC)

Planned Audits

(next 3 months)

Internal Audits

- Nodal PMO (Targeted Review)
- Ethics Agreement Reaffirmation
- Ethics Compliance (ERCOT-wide)
- Protocol/Market Guide Approvals/Revisions
- Debt Financing
- Fixed Assets (Special Request)
- Operator Procedural Compliance (Limited scope)

External Audits

- Texas Nodal Program Controls – Review #5 - IBM (Managed by IAD)

* NOTE: Conducted by internal resources other than Internal Audit

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

External Assessments

**Open Consultation/
Analysis Reviews**

External Assessments

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

External Assessments

1 security assessment
planned

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of October 1st, 2007 - Draft)**

Strategic Risks	Operational Risks			Reporting Risk	Legal and Regulatory Compliance Risks
	Operational Excellence	Market Facilitation	Grid Reliability		
<p>Strategy Development</p> <p>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</p> <p>Current planning effort only at tactical level (5-10 years). Risk assessment and business planning horizon needs to be extended.</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>Residual risk concerns related to DR where work to improve database backup processes and failover processes in case of emergencies is on hold due to the implementation of many retail system infrastructure changes. We are currently not sure we can meet stakeholder expectations for recovery in all cases.</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>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>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>Disaster recovery plans are currently below desired expectations. Business Continuity Plan coordinator has been selected. Gap analysis complete. Business Impact Assessment is underway.</p>	<p>Nodal Implementation Project</p> <p>Nodal Implementation on budget on schedule, and within defined scope.</p> <p>Scope is green, budget quality and timeline remain amber. Major milestones have been reached to date. Many base systems have been delivered. Baseline 1 and 2 systems are in various delivery phases. Staffing issues remain in some areas. Testing Czar issue is progressing with selection of a responsible party.</p>	<p>Planning</p> <p>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</p> <p>Completed study of need for transmission and generation capacity over longer-term (over 5 years out) scenarios. Plan to perform additional studies for multiple generation interconnection scenarios. Reviewing requirements stakeholder requests for longer (10-20 yr) planning studies.</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>Training requirements are ongoing; a fully operational plan is expected by 11/30/07.</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>Retention plan for employees adopted at August Board meeting. However we continue to face an increased demand for the skill sets of our employees (50 positions currently open). Developing organizational structures for all departments including the longer term plan for staffing needs in 2008-2009.</p>	<p>Counterparty Credit</p> <p>Maintain credit risk exposure for overall market within acceptable limits.</p> <p>Developing enhanced metrics to measure the residual credit risk assumed by market participants and the associated probabilities that the market could withstand such an event. A determination of the acceptable level of residual credit risk exposure will be made by the ERCOT Board of Directors.</p>	<p>Bulk System Resources</p> <p>Market Participants construct and make available adequate bulk electric grid resources.</p> <p>Load forecast for 2007 is 500 MW above last year's forecast for the same period. Reserves dropped by 1% in ERCOT. The planning process is increasingly "open" to all affected stakeholders improving data corrections and highlighting the importance of model assumptions.</p>	<p>Communication</p> <p>Internal and external communications are timely and effective.</p>	<p>Industry Standards</p> <p>Business practices provide stakeholders with required assurances of quality.</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.</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>Risks are decreasing. AIX migration project is progressing with 8% of databases remaining to be moved, including ODS. Application migrations are underway. Enterprise Architecture team is working with BCP effort to ensure DR coordination. EMS failovers between sites continues monthly with success. SAIC has started review of retail systems and report is anticipated in December or January.</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>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 are currently being defined in a special study.</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>

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

Rationale for Category Risk Assessment Changes

Business Practices Downgrade: Red/Yellow > Yellow Business Continuity Plan - Gap analysis complete. Business impact assessment underway

9. 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* (To Date)	Projected Go-Live (by Y.E.)
CART	Corporate Operations	1	5	7	9	4	3	3	0	14	46	5	10
	IT Operations	6	0	2	9	1	1	0	0	0	19	1	12
	Market/Retail Operations	0	1	8	4	5	4	8	1	3	34	3	8
	System Operations	0	0	3	3	3	10	3	2	0	24	6	10
	TRE	0	0	2	0	0	0	1	1	0	4	0	2
	Totals by Phase	7	6	22	25	13	18	15	4	17	127	15	42

* Note: Additional Projects Gone Live in September 2007

(CO) PR-60020_01 (Lawson Managed Application Service Provider)

(SO) PR-70029_01 (Emergency Notification System)











9. Committee Brief – PMO

David Troxtell

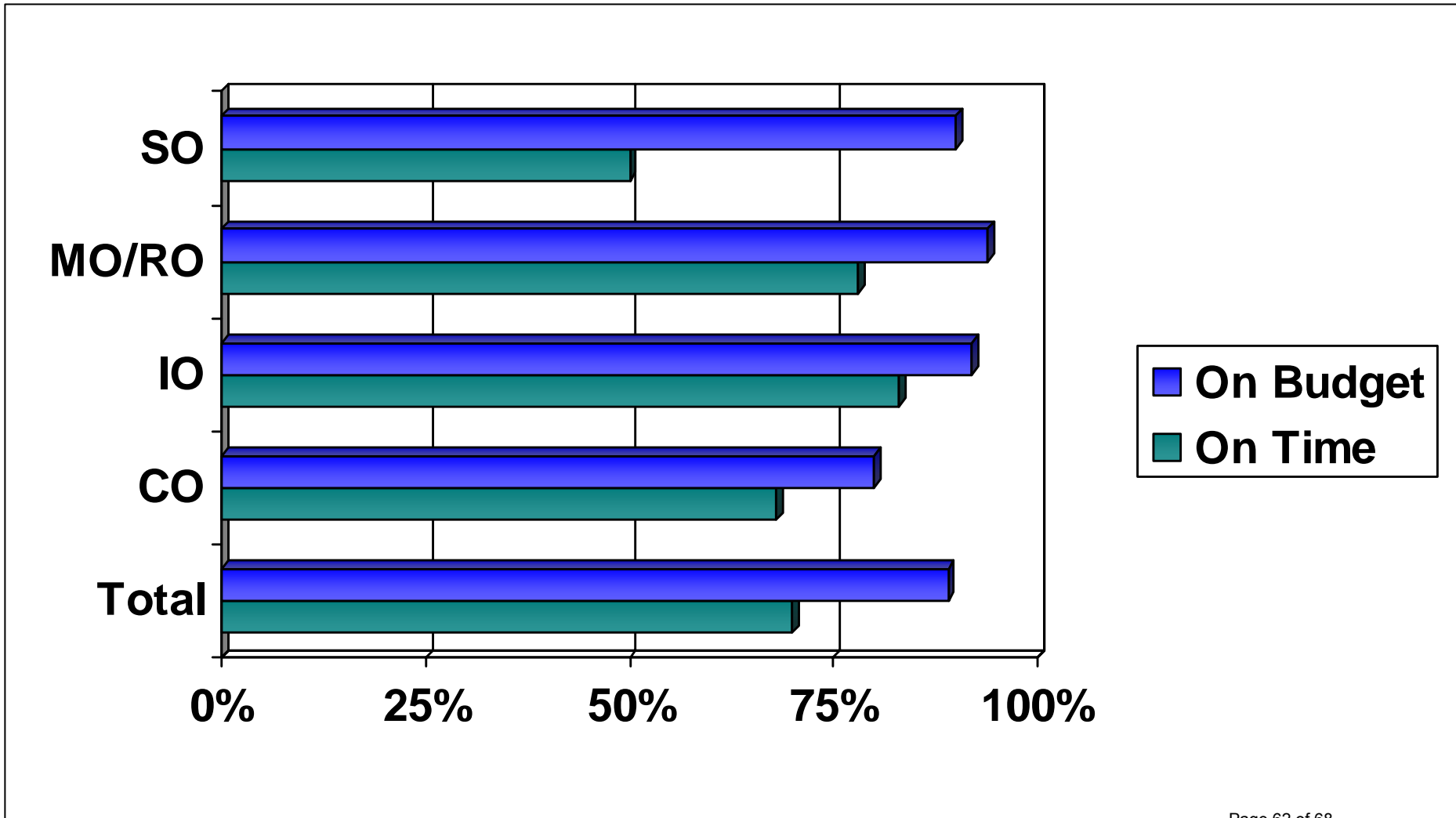
Year to Date Project Priority List (PPL) Status

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	2	1		5	
	Market			2	2	1			6		11	
	ERCOT	5	2	11	8	3	5	1	6	17	58	
	Compliance			3				1	1		5	
	System Maintenance										0	
Unexpected Carry Over From 2006											22	
	PUCT						2				2	
	Market				1		3		1		5	
	ERCOT				4	4	7				15	
	Compliance										0	
	System Maintenance										0	
New Projects Added (Since PPL Approval in August 2006)											26	
	PUCT				1						1	
	Market			1							1	
	ERCOT	2	4	5	9	4					24	
	Compliance										0	
	System Maintenance										0	
2007 PPL totals to date											127	
	PUCT	0	0	0	1	1	3	2	1	0	8	
	Market	0	0	3	3	1	3	0	7	0	17	
	ERCOT	7	6	16	21	11	12	1	6	17	97	
	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		7	6	22	25	13	18	4	15	17	127	

Projects Over \$1 Million

Project (CART) Number and Description (Duration) Phase (Sponsor)	Total Budget	Total Committed To Date	Metrics	
			Schedule	Budget
(MO/RO) PR-40038_01: TX SET 3.0 <i>(2007) Currently in Closing (R. Giuliani)</i>	\$1.63M	\$1.52M		
	<i>Project Go Live 6/24/2007</i>			
(MO/RO) PR-50024: Enhancements to SCR727 (consists of 2 sub-projects) <i>(2005-2008) Currently in Closing/Execution (R. Giuliani)</i>	\$1.61M	\$1.20M		
	<i>Expected Completion 4th Qtr 2007/1st Qtr 2008</i>			
(CO) PR-60099_01: TCC2 Build-Out Phase One <i>(2007) Currently in Execution (B. Kahn)</i>	\$2.65M	\$1.98M		
	<i>Expected Completion 4th Qtr 2007</i>			
(IO) PR-60055_01: Enterprise Service Management <i>(2006-2007) Currently in Execution (R Hinsley)</i>	\$1.31M	\$.77M		
	<i>Expected Completion 4th Qtr 2007</i>			
(CO) PR-60075: Identity to Access Management (consists of 2 sub-projects) <i>(2006-2007) Currently Re-Planning (B. Kahn)</i>	\$1.49M	\$1.21M		
	<i>Expected Completion 2nd Qtr 2008</i>			

2007 Completed and Active Projects Performance



9. Committee Brief – PMO

David Troxtell

Budget vs. Actuals for Closed in 2007

Completed Projects	Description	Implemented	Baseline Budget	Actuals	\$ Over/-Under Baseline Budget	% Over/-Under Baseline Budget
50132	Network Intrusion Detection and Intrusion Protection System	2005	587,976	516,565	71,411	12.15
40015_01	TCR Report Enhancements	2005	23,102	38,787	-15,685	-67.89
60004_01	EIS Conformed Data Warehouse Foundations	2006	428,717	217,678	211,039	49.23
50030	EIS Lodestar Transition to ODS	2006	181,037	115,871	65,166	36.00
60080_01	Mkt Operations Support R 1.0	2006	267,617	172,137	95,480	35.68
50015_02	Lawson SIR - Process Flow	2006	232,943	163,709	69,234	29.72
60016_01	Host Intrusion Detection Systems	2006	177,143	124,819	52,324	29.54
60068_01	Calculation of Losses for Settlement	2006	68,914	48,922	19,992	29.01
50025	Enhance ESIID Lookup Function	2006	313,075	230,615	82,460	26.34
60098_01	Veritas Vaulting	2006	100,000	82,279	17,721	17.72
60088_01	Market Management System Expansion	2006	749,623	654,931	94,692	12.63
60092_01	Storage Upgrade	2006	901,005	801,804	99,201	11.01
60076_01	Proxy Server	2006	337,706	308,283	29,423	8.71
40042_06	EDW Standard LodeStar Extracts	2006	910,451	947,569	-37,118	-4.08
60100_01	Lawson Software Procurement	2006	189,692	197,569	-7,877	-4.15
50007	Enhancements to Fas Trak Tools	2006	2,492,935	2,629,354	-136,419	-5.47
50134	DC Tie Automation	2006	665,550	748,822	-83,272	-12.51
40015_02	TCR Reports	2006	174,148	203,517	-29,369	-16.86
50137	Maestro Replacement	2006	515,000	749,992	-234,992	-45.63
30026_01	Automate EPS Meter Data Transmittal	2006	158,302	231,651	-73,349	-46.33
60090_01	Upgrade to Load Profiling SW	2007	140,979	111,432	29,547	20.96
60002_01	Increase Number of Seats for Study Market Clearing Engines	2007	103,608	86,231	17,377	16.77
50003	Enhancements to MOMS Study Market Clearing Engines	2007	1,073,389	958,712	114,677	10.68
40090_02	OTS System	2007	3,848,054	3,650,973	197,081	5.12
30105	Congestion Management Reports	2007	90,127	86,716	3,411	3.78
50005	EDW EMMS Extracts	2007	327,190	319,928	7,262	2.22
70031_01	Spectel Hotline System Replacement	2007	195,411	208,785	-13,374	-6.84
50130	SCE Performance and Monitoring	2007	47,959	92,500	-44,541	-92.87
		Count = 28	15,301,653	14,700,151	601,502	3.93

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' reports but closed in Lawson in 2007.
3. For the Eight Months Ending August 31, 2007.

Go Live Project for September

- **PR-60020_01: Lawson Managed Application Service Provider**
 - **Scope:** This project resulted in the migration of ERCOT's Lawson Software version 8.03, including any other software components, into the netASPx Managed Application Services (MAS) utility.
 - **Deliverables:** Provided a fully functional hosted Lawson Software System with existing capabilities, customizations, and access.
 - **Timeline:** August/2006 – September/2007

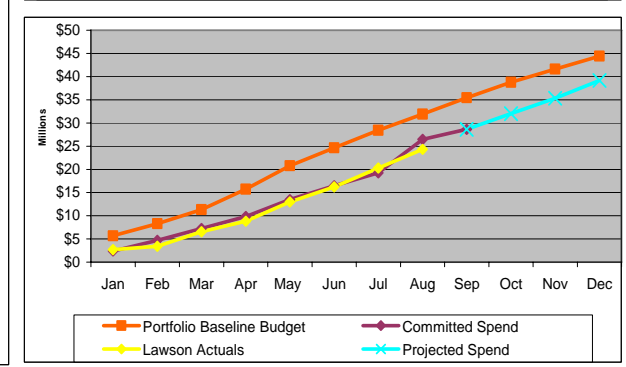
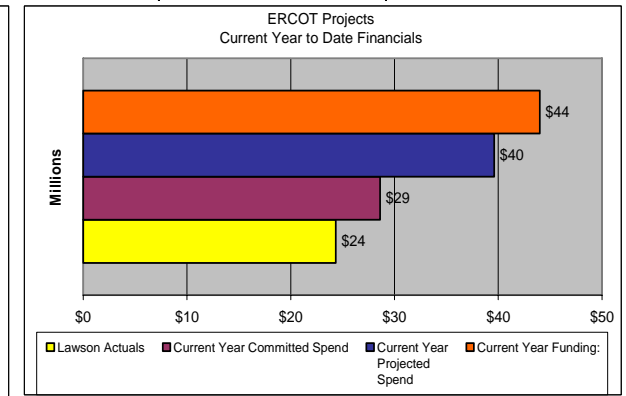
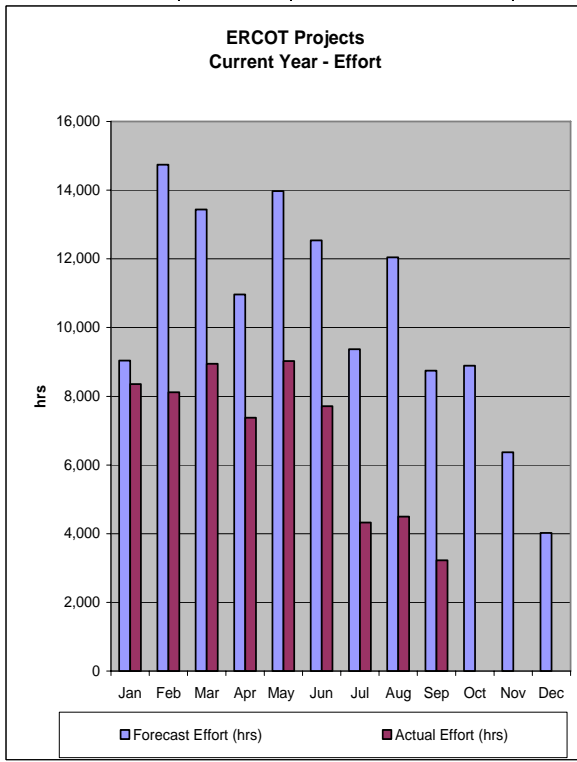
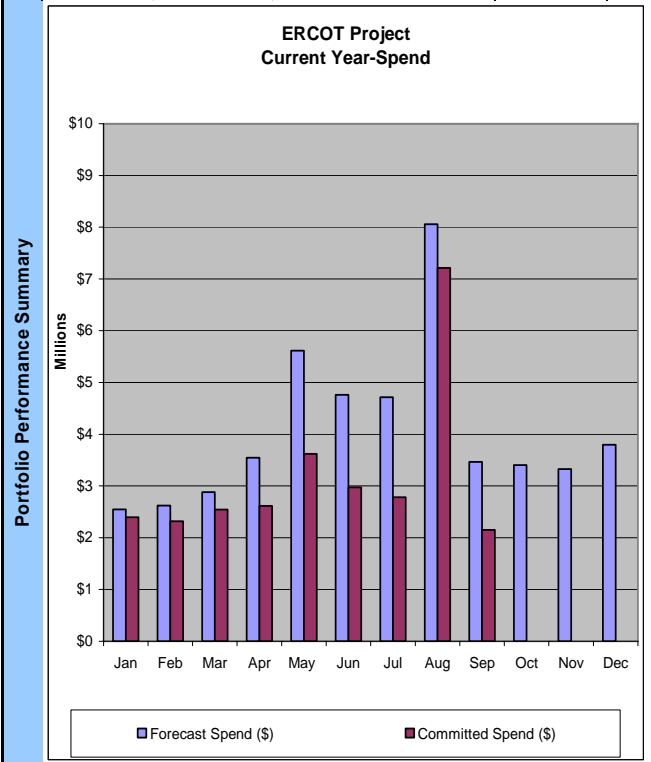
Projects Completed in September

- **PR-70029_01: Event Notification System**

- **Scope:** Provide System Operations with the ability to quickly, securely, and reliably distribute information about events in near real-time across multiple communication devices.
- **Deliverables:**
 - Installation of the system at ERCOT Austin and Taylor
 - Send messages via email, phone call, text messaging and fax
 - Activate a message via a web interface or touch tone phone
 - Ease of use for administrators and operators
- **Timeline:** February/2007 – September/2007

ERCOT Enterprise Projects Summary Report

ERCOT Overall Projects Report					Reporting Period: 9/30/2007						
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	6	20	26	13	Y	G	G	R
	Ron Hinsley	Steve Byone	Closed	19	Total Active		65				
		Cancelled	14	Projects Not Started:		7	Current Year Funding:		\$44,000,000		



Projections Trending Below Budget
 Testing environment contentions due to HP UNIX to IBM AIX UNIX transition.
 Resource contentions (mainly NODAL).
 Projects On-Hold/Not Approved to start by sources (PUCT, Compliance, IMM).

Project/Status Count Variance
 CO:(9 Deferred); IO:(1 NODAL in Closed); SO-DPO:(1 NODAL in Execution); SO-TRE:(1-Hold/1-Cancelled/2-Planning); Deferred:(8-2007 PPL).



Future Agenda Items – November 2007

- **Standing Internal Audit status report (s)**
- **Review Credit Work Group matters**
 - Chairman's report
 - CWG charter
 - CWG membership requirements
- **Review/update on Financial and Investment standards**
- **Potential workshop on credit review project and capital adequacy model**
- **2007 financial statement audit planning**
- **2007 SAS 70 audit status report**
- **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