



**ERCOT Finance & Audit Committee Meeting**  
**7620 Metro Center Drive, Austin, Texas**  
**Met Center, Conference Room 168**  
**September 16, 2008; 8:00am – 10:00am\***

| Item # | Agenda Item Type  | Description/Purpose/Action Required   | Presenter                  | Time   |
|--------|-------------------|---|----------------------------|--------|
| 1.     |                   | Call to order Executive Session   | C. Karnei                  | 8:00am |
| 2.     | Decision required | 2a. Approval of executive session minutes (Vote) (08/19/08)                           | C. Karnei                  | 8:00am |
|        | Informative       | 2b. Internal Audit status report  | B. Wullenjohn              | 8:02am |
|        | Informative       | 2c. Update on 2009 Internal Audit plan  | B. Wullenjohn              | 8:05am |
|        | Informative       | 2d. EthicsPoint update  | B. Wullenjohn              | 8:10am |
|        | For discussion    | 2e. Nodal program third party review – vendor contract status                         | B. Wullenjohn              | 8:15am |
|        | For discussion    | 2f. Met Center disposition project  | S. Grendel                 | 8:35am |
|        |                   | Recess Executive Session  |                            | 8:45am |
|        |                   | <b>Convene General Session</b>  |                            |        |
| 3.     | Decision required | Approval of general session meeting minutes (Vote) (08/19/08)                         | C. Karnei                  | 8:45am |
| 4.     | Decision required | Review results of and vote on acceptance of 2007 401(k) audit report (Vote)           | L. Porter                  | 8:47am |
| 5.     | Decision required | Annual charter review and committee structure (Vote)                                  | B. Wullenjohn/<br>S. Byone | 8:55am |
| 6.     | For discussion    | Financial update<br>- status of financing<br>- YTD financial results and 2008 outlook | C. Yager<br>M. Petterson   | 9:25am |
| 7.     | For discussion    | Other items   | All                        | 9:40am |
| 8.     | Informative       | Committee Briefs (Q&A only)   | All                        | 9:50am |
| 9.     | Informative       | Future agenda items   | S. Byone                   | 9:52am |
|        |                   | Adjourn ISO meeting   | C. Karnei                  | 9:55am |
|        |                   |   |                            |        |

\* Background material is enclosed or will be distributed prior to meeting. All times shown in the agenda are approximate.  
The next Finance & Audit Committee Meeting will be held Tuesday, October 21, 2008, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 168.

|                   |
|-------------------|
| Decision required |
| For discussion    |

### 3. Approval of General Session Minutes Clifton Karnei

- **Approval of General Session Minutes**
  - Vote 08/19/08

**DRAFT** ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.  
**MINUTES OF THE ISO FINANCE & AUDIT COMMITTEE – GENERAL SESSION**  
**7620 Metro Center Drive – Austin, Texas 78744**  
**August 19, 2008**

Pursuant to notice duly given, the Finance & Audit (F&A) Committee of the Electric Reliability Council of Texas, Inc. (ERCOT) convened on the above-referenced date. Clifton Karnei confirmed that a quorum was present and called the meeting to order at approximately **7:30 a.m.** The Committee met in Executive Session from **7:30 a.m.** to approximately **8:50 a.m.**, at which time it recessed to General Session.

**General Session Attendance**

Committee members:

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

Other Board Members and Segment Alternates:

|                      |                        |                       |         |
|----------------------|------------------------|-----------------------|---------|
| Ballard, Don         | Public Utility Counsel | OPUC                  | Present |
| Bartley, Steve       | CPS Energy             | Municipal             | Present |
| Smitherman,<br>Barry | PUCT Chairman          | PUCT                  | Present |
| Walker, Mark         | NRG Texas              | Independent Generator | Present |

ERCOT staff and guests present:

|                    |  |
|--------------------|--|
| Brenton, Jim       | ERCOT – Director, Security                         |
| Byone, Steve       | ERCOT – Vice President and Chief Financial Officer |
| Day, Betty         | ERCOT – Director, Commercial Operations            |
| Doolin, Estrellita | ERCOT – Assistant General Counsel                  |
| Grable, Mike       | ERCOT – Vice President and General Counsel         |
| Leady, Vickie      | ERCOT – Associate Corporate Counsel                |
| Lester, Suzanne    | ERCOT – Executive Assistant -- Finance             |
| Nersesian, Carin   | OPUC   |
| Petterson, Mike    | ERCOT – Controller                                 |
| Stauffer, Tarra    | ERCOT – Legal Assistant                            |
| Troxell, David     | ERCOT – Director, Program Management Office        |
| Wullenjohn, Bill   | ERCOT – Director, Internal Audit                   |
| Yager, Cheryl      | ERCOT – Treasurer                                  |

### **Approval of July 15, 2008 General Session Minutes**

**Nick Fehrenbach moved to approve the minutes for the General Session of the Finance & Audit Committee meeting held on July 15, 2008. Dan Wilkerson seconded the motion. The motion was passed by unanimous voice vote with no abstentions.**

### **Executive Session Matters**

During the Executive Session immediately preceding this General Session, the F&A Committee considered the selection of an auditor for the 2009 SAS 70 Audit, the selection of an auditor for the annual Financial Statement Audit for the Financial Year 2008, and a Financing Plan proposal.

**Nick Fehrenbach moved to approve PricewaterhouseCoopers (PwC) as the auditor for ERCOT's 2009 SAS 70 Audit and the Financial Statement Audit for FY 2008. Brad Cox seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

**Mr. Fehrenbach moved to have the Committee recommend to the Board that it approve the Financing Plan proposed by ERCOT staff in the best interest of ERCOT. Robert Thomas seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

### **Application of the 2007 Actual vs. Budget Revenue Requirement Variance**

Mr. Karnei reminded the Committee that it was previously recommended that the ERCOT Board of Directors (Board) direct ERCOT staff to apply any favorable budget variances from the 2007 budget year to fund up to forty percent of spending on the Met Center replacement initiative and employ the remaining favorable 2007 variance, if any, to reduce debt funding of other 2008 projects, and that there is a pending recommendation to the Board to reduce debt. He explained that Don Ballard had submitted a decision template that was distributed prior to the meeting; and the decision template addressed the application of the 2007 actual vs. budget revenue requirement variance in which the Public Utility Counsel requested that the Committee recommend to the Board the use of a portion of the favorable budget variance for customers sent to the Provider of Last Resort (POLR) as a result of recent market participant defaults. Mr. Karnei commented that the Committee could either rescind its action in favor of Mr. Ballard's proposal or stay with its current action; and the Committee could have this matter put on the agenda for vote in September 2008.

Mr. Ballard discussed recent positive changes with the wholesale market cap and the retail market guide changes. He mentioned that there was no longer a need for the variance to pay for switching costs. He withdrew the proposed decision template and supported the Committee's current action on this topic.

Mr. Karnei announced that he will inform the Board of Mr. Ballard's withdrawal of the proposal and request the approval of the F&A Committee's previous recommendation.

### **Quarterly Review of Investment Results**

Cheryl Yager referred to the Quarterly Review of Investment Results materials that were distributed prior to the meeting. Ms. Yager provided an overview of the Q2 2008 results. She pointed out that reserve funds are still being used as an investment. She also clarified that Texas Regional Entity (Texas RE) funds are segregated from the other ERCOT funds. Mr. Byone explained that Texas RE wanted separate bank accounts due to NERC compliance factors. Ms. Yager advised that the investments will be monitored to stay within investment range.

### **Credit Update**

Ms. Yager referred to the Credit Update materials that were distributed prior to the meeting. She addressed the market prices from May through July 2008 and pointed out the volatility in the South and Houston zones. She also addressed the impact on collateral requirements by both the volume of purchases from the Balancing Energy Service (BES) and the price of energy purchased. She commented that the May 2008 price events primarily impacted collateral requirements for Qualified Scheduling Entities that were drawing energy from the BES in the South and Houston zones.

With regard to actions taken, Ms. Yager mentioned that the ERCOT market and the Board passed a PRR in June 2008 to address the kind of situation that caused the May 2008 price events. She added that ERCOT credit staff monitored BES pricing through June and July 2008 and have noted significantly less volatility. In addition, she commented that exposure calculations were reduced in late July and early August 2008 and are currently at more traditional levels.

As to the Estimated Aggregate Liability (EAL) requirements, Ms. Yager provided a historical average. Mr. Karnei, Mr. Cox, Mr. Gent and Ms. Yager discussed the way the collateral calculations work. Mr. Gent inquired about prior interest in additional collateral. Mr. Byone and Ms. Yager responded that ERCOT seeks collateral for the current amount owed and the expected amount to be owed. Mr. Thomas inquired about collateral calls. Ms. Yager responded that liquidity is very critical in the market. Mr. Fehrenbach mentioned that he would like to hear more about guarantees in the future.

### **Committee Briefs**

Mr. Byone referred to the Committee Briefs materials that were distributed prior to the meeting. With regard to market risk assessment, Mr. Byone pointed out that ERCOT believes that it can and should be as responsive as possible to Public Utility Commission of Texas (PUCT) information needs regarding grid conditions and reliability actions that may have market impacts. He added that management plans to communicate regularly with the PUCT and the Independent Market Monitor on these topics, including potential scenarios and likely market impacts. As to the Risk Management Event Profile Matrix (as of August 1, 2008), it was noted that the Nodal Implementation Project was coded as full red.

### **Future Agenda Items**

Mr. Byone identified the following future agenda items:

- Met Center
- Engagements of external auditors for other services (pre-approval policy)
- Review year-end forecast
- Credit update
- Review of F&A Committee charter
- Committee briefs
- Future agenda items.

**Adjournment**

Clifton Karnei adjourned the meeting at approximately 9:40 a.m.

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Estrellita J. Doolin, Assistant General Counsel and  
Finance & Audit Committee Secretary

## 4. Review Results of and Vote on Acceptance of 2007 401(k) Audit Report (Vote) – Lea Anne Porter

- **No issues noted in the audit**
- **401(k) Audit report attached as separate document**
- **Please see Board agenda item #11a for decision template**
- **Discussion and Vote**

**R.W. Beck's April 2008 "Workforce Analysis of the Electric Reliability Council of Texas" report included:**

**Finding** – *"Given the size of the ERCOT Board of Directors, a clearly defined committee structure would help the Board accomplish its governance functions more effectively."*

*"...In addition, separating the Audit Committee from the Finance Committee would allow a higher degree of independent assessment by the responsible Board members."*

**Recommendation 2-2 –**

*"...separate the Audit Committee of the Board from the Finance Committee..."*



## Finance & Audit Committee Structures at the other ISOs

- **IESO** – Combined Finance and Audit Committee
- **ISO-NE** – Combined Finance and Audit Committee
- **MISO** – Combined Finance and Audit Committee
- **PJM** – Combined Finance and Audit Committee
- **CAISO** – No longer has a Finance Committee. Instead, CAISO has an Alternate Dispute Resolution (ADR)/Audit Committee. CAISO only has five Board members and they are all generally involved in the Committee meetings. Financial audits are presented to the ADR/Audit Committee, but financial information is provided to the whole Board in Executive Session.
- **NYISO** – Earlier this year, the Finance Committee was combined with the Business Issues & Compensation Committee, forming the new Compensation and Commerce Committee. There is a separate Audit and Compliance Committee.

## Finance & Audit Committee Meeting Frequency at the other ISOs

- **IESO** – Five meetings in 2008, Feb., April, June, Sept., Nov.
- **ISO-NE** – Ten meetings per year. The Committee would like to pare down to four meetings on audit, and four on finance.
- **MISO** – Quarterly, plus an occasional telephonic meeting to bring closure to a budget issue, etc.
- **PJM** – Seven or eight times per year, plus at least two conference calls which are almost always finance related.
- **CAISO** – The ADR/Audit Committee meets at each scheduled board meeting. There are approximately ten Board meetings per year, plus possible special meetings to deal with emerging events, etc.
- **NYISO** – The Audit and Compliance Committee will meet seven times in 2008, plus hold another three conference calls. The new Compensation and Commerce Committee is expected to meet about six times per year (still getting sorted out). The two committees will meet jointly twice a year related to the external auditors.

## 5. Annual Charter Review and Committee Structure Bill Wullenjohn / Steve Byone

### Finance & Audit Committee Structures at Some Utility Companies:

- **Brazos** – Combined Finance and Audit Committee
- **Integrys** – Separate Finance Committee and Audit Committee
- **Entergy** – Separate Finance Committee and Audit Committee
- **Centerpoint** - Separate Finance Committee and Audit Committee
- **AEP** – Separate Finance Committee and Audit Committee
- **PG&E** – Separate Finance Committee and Audit Committee
- **First Energy** - Separate Finance Committee and Audit Committee
- **Xcel** - Separate Finance Committee and Audit Committee
- **Edison Intl.** - Separate Finance Committee and Audit Committee
- **Pinnacle West**- Finance is combined with Nuclear and Operating Committee. There is a separate Audit Committee
- **Exelon** – There is an Audit Committee, as well as Corporate Governance and Risk Oversight Committees, but no Finance Committee.
- **Reliant** – Finance oversight is combined with Risk Committee. There is a separate Audit Committee.
- **Duke** – Finance is combined with Risk Management Committee. There is a separate Audit Committee.
- **TXU** – Finance is combined with Business Development Committee. There is a separate Audit Committee
- **Constellation** – There is a separate Audit Committee, as well as Compensation and Nominating/Corporate Governance Committees, but no Finance Committee.

**The Sarbanes-Oxley Act of 2002, Section 301, contains requirements for Audit Committee Independence for Public Companies:**

• **3) INDEPENDENCE -**

**(A) IN GENERAL** - Each member of the audit committee of the issuer shall be a member of the board of directors of the issuer, and shall otherwise be independent.

**(B) CRITERIA** - In order to be considered to be independent for purposes of this paragraph, a member of an audit committee of an issuer may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee--

(i) accept any consulting, advisory, or other compensatory fee from the issuer; or

(ii) be an affiliated person of the issuer or any subsidiary thereof.

**(C) EXEMPTION AUTHORITY** - The Commission may exempt from the requirements of subparagraph (B) a particular relationship with respect to audit committee members, as the Commission determines appropriate in light of the circumstances

**From Sarbanes-Oxley Act reforms for public companies, Best Practices have been developed for nonprofit organizations.**

**Best Practice Guidance for Nonprofits –**

**Have an independent and competent Audit Committee that is separate from the Finance Committee, that is not compensated for its work, that does not include directors who do business with the organization, and that does not include officers or other employees with voting rights.**

## **Separating the Audit Committee from the Finance Committee:**

### **The Pros –**

1. Demonstrates independence of the audit function.
2. Demonstrates the effort to increase and improve governance best practices.
3. Provides a more independent review function.
4. Follows best practices guidance for nonprofit organizations. Note that the Sarbanes-Oxley Act of 2002 does not specifically state that an Audit Committee should be separate from a Finance Committee. (Ref Sec. 301)
5. Audit findings may be able to be discussed in more detail than the current committee structure permits.
6. More time available to devote to audit related matters, both Internal Audit and External Audit.
7. Is more aligned with the prevalent practice of a separate and independent Audit Committee that exists at major public utility companies.

## Separating the Audit Committee from the Finance Committee:

### The Cons –

1. Need to develop and obtain approval for new Charters for each committee. Will require a change in ERCOT Corporate Bylaws.
2. May result in more meetings for both Board members and ERCOT staff to attend.
3. Increased administrative effort to support two committees versus one (e.g., development and distribution of committee materials). Additional administrative duties and funds may be necessary to maintain separate committees.
4. Inconsistent with the majority of the practices at the other ISOs.
5. Some current committee members may want to be involved with both committees, thereby creating challenges for time, availability, and logistics. This could result in some membership overlap with the Finance Committee and Audit Committee. \*\*
6. Separate committees cannot meet at the same time (e.g., 8:00am – 10:00am on Board meeting dates) as some ERCOT management/staff must attend all meetings for both committees.
7. Some information will need to be provided to both committees. In the absence of combined committee meetings, duplication of staff time (including external auditor presentations) and material will need to be created and distributed.
8. On-hand financial expertise/resources at Audit Committee meetings may be limited.

\*\* However, the Chair of the Finance Committee should not be on the Audit Committee.

## 5. Annual Charter Review and Committee Structure

Bill Wullenjohn / Steve Byone

### Some Options for Committee Consideration:

- **Option #1 –**  
No Change to current Committee structure and meeting schedule.
- **Option #2**  
Split the Committee into a separate Audit Committee and a separate Finance Committee, effective at a future date in 2009. Meeting frequency and membership of the separate Committees TBD.
- **Option #3**  
Split the Committee and divide its membership into a separate Audit Committee and a separate Finance Committee, effective at a future date in 2009. Each Committee would hold five meetings per year on an alternating schedule, plus two meetings each year would be a combined Audit Committee and Finance Committee meeting. Meetings could be held in the existing time slot prior to Board of Director meetings.
- **Option #4**  
Retain the current Committee structure, but alter the meeting focus to five audit-focused meetings and five finance-focused meetings per year. Two meetings each year would remain combined audit/finance focused.
- **Option #5**  
Retain the current Committee structure, but reduce the number of meetings to four, six, or eight meetings per year. Lengthen the duration of the meetings to provide more in depth review of topics and issues (e.g., meet 10:00am – 4:00pm on the Monday prior to the Board meetings).



## 5. Annual Charter Review and Committee Structure

Bill Wullenjohn / Steve Byone

- **ERCOT staff reviewed the Committee charter and does not recommend any changes, except those which may be necessary pending the Board's decision on the Committee structure.**
- **Existing Charter is attached as separate document for your use in conducting the annual review.**
- **Discussion and recommendation on Committee structure and Charter changes (Vote)**



## THE ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. FINANCE & AUDIT COMMITTEE CHARTER

### Purpose

The Finance and Audit Committee (the "Committee") of the Board of Directors of ERCOT (the "Company") shall:

1. Oversee the Company's budget process and adherence to budget;
2. Provide recommendations to the Board of Directors for establishing levels of financing and in setting the Company's fees, including its administrative fee;
3. Review and make recommendations to the Board of Directors regarding investment and financial standards for the Company;
4. Review and make recommendations to the Board of Directors regarding credit standards, procedures, governance, ERCOT Protocols and other market rules which impact credit risk;
5. Ensure that the Company's financial statements are timely audited by qualified accountants who are independent;
6. Assist the Board of Directors in fulfilling its oversight responsibility with respect to the Company's maintenance of an effective internal audit function;
7. Establish and maintain procedures for the receipt (including anonymous submission), retention and treatment of complaints regarding accounting, internal controls, and auditing;
8. Perform such other duties and responsibilities enumerated in and consistent with this Charter.

The Committee's function is one of oversight, recognizing that the Company's management is responsible for preparing the Company's financial statements, and the independent auditor is responsible for auditing those statements. In adopting this Charter, the Board of Directors acknowledges that the Committee members are not employees of the Company and are not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the external auditor's work or auditing standards. Each member of the Committee shall be entitled to rely on the integrity of staff and external auditors to provide accurate, complete financial and other information to the Committee, absent actual knowledge to the contrary.

While the Committee has the responsibilities, duties and powers set forth in this Charter, it shall be the responsibility and duty of the Company's management and independent auditor, and not the responsibility or duty of the Committee, to plan or conduct audits, to make any determination that the Company's financial statements are complete, accurate and in accordance with generally accepted accounting principles, and to assure compliance with laws, regulations and the Company's ethics policies. It is the responsibility of the Committee to conduct investigations and resolve disagreements regarding financial reporting, if any, between management and the independent auditor.

The Committee shall provide assistance to the Board in fulfilling its oversight responsibility relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company's financial statements and the legal compliance and ethics programs as established by management and the Board. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee and the Company's independent auditors, internal accounting personnel and management.

## **Membership**

The Committee shall be comprised of at least five Board members, at least three of which are from market Segments and two or more of which must be Independent Board members of the Company. Each Member must be able to read and understand fundamental financial statements, including the balance sheet, income statement and cash flow statement. At least one Member must have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which ensures the individual's financial sophistication, including a past or current position as a Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") or other senior officer with financial oversight responsibilities.

The board members shall decide from among themselves who shall participate in the Committee. The term shall be for one year.

The Chair of the Committee shall be selected through a majority vote of the Committee members. The Committee Chair shall not be the CEO of the Company and shall have accounting or related financial management expertise.

The Committee may request that any officers or employees of the Company, or any other person, whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

**Board members (other than Committee members) including Board member alternates may attend and participate in all Committee meetings but may not participate in Committee voting.**

Non-Committee members may attend Committee meetings at the discretion of the Committee. The Committee may exclude any persons who are not Directors, the Segment Alternate or the Director's Designated Representative from any meeting or portion of any Committee meeting that the Committee determines, in its discretion, needs to be held in closed session to discuss personnel issues, confidential legal matters, negotiations or other business of the Committee involving confidential information.

## **Qualifications**

Each member of the Committee shall also meet any experience requirements as may be established from time to time by the Board of Directors. The Board of Directors shall endeavor to appoint at least one member to the committee who is a financial expert as such term may be defined from time to time by the Board of Directors, the accounting industry or other regulatory authorities.

## **Authority**

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain outside counsel or other experts for this purpose. All employees are directed to cooperate as requested by the Committee or any of its Members for Committee purposes. The Committee may request any officer or employee of the Company, the Company's outside counsel or the Company's independent auditor to attend a meeting of the Committee or to meet with any Member or any consultants to the Committee.

The Director of Internal Audit is the Chief Audit Executive at the Company. The Company's Chief Audit Executive shall report directly to the Committee. For administrative purposes, the Chief Audit Executive shall report to the CEO. The Committee shall approve an Annual Internal Audit Plan prepared by the Chief Audit Executive. The Chief Audit Executive shall (1) manage the execution of the Annual Internal Audit Plan, (2) conduct investigations at the direction of the Chair and the Committee, and (3) make periodic reports to the Committee at regularly scheduled Committee meetings and as otherwise directed by the Chair and the Committee.

The Committee may appoint workgroups or task forces to investigate issues defined by the Committee. Members of such workgroups or task forces need not be Directors. Such workgroups or task forces shall have no authority to bind the Committee or the Company.

### **Structure**

The presence of at least half of the members of the Committee shall constitute a quorum. At any meeting at which a quorum exists, the act of a majority of the members present at a meeting shall be the act of the Committee. For the purposes of voting, members who recuse themselves from voting on an issue shall not be counted as present for that vote.

The Chair, in consultation with the CFO, shall develop the agenda, the frequency, and length of meetings and shall have unlimited access to management and information for purposes of carrying out functions of the Committee. The Chair shall establish such other rules, as may from time to time be necessary and proper for the conduct of the Committee.

### **Duties and Responsibilities**

The following shall be the prominent recurring duties and responsibilities of the Committee in carrying out its oversight functions. The duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, and by the Company's Articles of Incorporation and Bylaws:

#### ***With respect to budget oversight and financing:***

1. Annually, on a schedule to be established by the Board of Directors, the Committee shall review staff's proposed budget for the following year, including proposed staffing levels, proposed capital expenditures, and other proposed expenditures.
2. The Committee shall review the staff's estimate of revenues to support all proposed expenditures, including staff's recommendations for fee levels for the following year.
3. The Committee shall review the staff's recommendation of the amount and type of financing that may be needed to support the proposed budget, including the staff's proposed financial performance measures (e.g. ratios).
4. Following the Committee's review of the above items, the Committee shall recommend to the Board of Directors a staffing level, a proposed budget, proposed fees, and proposed financial performance measures for the following year.

#### ***With respect to maintaining investment and financial guidelines for the Company, the Committee shall:***

1. Establish standards by which the Company will invest funds and maintain its financial health/strength and review these standards at least annually, recommending updates to the Board of Directors as needed.

***With respect to the Company's credit policies and standards:***

1. The Committee shall review the Company's credit policies to consider:
  - a. Appropriateness of credit practices and creditworthiness standards established for market participants;
  - b. Compliance with existing creditworthiness standards by market participants;
  - c. Compliance with credit-related Protocols and market rules; and
  - d. Development of appropriate methods to evaluate and mitigate credit risk;
2. The Committee's review shall consider the recommendations of staff and the Credit Work Group and the decisions of the appropriate stakeholder groups, including the Technical Advisory Committee.
3. Following each such review, the Committee may, in its discretion, recommend to the Board of Directors any proposed changes to the previously approved credit policies.

***With respect to the independent auditors:***

1. Annually, the Committee shall recommend to the Board of Directors the selection and engagement of the Company's independent auditor. The Committee shall fulfill the oversight responsibility of the Board of Directors with respect to the independent auditors' audit of the books and accounts of the Company and for the fiscal year for which it is appointed.
2. The Committee shall approve the provision of all auditing and non-audit services (in excess of \$5,000) by the independent auditor to the Company in advance of the provision of those services and shall also approve the fees for all non-audit services provided by the independent auditor.
3. Provision of non-audit services of less than or equal to \$5,000 by the independent auditor to the Company do not require pre-approval from the Committee, but shall be communicated in writing to the members of the Committee at the first meeting following the engagement for the non-audit services at issue.
4. In connection with the Committee's approval of non-audit services, the Committee shall consider whether the independent auditor's performance of any non-audit services is compatible with the external auditor's independence.
5. At least annually, the Committee shall obtain and review a report by the independent auditor describing:
  - a. the independent auditor's internal quality control procedures;
  - b. all relationships between the independent auditor and the Company, in order to assess the auditor's independence.
6. The Committee shall also review any report by the independent auditor describing:
  - a. significant accounting policies and practices used by the Company;
  - b. alternative treatments of financial information as required to be discussed by the independent auditors with the Committee; and
  - c. any other material written communication between the independent auditors firm and the Company's management.
7. Establish the Company's hiring policies for employees who are former employees of the Company's independent auditors.

***With respect to the Company's financial statements:***

1. The Committee shall discuss the annual audited financial statements with management and the independent auditor, including the Company's disclosures.
2. The Committee shall review disclosures made to the Committee by the Company's CEO and CFO about any significant deficiencies in the design or operation of the internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

3. In connection with its review of the Company's financial statements, the Committee shall review and discuss with the independent auditor the matters relating to the conduct of the audit as they may be modified or supplemented, including, but not limited to, significant judgments, significant estimates, critical accounting policies, and unadjusted differences.
4. Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
5. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.
6. Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
7. Review any and all press stories that relate to the Company's accounting and disclosure, require that management or the auditor explain any negative comments and determine whether these comments necessitate a change in the accounting structure of the Company.
8. Based on its review and discussions with management, the Chief Audit Executive and the independent auditor, the Committee shall provide a recommendation to the Board of Directors whether the Company's financial statements should be accepted.

***With respect to periodic reviews and reports:***

1. Periodically, the committee shall meet separately with senior management, the Chief Audit Executive and the independent auditors.
2. The Committee shall review with the independent auditor any audit problems or difficulties and management's response to them.
3. The Committee shall review the Company's policies with respect to risk assessment and risk management.
4. The Committee shall review a summary of the Company's dealings with any financial institutions that are also market participants.
5. The Committee shall communicate to the Board of Directors the matters discussed at each meeting of the Committee, including any issues with respect to the quality or integrity of the Company's financial statements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.
6. The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors.

***With respect to Internal Audit:***

1. The Committee shall review with management and the Chief Audit Executive the charter, activities, staffing, and organizational structure of the internal audit function.
2. The Committee shall have final authority to review and approve the Annual Internal Audit Plan and all major changes to the Plan.
3. The Committee shall review, considering the recommendations of the independent auditors and the CFO, the scope of the Internal Audit Plan and the plan of work to be done by the Company's Internal Audit Department, and the results of such work.
4. The Committee shall review the significant reports to management prepared by the Internal Audit Department and management's responses.
5. The Committee shall ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive.
6. The Committee shall, at least once per year, review the performance of the Chief Audit Executive and concur with the annual compensation and salary adjustment.

7. The Committee shall review the adequacy and effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
8. The Committee shall, on a regular basis, meet separately with the Chief Audit Executive in executive session to discuss any matters that the committee or Internal Audit believes should be discussed privately.

***With respect to the other matters:***

1. The Committee shall inquire of management and the independent auditors about significant risks or exposures to the Company and the Company's market and assess the steps management has taken to minimize such risks.
2. The Committee shall establish procedures for:
  - a. The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
  - b. The confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.
3. The Committee shall establish the Company's hiring policies for employees who are former employees of the Company's independent auditor's.
4. The Committee shall meet at least biannually with the independent auditor and the CFO in separate executive sessions.

**Meetings**

The Committee shall meet at least once during each fiscal quarter, and as many additional times as the Committee shall deem necessary or appropriate.

**Minutes**

The Committee shall designate a secretary, who may be a Committee Member or employee of ERCOT, who shall prepare or cause to be prepared the minutes of each meeting and file such minutes with the corporate records of the Company. The secretary shall send, or cause to be sent, copies of such minutes to each of the Members.

**Evaluation**

The Committee shall undertake an annual evaluation assessing its performance and, in light of this, consider changes in its membership, charter or procedures. The Committee shall report to the Board the results of its evaluation, including recommended charter, membership and other changes, if any.

- **Status of financing**
  - Briefing to be provided at the meeting
- **YTD financial results and 2008 outlook**
  - See ERCOT financial summary from Board item #5a



- **For discussion**

**Q&A only**

## ERCOT Market Credit Status

as of 8/07/2008

as of 8/31/2008

### Exposure in the ERCOT Market (owed to ERCOT)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

| # of QSEs*  | Estimated Aggregate Liability (\$) | % of EAL           | Total Unsec Credit Limit / Security Posted |               |
|---|------------------------------------|--------------------|--|---------------|
| 12  | 100,205,278                        | 15%                | 165,055,128                                | U             |
| <u>QSEs that do not meet ERCOT Creditworthiness Standards</u> |                                    |                    |  |               |
| Ratings below BBB- or not rated                               |                                    |                    |  |               |
| Cash & Letters of Credit                                      | 45                                 | 300,459,636        | 45%  | 592,867,668 S |
| Guarantee Agreements  | 15                                 | 261,942,577        | 40%  | 497,173,908 S |
| <b>Total Exposure</b>   | <b>72</b>                          | <b>662,607,491</b> | <b>100%</b>                                |               |

| # of QSEs*  | Estimated Aggregate Liability (\$) | % of EAL           | Total Unsec Credit Limit / Security Posted |               |
|---|------------------------------------|--------------------|--|---------------|
| 9   | 48,689,494                         | 7%                 | 144,169,255                                | U             |
| <u>QSEs that do not meet ERCOT Creditworthiness Standards</u> |                                    |                    |  |               |
| Ratings below BBB- or not rated                               |                                    |                    |  |               |
| Cash & Letters of Credit                                      | 45                                 | 422,485,633        | 62%  | 646,050,024 S |
| Guarantee Agreements  | 18                                 | 214,968,756        | 31%  | 547,433,082 S |
| <b>Total Exposure</b>   | <b>72</b>                          | <b>686,143,883</b> | <b>100%</b>                                |               |

### Other QSEs in the ERCOT Market (ERCOT owes)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

|              |               |                      |              |   |
|--------------|---------------|----------------------|--------------|---|
| 7            | (6,035,983)   | -4%                  | 63,067,679   | U |
| 51           | (111,831,578) | -71%                 | 47,413,104   | S |
| 9            | (39,744,026)  | -25%                 | 241,059,174  | S |
| <b>Total</b> | <b>67</b>     | <b>(157,611,587)</b> | <b>-100%</b> |   |

|              |              |                      |              |   |
|--------------|--------------|----------------------|--------------|---|
| 9            | (11,303,590) | -8%                  | 81,405,958   | U |
| 51           | (86,082,144) | -57%                 | 41,243,974   | S |
| 7            | (52,581,511) | -35%                 | 193,997,000  | S |
| <b>Total</b> | <b>67</b>    | <b>(149,967,245)</b> | <b>-100%</b> |   |

Total

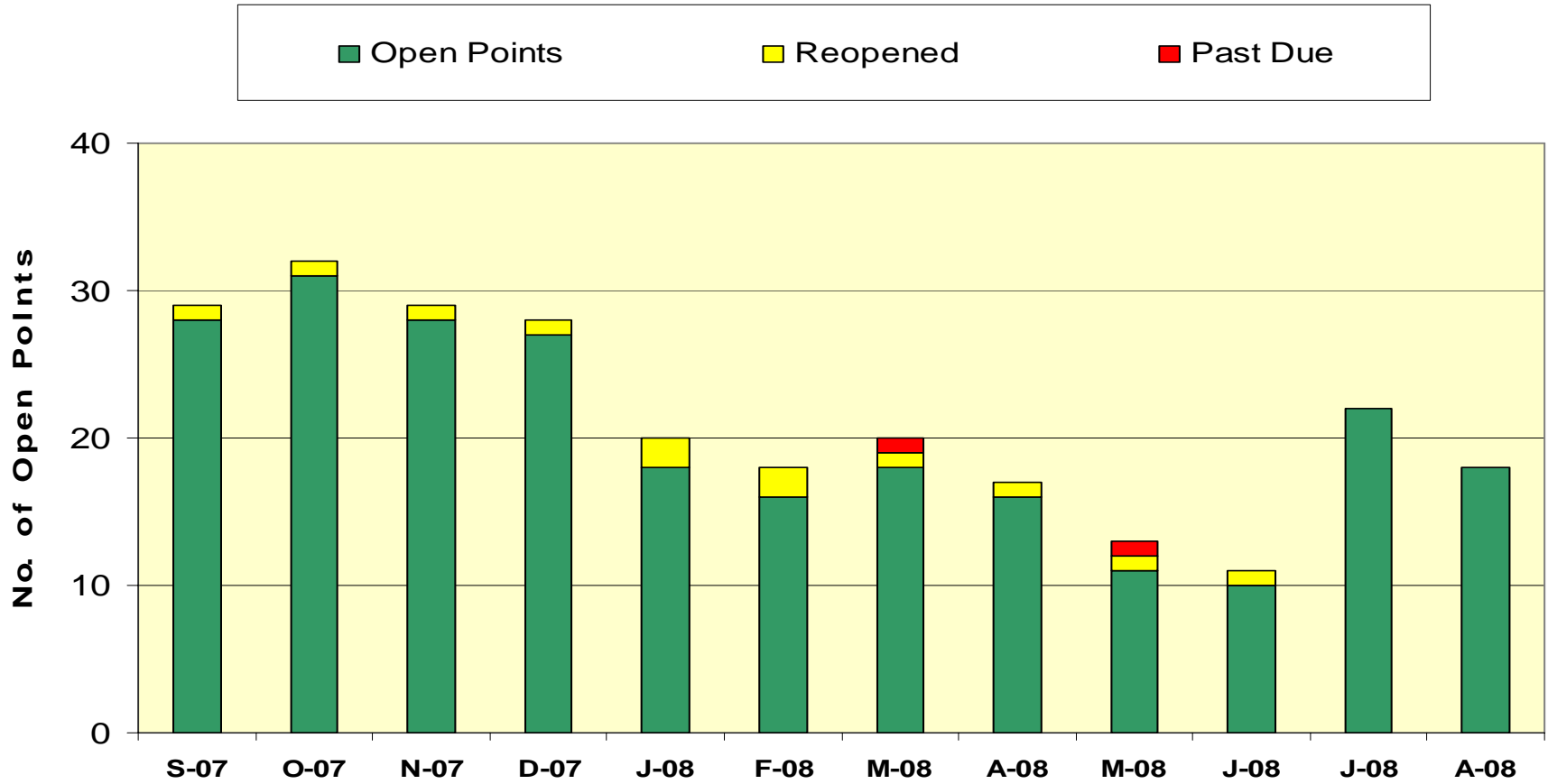
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U: Unsecured since these QSEs meet the creditworthiness standards  
 S: Secured i.e. required to post collateral since these QSEs do not meet the creditworthiness standards

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

## Cheryl Moseley



|                         |    |    |   |   |   |   |    |   |   |   |    |   |
|-------------------------|----|----|---|---|---|---|----|---|---|---|----|---|
| <b>Audits Completed</b> | 1  | 3  | 1 | 3 | 0 | 2 | 3  | 2 | 3 | 3 | 3  | 1 |
| <b>Points Added</b>     | 4  | 20 | 1 | 5 | 0 | 5 | 11 | 3 | 0 | 6 | 11 | 2 |
| <b>Points Completed</b> | 15 | 17 | 4 | 6 | 8 | 7 | 9  | 6 | 4 | 8 | 0  | 6 |

Open audit points projected to be complete by September 30, 2009.

## 8. Committee Brief: Audit Cheryl Moseley

### **Audits Completed**

(last 3 months)

#### **Internal Audits**

- Nodal Spending
- Nodal Procurement Compliance
- NERC CIP Standards (Pre-Audit Testing; Special Request)
- Protocol 1.4 Independence Verification

#### **External Audits**

- Texas Nodal Program Controls – Review #6 (MP Nodal Readiness Evaluation) (IBM -Managed by IAD)
- Texas Nodal Program Control – Review #7 (ERCOT Nodal Readiness Evaluation) (IBM – Managed by IAD)

### **Open Audits**

#### **Internal Audits**

- Nodal Contractor/Vendor Billing
- Q2 2008 Fraud Auditing
- Cash and Investments
- Capability Maturity Model Assessment of the Enterprise Information Service Group (Special Request)

#### **External Audits**

- Benefit Plan Audit (Maxwell, Locke & Ritter)
- SAS70 Audit (PricewaterhouseCoopers)

### **Planned Audits**

(next 3 months)

#### **Internal Audits**

- Protocol 1.4 Ethics Compliance
- Operational Procedure Compliance
- Background Checks & Drug Screens for Contractors
- Q3 Fraud Auditing
- Fixed Assets (Testing of Personal Computer Asset Custody Process)

#### **External Audits**

- None

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

External Assessments

1 security assessment

**Open Consultation/  
Analysis Reviews**

External Assessments

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

External Assessments

1 security assessment  
planned for Nodal  
1 security assessment  
planned

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

| Strategic  | Operational Excellence   | Market Facilitation  | Grid Reliability  | Reporting   | Legal and Regulatory Compliance   |
|--|--|--|---|---|---|
| <b>Strategy Development</b><br>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.  | <b>Performance Monitoring</b><br>Clearly defined and actively monitored performance metrics linked to mission and goals - Performance status communicated and corrective action taken.   | <b>Customer Choice</b> ↓<br>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.<br><br>See business practices section.  | <b>Grid Operations</b><br>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.   | <b>Review Practices</b><br>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.  | <b>Legal &amp; Legislative</b><br>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.  |
| <b>Mission and Goals</b><br>Corporate objectives and performance standards are understood and followed.<br><br>New Strategic Plan needs to be integrated into the latest business planning cycle.  | <b>Business Practices</b><br>Business planning, processes and management standards are effective and efficient.<br><br>Revisions to Business Continuity, Emergency Response and Pandemic Preparedness plans completed, approved and tested. DR plans and testing (table top only) completed for commercial/corporate applications except Exchange and Citrix which have a plan but have not been tested. Market Ops BC/DR testing for zonal systems is scheduled for completion by Q2-09.<br><br>Future efforts will now focus on adding nodal systems to BC/DR Plans to coincide with the start of the 168-hr test. The specific timing of this test will be determined after the revised Nodal Schedule has been approved. | <b>Nodal Implementation Project</b><br>Nodal Implementation on budget on schedule, and within defined scope.<br><br>Program going through significant changes in leadership and direction. ERCOT has shifted perspective to a model that better supports integration of multiple large projects at the program level to ensure successful integration and delivery. Focus is on program and budget controls, resource management and release management.<br><br>New project schedule is nearly complete & budget is under development. The plan is to share with TPTF to finalize the budget. Delivery dates to the Board is to be determined. Development of integrated project schedule has had a positive impact by revealing gaps in project alignment issues. Software defects have risen as testing intensifies. While severity 1 and 2 defects are reasonably low, severity 3 defects are significant and warrant a RED status on quality. Vendors continue to deliver updates to address defects.<br><br>CIM importer progress has improved with vendor application testing is underway. | <b>Planning</b><br>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.<br><br>The Long Term System Assessment (LTSA) work has started. At the July Regional Planning Group meeting, a draft scope of work was discussed and we obtained helpful stakeholder feedback. The PUCT decision on CREZ Scenario 2 was very helpful in defining the starting point for the study. System Planning department staffing has improved, but staff augmentation will be required to complete the LTSA on time.  | <b>Disclosure</b> ↑<br>Reporting and other disclosures to intended parties is timely, accurate and effective.<br><br>ERCOT is reviewing the format and content of nodal reporting to insure information is adequate to support BOD governance function. | <b>Internal Control Compliance</b><br>Internal Control Compliance, processes and management standards are effective and efficient.<br><br>ERCOT is developing a process to ensure changes to policies/procedures are periodically communicated to all ERCOT staff and contract workers.   |
| <b>Reputation</b><br>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.<br><br>Increased publicity associated with the delay of the Nodal market and the potential for associated cost increases, anticipated new fee filings for the nodal surcharge and System Administration fee, high congestion, high price volatility and recent credit defaults have the potential to negatively impact ERCOT's reputation. | <b>Workforce</b> ↑<br>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.<br><br>Turnover concerns for both contractors and employees due to Nodal delay. The nodal readiness metric for employee staffing (currently at amber, with a 96% of critical nodal positions filled) at risk due to the recent increase of the target to a level of 98% staffing for nodal positions. ERCOT considering incentive programs and succession coverage for critical resources to mitigate this risk. ERCOT is currently recruiting for 37 open positions.  | <b>Counterparty Credit</b><br>Maintain credit risk exposure for overall market within acceptable limits.<br><br>A draft Credit Risk standard has been circulated and is being reviewed with stakeholders. A proposal is expected to be submitted to F&A in October or November. Year to date, several QSEs have failed to post required collateral and five have been removed from the market. Processes that were implemented in mid-2006 to switch customers from defaulting QSEs in 3-4 business days were successfully implemented. There is an increased risk of additional defaults by market participants if energy price volatility remains high.  | <b>Bulk System Resources</b><br>Market Participants construct and make available adequate bulk electric grid resources.   | <b>Communication</b><br>Internal & external communications are timely and effective.  | <b>Industry Standards</b><br>Business practices provide stakeholders with required assurances of quality.<br><br>Initiation of ERO/TRE reliability standard Compliance Monitoring and Regional Entity Compliance Program in Jun-07 introduces additional audit and penalty risks which ERCOT is still assessing. Although current decentralized compliance activities are adequate, ERCOT is in the process of centralizing the compliance function to provide more focus on these issues. ERCOT will have a NERC Compliance Audit in September 2008. |
| <b>Fiscal Management</b><br>ISO design requires competent, prudent and cost effective provision of services.   | <b>Technology Infrastructure</b><br>Information systems, supporting facilities and data are effectively managed and are reliable.<br><br>Systems remain stable in nearly all areas. Retail systems struggling to maintain SLA levels, especially Texas Market Link (TML). Root cause discussions underway and findings will be reported to the market. Market has legitimate concerns over the stability of TML and ERCOT IT shares those concerns. Data Center constraints will exist until new facilities are built.   | <b>Administration, Settlement &amp; Billing</b> ↓<br>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.<br><br>See business practices section.   | <b>Operational Responsibility</b><br>Market participant conduct their operations in a manner which facilitates consistent grid reliability.<br><br>Response of generators and LaaRs to grid operation events has been improving. Enhanced enforcement of NERC standards and ERCOT Protocols and Operating Guides will exist through the ERO / TRE and IMM which will provide additional incentive for improved performance. Increased wind generation will present additional operational challenges that a study indicated can be met. A joint ERCOT Staff and Market Participant Wind Operations Task Force is addressing several operational issues regarding wind generation and is making recommendations on changes to more reliably integrate wind generation. | <b>Adequacy and Integrity</b><br>Robust processes exist to support management assertions embodied within financial reports.   | <b>Regulatory Filings</b><br>Evidence, testimony and other supporting materials are compelling and successful.<br><br>System Admin Fee rate case application was filed with the PUCT on June 17.  |

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

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



## Color Code Methodology for Ranking Residual Risk

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

# 8. Committee Brief – PMO David Troxtell

## Year to Date Project Activity by Division

|             | Phase                    | Not Started | Initiation | Planning | Execution | Closing | Closed | Totals Excluding Non-Active | Cancelled | On Hold | Deferred | Totals by CART | Go-Live* (To Date) | Projected Go-Live (by Y.E.) |
|-------------|--------------------------|-------------|------------|----------|-----------|---------|--------|-----------------------------|-----------|---------|----------|----------------|--------------------|-----------------------------|
| <b>CART</b> | Corporate Operations     | 8           | 3          | 6        | 9         | 8       | 7      | 41                          | 8         | 1       | 4        | 54             | 9                  | 11                          |
|             | IT Operations            | 0           | 1          | 1        | 5         | 1       | 10     | 18                          | 1         | 0       | 0        | 19             | 9                  | 15                          |
|             | Market/Retail Operations | 0           | 1          | 2        | 5         | 5       | 4      | 17                          | 1         | 1       | 13       | 32             | 6                  | 10                          |
|             | System Operations        | 0           | 0          | 2        | 3         | 0       | 2      | 7                           | 0         | 0       | 0        | 7              | 1                  | 5                           |
|             | <b>Totals by Phase</b>   | 8           | 5          | 11       | 22        | 14      | 23     | 83                          | 10        | 2       | 17       | 112            | 25                 | 41                          |
|             | <b>Total Non-Active</b>  |             |            |          |           |         |        |                             | 29        |         |          |                |                    |                             |

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

\* Projects Gone Live in August 2008

(IO) PR-70054\_01 Blade Refresh

(MORO) PR-60015\_01 Siebel Data Model Assessment

(CO) PR-80035\_01 Intranet Assessment HR & Communications

# 8. Committee Brief – PMO













## David Troxtell

### Year to Date Project Priority List (PPL) Status

| PPL Iterations  | Origination | Project Phases |            |          |           |         |        |         |           | Deferred Projects | Subtotal | Grand Total |
|---|-------------|----------------|------------|----------|-----------|---------|--------|---------|-----------|-------------------|----------|-------------|
|   |             | Not Started    | Initiation | Planning | Execution | Closing | Closed | On Hold | Cancelled |                   |          |             |
| Original 2008 (October) PPL                             |             |                |            |          |           |         |        |         |           |                   | 64       |             |
|   | PUCT        |                |            |          |           |         |        |         |           |                   | 0        |             |
|   | Market      |                |            |          | 1         | 1       |        |         |           | 1                 | 3        |             |
|   | ERCOT       | 8              | 3          | 8        | 8         | 4       | 6      |         | 8         | 16                | 61       |             |
| Unexpected Carry Over From 2007                         |             |                |            |          |           |         |        |         |           |                   | 30       |             |
|   | PUCT        |                |            |          |           |         |        |         |           |                   | 0        |             |
|   | Market      |                |            |          | 1         |         | 1      |         |           |                   | 2        |             |
|   | ERCOT       |                | 1          |          | 8         | 4       | 12     | 2       | 1         |                   | 28       |             |
| New Projects Added (Since PPL Approval in October 2007) |             |                |            |          |           |         |        |         |           |                   | 18       |             |
|   | PUCT        |                |            |          |           |         |        |         |           |                   | 0        |             |
|   | Market      |                |            |          | 1         |         |        |         |           |                   | 1        |             |
|   | ERCOT       |                | 1          | 3        | 3         | 5       | 4      |         | 1         |                   | 17       |             |
| 2008 PPL Totals to Date                                 |             |                |            |          |           |         |        |         |           |                   | 112      |             |
|   | PUCT        | 0              | 0          | 0        | 0         | 0       | 0      | 0       | 0         | 0                 | 0        |             |
|   | Market      | 0              | 0          | 0        | 3         | 1       | 1      | 0       | 0         | 1                 | 6        |             |
|   | ERCOT       | 8              | 5          | 11       | 19        | 13      | 22     | 2       | 10        | 16                | 106      |             |
| Totals by Project Phase                                 |             | 8              | 5          | 11       | 22        | 14      | 23     | 2       | 10        | 17                | 112      |             |

# 8. Committee Brief – PMO David Troxtell







## Year to Date Projects Over \$1 Million

| (CART) Project Number and Description   | Total Budget                                 | Total Committed | Metrics   |   |
|---|--|-----------------|---|---|
| (Duration) Phase (Sponsor)  | Scheduled Completion                         |                 | Schedule  | Budget  |
| <b>(IO) PR-70049_01: SAN Hardening</b><br><i>(2007) Closing (R. Hinsley)</i>  | \$880K                                       | \$871K          |    |    |
|   | Go-Live Dec. 2007                            |                 |   |   |
| <b>(CO) PR-60099_01: TCC2 Build-Out Phase One</b><br>The committed was reduced due to finalizing the budget and final reconciliation.<br><i>(2007) Currently in Closed (B. Kahn)</i>  | \$2.64M                                      | \$2.13M         |    |    |
|   | Go-Live Oct. 2007                            |                 |   |   |
| <b>(IO) PR-60055_01: Enterprise Service Management</b><br><i>(2006-2007) Currently in Closed (R. Hinsley)</i>   | \$1.61M                                      | \$1.52M         |    |    |
|   | Go-Live Mar. 2008                            |                 |   |   |
| <b>(CO) PR-60075_01: Identity Access Management</b><br>Schedule stoplight red due to time taken to re-schedule around Nodal 168 hour test. Total committed reduced as a result of an adjusting entry to actuals.<br><i>(2006-2007) Currently in Execution (B. Kahn)</i> | \$2.46M                                      | \$2.08M         |    |    |
|   | Expected Completion 1 <sup>st</sup> Qtr 2009 |                 |   |   |
| <b>(CO) PR-80001_01: (2 sub-projects, PR-80001_02 &amp; PR-80001_03 ) MET Center Facility Analysis Deployment Phase 2</b><br><i>(2008 - 2011) PR-80001_01, PR-80001_02 &amp; PR-80001_03 currently in Planning (B. Kahn)</i>  | \$70M  | \$582K          |   |   |
|   | Expected Completion 4 <sup>th</sup> Qtr 2011 |                 |   |   |
| <b>(IO) PR-80022: Additional SAN Capacity for Projects</b><br><i>(2008) Currently in Closed (R. Hinsley)</i>  | \$1.75M                                      | \$1.74M         |  |  |
|   | Expected Completion 3 <sup>rd</sup> Qtr 2008 |                 |   |   |

# 8. Committee Brief – PMO

## David Troxtell

### Year to Date Projects Over \$1 Million

| (CART) Project Number and Description  | Total Budget                                       | Total Committed | Metrics   |   |
|--|--|-----------------|---|---|
| (Duration) Phase (Sponsor)   | Scheduled Completion                               |                 | Schedule  | Budget  |
| <b>(MO/RO) PR-70007_01: MarkeTrak Enhancements</b>   | \$1.62M  | \$1.11M         |  |  |
| <i>(2007-2008) Currently in Execution (T. Doggett)</i>   | <i>Expected Completion 1<sup>st</sup> Qtr 2009</i> |                 |   |   |
| <b>(IO) PR-70054_01: (1 sub-project, PR-70054_02) Blade Refresh Deployment Phase 2</b>   | \$2.50M  | \$2.18M         |  |  |
| <i>(2007-2008) PR-70054_01 Currently in Closed &amp; PR-70054_02 Currently in Execution, (R. Hinsley)</i>  | <i>Expected Completion 3<sup>rd</sup> Qtr 2008</i> |                 |   |   |
| <b>(IO) PR-70055_01: SAN Capacity (part one)</b><br><i>Schedule stoplight is orange due to project schedule variance under 10%.<br/>Total committed is reduced due to a true-up with Accounting for project closure.</i> | \$1.75M  | \$855K          |  |  |
| <i>(2007-2008) Currently in Closed (R. Hinsley)</i>  | <i>Expected Completion 2<sup>nd</sup> Qtr 2008</i> |                 |   |   |

# 8. Committee Brief - PMO

## David Troxtell

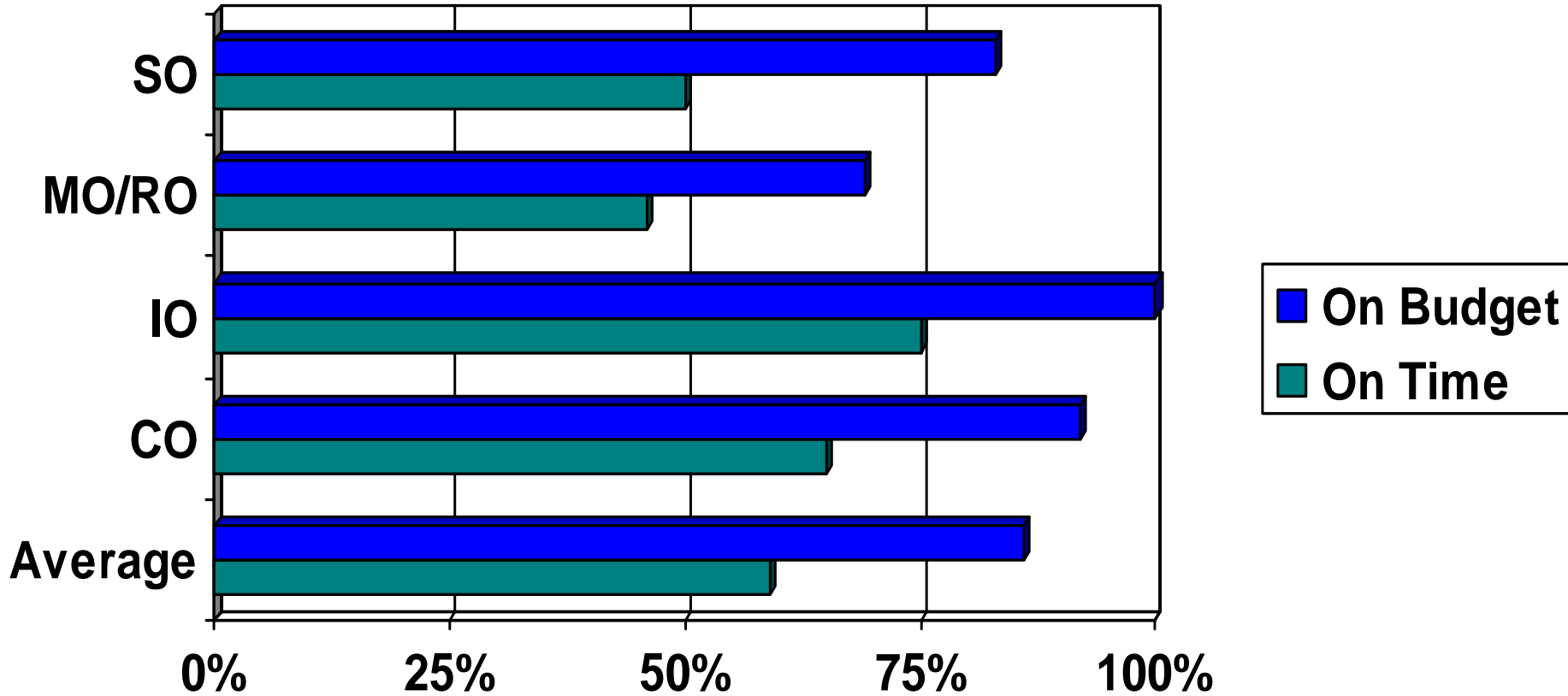
### Baseline Budget vs. Actuals for Projects Closed in Lawson for 2008

| Project  | Description                            | Year Implemented  | Baseline Budget      | Actuals              | \$ Variance Fav/(Unfav) | % Variance Fav/(Unfav) | Explanation   |
|----------|--|-------------------|----------------------|----------------------|-------------------------|------------------------|---|
| 70044_01 | MET Center Analysis                    | 2007              | \$ 236,900           | \$ 105,765           | \$ 131,135              | 55%                    | ERCOT labor less than forecasted and consulting fees and contractor costs were 40% less than forecasted. Additionally, should not have included contingency of 10% on the contracted amounts for contractor services and equipment.                             |
| 60082_01 | Dynamic Rating Data to TSP             | 2007              | \$ 108,700           | 50,786               | 57,914                  | 53%                    | 60082_01 was an unusual project. It took much longer than planned to complete, but it also required much less work than expected. The project turned out to be more of a configuration item than a software development project.                                |
| 70006_01 | SCR 748                                | 2007              | \$ 118,400           | 57,612               | 60,788                  | 51%                    | Scope split to deliver the remaining work in 70006_02.  |
| 70026_01 | Virtual Tape Backup                    | 2007              | \$ 1,350,000         | 768,534              | 581,466                 | 43%                    | The \$581,466 variance for the 70026 project was due to price negotiations of hardware. All pricing was negotiated for lower costs than originally expected.  |
| 60097    | Desk Side Standardization              | 2007              | \$ 760,900           | 522,884              | 238,016                 | 31%                    | Used internal resources more than anticipated (thus reducing the number of hours worked by contracted resources) for the desk-side systems replacement effort and Altiris redesign effort. Software purchased for hardware-independent imaging reduced the numb |
| 70037_01 | OC-3 Microwave Replacement             | 2007              | \$ 326,000           | 229,359              | 96,641                  | 30%                    | Change Control 2, processed on December 17th 2007, decreased the project budget from 350,000 to 250,000 which left a budget variance of 8.9%. No re-baseline was requested.   |
| 60013_01 | Enhanced Digital Certificate Program   | 2008              | \$ 228,100           | 168,258              | 59,842                  | 26%                    | The reason for the variance on the 60013_01 project was due to credits received from VeriSign in the amount of \$28,229. There was also \$20,135 for servers and operating systems that was not spent due to Nodal purchasing them for the MPIM project.        |
| 70005_01 | MO SAS 70 Proc Optimization            | 2008              | \$ 286,000           | 229,827              | 56,173                  | 20%                    | Tasks over estimated by 10% and 10% contingency.  |
| 70012_01 | Secure Remote Access                   | 2008              | \$ 403,000           | 337,169              | 65,831                  | 16%                    | Slight reduction in scope based on problems experienced during rollout with drive mapping, memory utilization on intranet controllers, and issues with VMWare.  |
| 70039_01 | Risk and Compliance Management         | 2007              | \$ 366,800           | 318,583              | 48,217                  | 13%                    | Invoices were accrued against the project that should not have been which resulted in the lower actuals.  |
| 70050_01 | EIS ETL Tool Implementation            | 2007              | \$ 478,500           | 442,473              | 36,027                  | 8%                     |   |
| 50031_01 | EDW EMMS Decommission                  | 2007              | \$ 485,600           | 476,864              | 8,736                   | 2%                     |   |
| 50123_03 | Document Management - Ph III           | 2007              | \$ 137,400           | 141,913              | (4,513)                 | (3)%                   |   |
| 50024    | Enhancements to SCR727                 | 2007              | \$ 1,607,300         | 1,674,678            | (67,378)                | (4)%                   |   |
| 70013_01 | Corporate Document Management          | 2008              | \$ 69,700            | 72,878               | (3,178)                 | (5)%                   |   |
| 70035_01 | REC 2007                               | 2008              | \$ 146,300           | 159,280              | (12,980)                | (9)%                   |   |
| 50137_02 | Maestro Replacement - Ph II            | 2007              | \$ 10,000            | 11,207               | (1,207)                 | (12)%                  | Additional expenses not originally budgeted for.  |
| 50017_02 | Collateral Calculation                 | 2008              | \$ 359,100           | 598,164              | (239,064)               | (67)%                  | Several iterations for requirements clarification required.   |
| 50071_01 | Governor Analysis Enhancements         | 2008              | \$ 92,000            | 160,901              | (68,901)                | (75)%                  | Business requested additional functionality adding to the scope of the project. The additional costs reflects the scope changes.  |
| 60086_01 | Lawson Time Entry                      | 2007              | \$ 68,900            | 125,089              | (56,189)                | (82)%                  | Additional expenses not originally budgeted for.  |
| 70055_01 | Additional Production SAN Capacity     | 2008              | \$ 1,750,000         | 903,708              | 846,292                 | 48%                    | There were significant cost savings regarding hardware due to price negotiations  |
| 80022_01 | Additional SAN Capacity for Projects   | 2008              | \$ 1,950,000         | 1,717,133            | 232,867                 | 12%                    | Internal labor costs were lower than budgeted because the project was completed early.  |
| 60055_01 | Enterprise Service Management          | 2008              | \$ 1,612,800         | 1,334,826            | 277,974                 | 17%                    | Savings through sales tax exemptions, maintenance charges booked to pre-pay accounts. Labor costs lower than budgeted.  |
| 70053_01 | Video Conferencing                     | 2008              | \$ 131,800           | 106,747              | 25,053                  | 19%                    | Actuals is reduced due to a true-up with Accounting for project closure   |
| 60099_01 | TCC2 Finish-out and Annex Construction | 2007              | \$ 2,362,000         | 2,142,026            | 219,974                 | 9%                     |   |
|          |  | <b>Count = 25</b> | <b>\$ 15,446,200</b> | <b>\$ 12,856,664</b> | <b>\$ 2,589,536</b>     | <b>17%</b>             |   |

NOTE:



### 2008 Active Projects Performance



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

## Go Live Projects for August

- **PR-70054\_01 Blade Refresh**
  - **Scope:** Replace Blade servers and corresponding chassis that have reached end of life and support.
  - **Deliverables:** Purchase replacement Blade servers and Chassis. Purchase PlateSpin licenses for OS and application migration to new servers. Migrate lower-level environments in Taylor and Austin.
    - PR-70054\_02 will migrate the ITEST and PROD environment servers.
  - **Timeline:** November 2007 – August 2008.



## Go Live Projects for August

- **PR-60015\_01 Siebel Data Model Assessment**
  - **Scope:** Provide assessment of Siebel data model as well as make recommendations for tuning Oracle database on which Siebel resides.
  - **Deliverables:** Four primary recommendations to improve Siebel performance:
    - Implement Integration Best Practices – re. TIBCO Adapter
    - Changes to Siebel Data Model – splitting MP tables from ESIID tables
    - Upgrade Siebel
    - Revise and Adhere to Archiving Strategy
  - **Timeline:** May 2007 – August 2008

## Go Live Projects for August

- **PR-80035\_01 Intranet Assessment HR & Communications**
  - **Scope:** Evaluate and analyze the current ERCOT intranet tools available to ERCOT Human Resources and Communications Organization for communicating general and time sensitive information to ERCOT employees. The objective is to identify methods to improve and streamline communications to ERCOT employees.
  - **Deliverables:** Needs Assessment Findings and Recommendations Report.
  - **Timeline:** May 2008 – August 2008

## Large Project Update

- **PR-80001\_03 New Austin OC/DC**
  - **Scope:** To purchase land and build a Tier 3 Data Center to replace the secondary Data Center, currently located at the MET Center prior to lease expiration.
  - **Deliverables:** Research and deliver recommendations on the best suited location for construction. Purchase land during planning phase prior to December 31, 2008. Land recommendation to ERCOT Board of Directors at 09/2008 Board Meeting for approval to enter into an earnest money escrow agreement.
  - **Timeline:** 02/2008 – 06/2011
    - Project Initiation: 02/2008 – 04/2008
    - Project Planning (land purchase & facility design): 05/2008 – 05/2009
    - Project Execution (construction): 06/2009 – 08/2010
    - Data Center occupancy/migration: 09/2010 – 02/2011
    - Control Center occupancy/go live: 03/2011
    - Project Closure: 04/2011 – 06/2011

# 8. Committee Brief – PMO David Troxtell

## ERCOT Enterprise Projects Summary Report

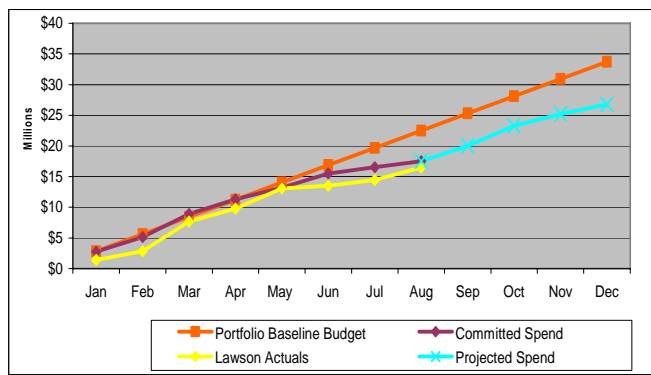
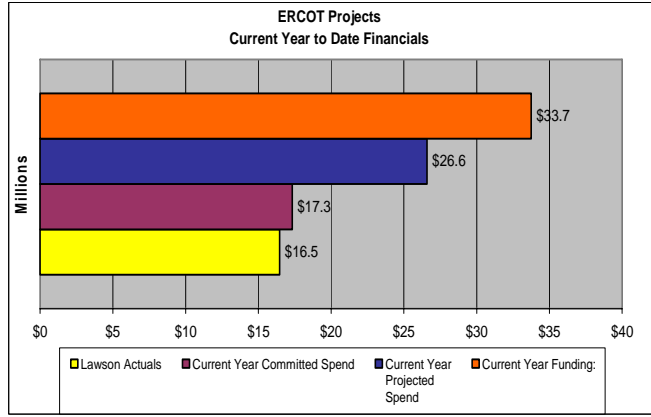
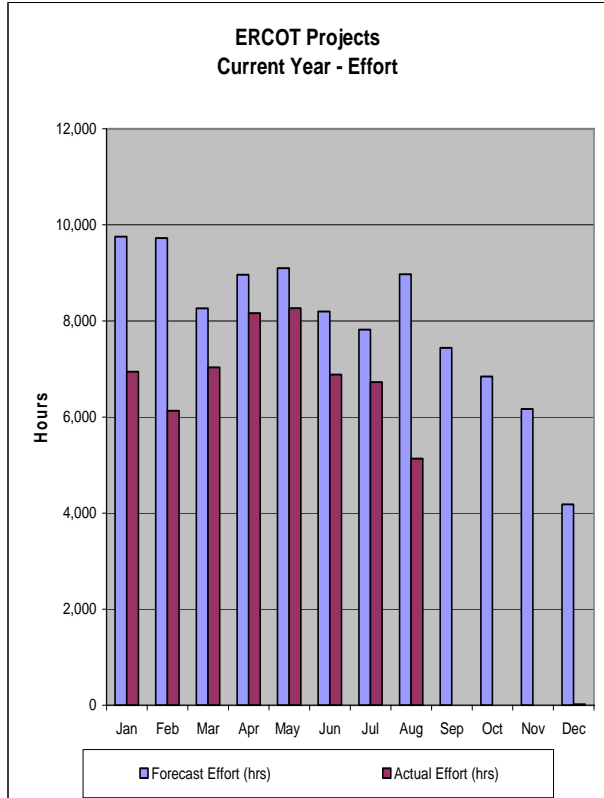
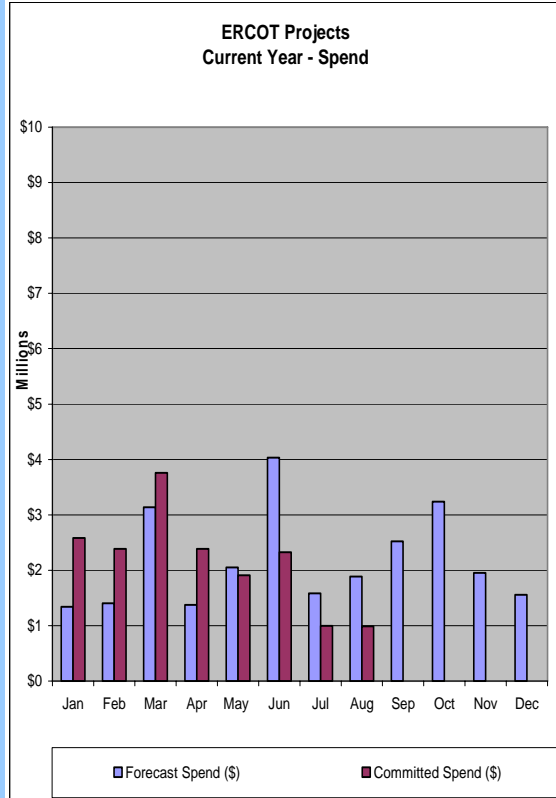
**ERCOT Overall Projects Report**

**Reporting Period: 9/3/2008**

Summary

| ERCOT Projects Leadership |              |           | Projects in ERCOT's Portfolio |                       |          |           |         | Portfolio Performance |                              |                     |
|---------------------------|--------------|-----------|-------------------------------|-----------------------|----------|-----------|---------|-----------------------|------------------------------|---------------------|
| Executives                |              |           | On Hold                       | Initiation            | Planning | Execution | Closing | Schedule              | Budget                       | Milestones          |
| Kent Saathoff             | Trip Doggett |           | 2                             | 5                     | 11       | 23        | 14      | Y                     | G                            | Y                   |
| Ron Hinsley               | Steve Byone  | Closed    | 23                            | Total Active          |          |           | 53      |                       |                              |                     |
|                           |              | Cancelled | 10                            | Projects Not Started: |          |           | 8       |                       | <b>Current Year Funding:</b> | <b>\$33,746,880</b> |

Portfolio Performance Summary



Notes

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



## **Future Agenda Items – October 2008**

- **Engagements of external auditors for other services (pre-approval policy)**
- **Credit update**
- **Assessment of the adequacy and effectiveness of the Internal Audit staff**
- **Review requirements for membership in the Credit Work Group**
- **Review and approve CWG charter**
- **Quarterly review of investment results**
- **Committee briefs**
- **Future agenda items**

# F&A Yearly Schedule

## Quarter 1

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

## Quarter 2

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

## Quarter 3

- √ •Appoint the independent auditors for upcoming year
- √ •Approval of independent auditor fees for upcoming year
  - Review of committee charter
  - Approve the Guidelines for Engagements of External auditors for Other Services (pre-approval policy)
- √ •Assessment of compliance, the internal control environment and systems of internal controls
- √ •Review and approval of annual operating budget
  - Report by CWG Chair on ERCOT credit policy
  - Review updated year-end forecast

## Quarter 4

- Approve audit committee meeting planner for the upcoming year, confirm mutual expectations with management and the auditors
- Review and approval of Financial & Investment policies
- Approve scope of internal auditing plan for upcoming year
- Assessment of the adequacy and effectiveness of the Internal Audit staff
- Perform Finance & Audit committee Self Assessment
- Review requirements for membership in CWG
- Review and approve CWG charter
- Review updated year-end forecast
- Review the Company's dealings with any financial institutions that are also market participants

## Recurring Items

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