



Investment Management

ERCOT Board of Directors
October 21, 2008

Steve Byone

Vice President and Chief Financial Officer

- **Purpose of ERCOT Investing Activity**
- **Management and Oversight of Investing Activity**
- **Recent Events Impacting Investments**
- **Next Steps**

- **ERCOT receives cash**
 - Acceptable form of collateral in support of market activity
 - TCR auctions
 - Prepayments for settlement activity
 - Operational working capital fluctuations
- **The ERCOT policy is to invest idle cash in order to provide reasonable investment returns with adequate security while meeting daily cash flow demands**
 - Investment earnings on collateral deposits are credited to the depositor

- **Previous recognition that investment management is not a core competency of ERCOT, Inc.**
 - Board approval to use professional money managers
 - Must comply with specific guidelines
 - Monitored by Finance and Audit Committee
- **ERCOT investments are managed in accordance with a Board approved Investment Standard** (copy attached)
 - Authorized Instruments
 - Internal Controls
 - Reporting
 - Quarterly reports to Finance and Audit Committee (see appendix)
 - Staff activities
 - Manage daily balances and monitor results
 - Review performance at least weekly and adjust funds as necessary to comply with Investment Standard

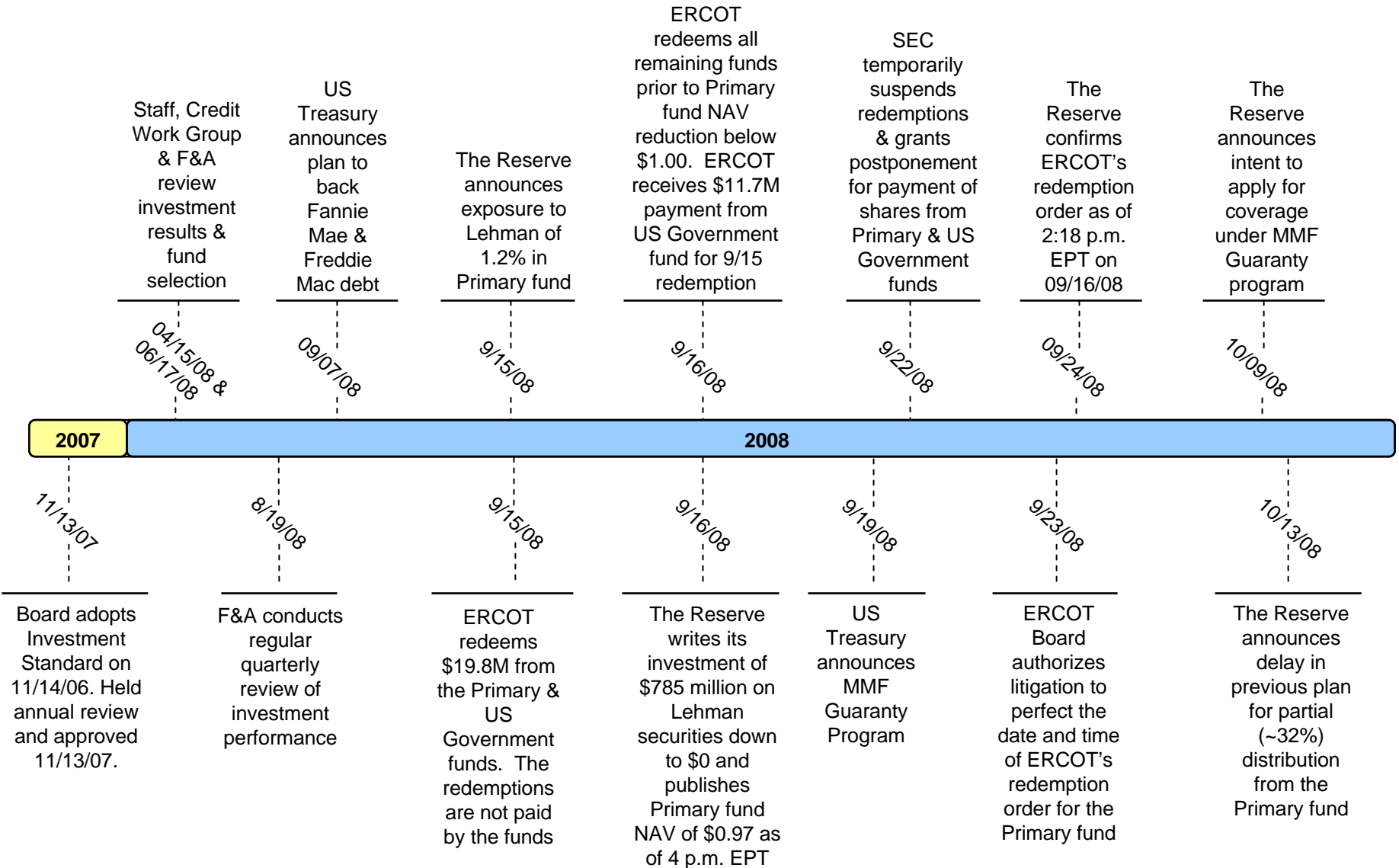
- **ERCOT investments were held in two funds managed by The Reserve; Primary fund and US Government fund**
 - The Primary fund held investments in Lehman Brother's securities at the time of Lehman's bankruptcy filing; the fund subsequently reduced the value of the Lehman investment down to zero
 - The Primary fund also holds investments in other securities, some of which are difficult to value in the current environment
 - Due to a combination of factors including the Lehman write down and general market concerns associated with the Wall Street financial crisis, The Reserve received substantial requests for fund redemptions
 - Following the issues encountered with the Primary fund, many investors also requested substantial redemptions from the US Government fund
 - The US Government fund continues to be assigned a Net Asset Value of \$1 but there is uncertainty surrounding certain securities held by the fund
 - The Reserve sought and received SEC approval to extend the time period within which redemptions are honored in order to allow for orderly liquidations from the Primary and US Government funds

- **ERCOT has redeemed—but has not been paid—for all investments with The Reserve. Balances outstanding are:**
 - Primary fund \$ 48 million
 - US Government fund \$148 million
- **ERCOT continues to attribute full value to all deposits held by The Reserve**
- **All new investments are restricted to funds which invest in US Treasury (or Treasury backed) securities**
- **All ERCOT market activities continue to function normally**

- **Factors supporting ERCOT value attributed to funds invested with The Reserve**
 - The US Government fund holds investments in Fannie Mae and Freddie Mac debt and mortgage backed securities
 - On September 7th the US Department of Treasury placed these entities in conservatorship accepting responsibility for debt obligations
www.ustreas.gov/press/releases/hp1129.htm
 - On September 11th the US Department of Treasury further clarified its backing of debt securities issued by these entities
www.ustreas.gov/press/releases/hp1131.htm
 - On September 19th the US Treasury announced the Guaranty Program for Money Market Funds (MMF). The Treasury further clarified the program by issuing FAQs on September 29th. MMFs with a share price of \$1 as of September 19th are eligible for the guaranty program.
www.ustreas.gov/press/releases/hp1163.htm
 - On October 9th The Reserve announced they had applied for coverage under the Treasury guarantee program
http://ther.com/pdfs/Press%20Release%20TreasGuarantee%202008_1009%20FINAL.pdf

- **Factors supporting ERCOT value attributed to funds invested with The Reserve**
 - The Primary fund investments in US government securities, corporate debt obligations, asset-backed securities, obligations of domestic and foreign banks (including deposit-type obligations) and municipal obligations
 - ERCOT submitted a valid redemption request (and received confirmation from The Reserve) for the balance of funds held in the Primary fund as of 2:18 EPT on September 16th
 - Up to 3:00 p.m. EPT on September 16th, the Primary fund was processing redemption requests based upon Net Asset Values (NAVs) posted on the hour. The NAV posted for 3:00 p.m. on September 16th was \$1.00 http://ther.com/pdfs/NAV%20Release_091708.pdf
 - Subsequently (after the write down of Lehman securities) the Primary fund posted a NAV of \$0.97 and has since ceased to provide a NAV for the fund

The Reserve Funds Timeline



- **ERCOT will continue to monitor activity associated with The Reserve funds seeking distribution of amounts withheld**
- **Topics for further analysis**
 - Review of credit administration and collateral management on behalf of the ERCOT market
 - Review of current protocols (and rules/standards) governing credit and collateral
 - Review of ERCOT investment management practices

Questions ?



Appendix

Quarterly Investment Report and Compliance Statement

Electric Reliability Council of Texas, Inc.
Summary of Investment Results
Third Quarter 2008
(in 000's)

Return for the quarter ended September 30, 2008	Balance at Sept 30	Average Bal for Qtr	Interest 3rd Qtr	Yield 3rd Qtr	% of portfolio at Sept 30
Reserve Primary Fund (Operating and Mkt) (Note 1)	44,574	72,444	424.0	2.32%	20.0%
Reserve Primary Fund (TRE) (Note 1)	3,268	3,268	19.0	2.31%	1.5%
Reserve US Government Fund (Deposits/Restricted) (Note 2)	147,920	161,795	922.0	2.26%	66.3%
Other cash net of outstanding checks (Note 3)	27,216				12.2%
Total cash and cash equivalents (est)	222,978	237,507	1,365.0	2.28%	100.0%

Benchmark data (Note 4)	Benchmark Information		
	ERCOT Yield	Ranking iMoneyNet	Top Funds within category
Reserve Primary Fund (Operating, Mkt, TRE)	n/a	n/a	n/a
Reserve US Government Fund	n/a	n/a	n/a

Note 1: The Reserve held Lehman Brothers securities in their Primary Fund at the time Lehman Brothers filed for bankruptcy protection. The Lehman securities represented approximately 1.2% of that Fund. When it became known that they held these securities, The Reserve experienced a high level of redemption requests and temporarily ceased redemptions from this fund. With SEC oversight, The Reserve is currently pursuing an orderly liquidation of this fund; however, there is not currently a clear timetable defined for the redemption of these funds and thereby the return of ERCOT's investment.

Note 2: The Reserve's US Government Fund also experienced a high level of redemption requests and temporarily ceased redemptions from this fund. With SEC oversight, The Reserve is also pursuing an orderly liquidation of this fund; however, there is not currently a clear timetable defined for the redemption of these funds and thereby the return of ERCOT's investment.

Note 3: All other cash held by ERCOT was held in bank accounts as of September 30, 2008. Presently, excess funds are held in Treasury and Treasury-backed money market accounts at JPMorgan Chase and Federated or in bank accounts.

Note 4: Given that these funds are in the process of being liquidated, no benchmark data is provided.

Note 5: No individual securities held at September 30, 2008.

Statement of Compliance

Upon a review of the investment activity for the 3 month period ended September 30, 2008, I have no knowledge of any ERCOT action that does not comply with that required by the Investment Standard. However, investments in The Reserve Primary and US Government funds do not comply with the objectives in the ERCOT Investment Standard for the period from September 16, 2008 to September 30, 2008. ERCOT has issued valid redemption requests for all investments held in these funds but has not yet received the proceeds. This out of compliance condition is expected to continue until final distributions are received from the funds.

Signature on file
Cheryl Yager, Treasurer

Signature on file
Steve Byone, Chief Financial Officer



Quarterly Investment Review

Highlights of Investment Standard

Objectives

Safety - conservative investments; diversification of credit risk

Liquidity - access to funds to meet operating requirements

Return on Investment - obtaining a benchmark rate in line with the goals of Safety and Liquidity

Other requirements of Investment Standard

Invest only in authorized instruments

Establish internal controls over the investment program

Ensure internal controls are reviewed periodically by internal audit and annually by external auditors

Report quarterly to the BOD and F&A on the status of the current investment portfolio

Ensure ERCOT Investment Standard is reviewed annually by F&A

Money market accounts

ERCOT uses Money market funds (MMF) that comply with Rule 2a-7 because they 1) have a stated objective to preserve capital, 2) require high quality instruments (may hold no more than 5% of middle-rated securities – A2/P2 or equivalent), 3) require diversification – no more than 5% of assets in a MMF may be invested in any one security and 4) restrict the tenor of investment instruments - instruments must mature in less than 13 months and the average maturity of all holdings in a MMF cannot extend beyond 90 days.

MMF are one of the most liquid forms of investment; funds can typically be moved in and out of a fund within one business day.

MMF rates are compared to other MMF rates to ensure reasonable return on investment

MMFs are authorized instruments

Ensure that only authorized individuals initiate transactions. Review rates weekly to ensure reasonableness.

Reviewed by internal and external auditors annually.

Quarterly reports provided to F&A and BOD.

Reviewed annually; last reviewed in November 2007

The Reserve

- 1) Met the requirements of Rule 2a-7
- 2) Had a reputation as a conservative money manager
- 3) Had been in business as a professional money manager since 1971
- 4) Held approximately \$125 billion in its portfolio of funds

Met ERCOT's need to access funds daily

Maintained reasonable rates of return

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

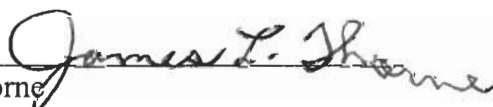
WHEREAS, the board of directors (the "Board") of Electric Reliability Council of Texas, Inc., a Texas non-profit corporation (the "Company") deems it desirable and in the best interests of the Company, in order to provide sound financial guidance for its business;

NOW, THEREFORE, BE IT RESOLVED, that the Investment Standard, a copy of which is attached as EXHIBIT A and the Financial Standard, a draft of which is attached hereto as EXHIBIT B, is hereby authorized and approved in each and every respect.

CORPORATE SECRETARY'S CERTIFICATE

I, James Thorne, Vice President, General Counsel and Corporate Secretary of Electric Reliability Council of Texas, Inc., a Texas non-profit corporation ("ERCOT"), do hereby certify that, at the November 14, 2006 ERCOT Board Meeting, the Board of Directors of ERCOT passed a Motion approving the above resolution by unanimous voice vote with no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this 19th day of December, 2006.



James L. Thorne
Vice President, General Counsel & Corporate
Secretary

EXHIBIT A
ERCOT CORPORATE STANDARD

Document Name:	Investment Standard
Document ID:	CS3.2
Effective Date:	Upon Approval
Owner:	Board of Directors, F&A Committee
Governs:	ERCOT Personnel
Approved:	

1.0 PURPOSE

The purpose of the ERCOT Investment Standard is to document the guidelines and related activities approved by the ERCOT Board of Directors for the investment and management of funds held by ERCOT.

It is ERCOT’s policy to invest its funds in a manner that provides reasonable investment returns with adequate security while meeting daily cash flow demands and conforming to applicable laws, Bylaws, board resolutions and policies and debt covenants.

The standard applies to activity involving ERCOT funds, except for the Electric Reliability Council of Texas, Inc. 401(k) Savings Plan, which is managed separately.

ERCOT funds specifically include proceeds from:

- 1) the ERCOT System Administration Fee, Nodal Surcharge, NERC funding under a Delegation Agreement, and other fees collected from time to time,
- 2) transmission congestion rights (TCR) auctions,
- 3) market settlement operations,
- 4) security deposits,
- 5) debt issues, and
- 6) other miscellaneous cash received.

2.0 STANDARDS

Standard of Care. ERCOT investments will be made with judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of principal as well as the probable income to be derived.

The standard of prudence to be used by the Designated Investment Officers (defined below) shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing an overall portfolio. The Designated Investment Officers of ERCOT, acting in accordance with this standard and any other written procedures pertaining to the administration and management of ERCOT’s portfolio and who exercise the proper due diligence, shall be

relieved of personal responsibility for an individual security's credit risk or market price changes.

Investment Objectives. The primary objectives, in priority order, of ERCOT's investment activities shall be:

- 1) Safety – Safety of principal is the foremost objective of the investment program. Investment of ERCOT funds will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, ERCOT will diversify its investments by investing funds among a variety of securities offering independent returns and a variety of independent financial institutions.
- 2) Liquidity – ERCOT's investment portfolio will remain sufficiently liquid to enable ERCOT to meet all operating requirements which might be reasonably anticipated.
- 3) Return on investment – ERCOT's investment portfolio will be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, in line with ERCOT's investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority. Responsibility for the investment program is hereby delegated to the Designated Investment Officers. The Chief Financial Officer and the Treasurer of ERCOT are the Designated Investment Officers of ERCOT and are authorized to enter into and are responsible for all investment transactions undertaken. They will establish a system of controls over the investment program.

The Designated Investment Officers will establish written investment procedures for the operation of the investment program consistent with this standard. No person may engage in an investment transaction except as provided under the terms of this standard and the procedures established by the Designated Investment Officers.

Any two of the following individuals, with at least one being a Designated Investment Officer shall have authority to open and close investment and / or depository accounts with Qualified Institutions (as defined below): Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Controller and Treasurer.

Qualified Institutions. A Designated Investment Officer will select banks and other financial institutions that are approved for investment and / or depository purposes ("Qualified Institutions"). Only firms meeting the requirements of the attached Appendix A will be eligible to serve as Qualified Institutions.

If an ERCOT Board member or member of his or her immediate family is an officer or director, is employed by, or owns or has a beneficial interest in more than 10 percent of the stock in a bank or other financial institution that would otherwise be a Qualified Institution, such Board member shall provide full disclosure of such stock holdings or relationship in documented form to be filed with permanent records of ERCOT. Any institutions so disclosed will be excluded

from consideration as a Qualified Institution without 1) full disclosure to the Board of Directors of the relationship and 2) approval of the Board to establish the relationship.

Authorized Instruments. ERCOT shall invest only in those types of instruments authorized under this standard and listed in Appendix C and subject to the restrictions included in Appendix C.

Safekeeping of Investments. Security transactions, including collateral for repurchase agreements, will be conducted on a "delivery-versus-payment" (DVP) basis. Securities, other than shares in money market mutual funds, will be held in safekeeping, in the name of ERCOT, by a custodian (an independent state or federally-chartered bank) designated by the Treasurer and evidenced by safekeeping receipts. Institutions that offer money market mutual funds are responsible for safeguarding their underlying securities.

Internal Control. The Treasurer shall ensure that the internal controls over investments are reviewed 1) periodically by ERCOT's internal auditor, and 2) annually in conjunction with the fiscal audit by the external auditor. This review will test compliance with policies and procedures.

Reporting. A Designated Investment Officer will provide quarterly investment reports to the Board of Directors and Finance and Audit Committee which provide a clear picture of the status of the current investment portfolio.

Schedules in the quarterly report will, at a minimum, include the following:

- 1) A listing of individual securities held at the end of the reporting period by authorized investment category
- 2) Average life and final maturity of all investments listed
- 3) Coupon, discount or earnings rate
- 4) Par value, amortized book value and market value
- 5) Percentage of the portfolio represented by each investment category
- 6) Statement of compliance with the Investment Standard

Investment Standard Adoption. ERCOT's investment standard will be adopted by resolution of the Board of Directors. The standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.

APPENDIX A

Requirements of Qualified Institutions

Only entities meeting the following requirements will be eligible to serve as Qualified Institutions:

General Requirements

- 1) The entity has a senior debt rating which is at least the equivalent of A- by Standard & Poor's or A3 by Moody's Investor Service,
- 2) Has provided a current audited financial statement which is on file at ERCOT,
- 3) Has capital of not less than \$100 million, and
- 4) Has assets of not less than \$1 billion.

Additional Requirements for Depositories

- 1) The entity is a federal- or state-chartered bank, and
- 2) Deposits up to \$100,000 are insured by federal agencies

Additional Requirements for Security Dealers

- 1) The entity is a "primary" or regional dealer that qualifies under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule),
- 2) Is registered as a dealer under the Securities Exchange Act of 1934,
- 3) Is a member in good standing of the National Association of Securities Dealers (NASD),
- 4) The entity has been in business for at least five (5) years,
- 5) A representative of the entity has returned a signed certification (substantially in the form attached as Appendix B) that he/she has read and is familiar with ERCOT's Investment Standard, and
- 6) The entity has provided such other information as ERCOT requires from time to time.

APPENDIX B

**Investment Standard for
Electric Reliability Council of Texas**

Qualified Institution Certification for Security Dealers

Dealer / Investment Firm: _____

I hereby certify that I have received and thoroughly reviewed the ERCOT Investment Standard, and the firm I represent

- 1) meets all of ERCOT's Requirements for Qualified Institutions; and
- 2) has implemented reasonable procedures and controls in an effort to preclude investment transactions between this firm and ERCOT that are not authorized by the ERCOT Investment Standard, except to the extent that this authorization is dependent on an analysis of the makeup of ERCOT's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative

Name

Title

Date

APPENDIX C
Authorized Instruments

<u>Description</u>	<u>Quality</u> <u>Limitation</u>	<u>Maturity</u> <u>Limitation</u> (Note 1)	<u>Limitation</u> <u>per issuer</u>	<u>Categor</u> <u>y</u> <u>limitatio</u> <u>n</u>
1. Obligations of or guaranteed by the US government	n/a	5 yrs or less	none	none
2. Obligations of or guaranteed by other US governmental entities (e.g. federal agencies, state or municipal, etc)	n/a	5 yr or less	\$ 5,000,000	50% of total
3. Certificates of deposit and share certificates	Note 2	1 yr or less	\$ 5,000,000	33% of total
4. Repurchase agreements in which the collateral is government or agency securities (1 or 2 above). (Note 3)	Note 2	7 days or less	\$ 5,000,000	33% of total
5. Commercial paper	A1/P1 or better	1 yr or less	\$ 5,000,000	33% of total
6. Banker's acceptances	Note 2	1 yr or less	\$ 5,000,000	33% of total
7. Money market mutual funds (MMMMF)	Note 4	Note 4	Note 4	none

Note 1: To the extent possible, ERCOT will attempt to match its investments with anticipated cash flow requirements. A base level of cash may remain uninvested to meet the operating needs of ERCOT.

Note 2: Investments may be made with financial institutions with a corporate or senior debt credit rating of at least A- with S&P or A3 with Moody's. Investments in repurchase agreements must be subject to a Master Repurchase Agreement signed with the bank or dealer (e.g. a PSA Master Repurchase Agreement or equivalent).

Note 3: Collateral is required for all repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value and accrued interest. Collateral may consist only of other instruments approved above. Collateral will always be held by an independent third party with whom ERCOT has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to and retained by ERCOT. The right of collateral substitution is granted.

Note 4: There is no credit rating required given 1) the MMMFs stated objective to preserve capital, 2) the credit quality restrictions placed on MMMFs by the SEC (may hold no more than 5% of middle-rated securities - A2/P2 or equivalent), 3) the SEC restriction that no more than 5% of assets in a MMMF may be invested in any one security (requires diversification) and 4) the restriction that MMMFs can only invest in instruments with maturities of less than 13 months and that the average maturity of all holdings in a MMMF cannot extend beyond 90 days. There is no maturity limitation or limitation per issuer for the reasons mentioned above.

EXHIBIT B
ERCOT CORPORATE STANDARD

Document Name:	Financial Standard
Document ID:	CS3.1
Effective Date:	Upon Approval
Owner:	Board of Directors, F&A Committee
Approved:	

1.0 PURPOSE

This financial standard is a framework from which ERCOT's financial integrity will be maintained while serving the long-term interests of the company and the ERCOT market. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT's primary responsibilities.

2.0 DEFINITIONS

TERM	DEFINITION
Budget	The Budget consists of Project Budgets and an Operating and Maintenance Budget and will include the TRE Budget as a component, if and when ERCOT signs a Delegation Agreement with North American Electric Reliability Corporation (NERC).
Project Budgets	Project Budgets consist of proposed expenditures to be made to develop capital assets during ERCOT's Fiscal Year. Any significant projects not included in the approved project budget will be presented to ERCOT's Board of Directors for approval as they arise.
Cash Operating and Maintenance Expenses	All reasonable and necessary costs and expenses (excluding non-cash items such as depreciation and amortization) incurred in the operation and maintenance of ERCOT's facilities, equipment and systems.
Fiscal Year	ERCOT's fiscal year is January 1 st through December 31 st .
Operating and Maintenance Budget	The Operating and Maintenance Budget consists of operating costs expected to be incurred during ERCOT's Fiscal Year.
TRE Budget	The TRE Budget is the budget (which can include both operating and maintenance and project budgets) for the Texas Regional Entity Division of ERCOT (TRE) which is approved by NERC and Federal Energy Regulatory Commission (FERC) and which is used exclusively for the TRE's proposing and enforcing Reliability Standards (Federal Statutory duties) and for ERCOT Protocol compliance and enforcement activities.
Scheduled Debt	All interest and mandatory principal payments on ERCOT's outstanding

TERM	DEFINITION
Service	indebtedness (both long-term and short-term) for a stated period.
Strategic Financial Plan	The strategic financial plan will provide current financial information and a five-year projection, which addresses all sources of revenues, including any proposed fee adjustments. It will include projections of operating and maintenance expenses, project expenditures, the funding sources of project expenditures, and debt service requirements as well as the resulting capital structure.

3.0 FINANCIAL OBJECTIVES

In seeking to fulfill its corporate objectives, ERCOT will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

Strategic Financial Plan and Budget. Prior to or in conjunction with the submission of the annual Budget, the Chief Financial Officer will submit an update to the Strategic Financial Plan.

The Budget will be substantially consistent with the Strategic Financial Plan and will be submitted to the Board with sufficient time for the review and approval of the Board prior to the beginning of the Fiscal Year. The TRE Budget component of the Budget may be approved in advance of the full Budget if required to meet deadlines set by regulators.

In developing the Strategic Financial Plan and Budget, ERCOT staff will work to ensure that financial ratios required for compliance with debt instruments are maintained.

ERCOT will pursue financial objectives that will allow it to maintain an investment grade debt rating with Standard & Poor's, Moody's or Fitch. If a rating below investment grade is received or expected to be received, staff will promptly recommend a plan for Board consideration to recover or maintain the targeted rating within 18 months.

Overall, the Strategic Financial Plan and the related Budget will seek to assure ERCOT's financial stability. They will be approved by the Board and will guide ERCOT's financial planning process.

Fees and Charges. ERCOT will assess fees consistent with the ERCOT Protocols and PUCT rulings and will collect fees on behalf of the Electric Reliability Organization as approved by FERC. If approved as the regional entity, the TRE will also receive funding for its Federal Statutory duties from NERC, pursuant to a Delegation Agreement. Fees, funding, and charges will be requested to recover the Board-approved Operating and Maintenance Budget (excluding depreciation and amortization), Scheduled Debt Service (less any principal payments reasonably expected to be refinanced), and the portions of Project Budgets that are to be financed with revenue. Fee adjustments, if necessary, will generally be developed and proposed in connection with ERCOT's annual Budget.

ERCOT will use all reasonable means to operate within the approved Budget for the current year. When unforeseen events occur (e.g. MWh's are significantly over or under projected levels, functionality is added or removed, etc.) and as a result, ERCOT experiences or expects to experience in the next 12 month period more than a 25% variance from 1) its Project Budgets, 2) its Operating and Maintenance Budget (excluding depreciation and amortization), or 3) its projected revenue stream, staff will promptly recommend a plan for Board consideration, which may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.

Sources of Financing. ERCOT will use a combination of equity (revenue funding) and debt to finance projects. In determining the combination of equity and debt to be used in any particular year, ERCOT will consider the impact of the current year decision on future years.

Generally, ERCOT will structure debt issues such that the average maturity of the debt approximates the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified.

ERCOT may use variable-rate debt to provide flexibility in its overall financing program and to manage its overall interest rate exposure. However, in no event will ERCOT allow unhedged, variable rate debt to be more than 40% of total debt outstanding.

ERCOT will periodically evaluate the interest rate environment and review ways to manage interest rate exposure within that environment.

As appropriate, ERCOT will periodically evaluate mechanisms to restructure or refinance debt. ERCOT will regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this financial standard.

Liquidity. ERCOT will seek to maintain adequate liquidity to meet its business needs.

Liquidity is the combination of available 1) operating cash on hand, 2) operating cash equivalents / short term investments and 3) undrawn borrowing capacity under credit facilities.

ERCOT's targeted minimum level of liquidity will factor in: 1) six months of forecasted Scheduled Debt Service, other than principal payments reasonably expected to be refinanced, 2) two months of average Cash Operating and Maintenance Expenses, net of projected administrative fee receipts, 3) two months of budgeted project expenditures, and 4) two months of estimated TCRs expected to be paid, net of projected TCR receipts during the same period.

If at any time ERCOT's liquidity is less than or is expected to be less than the targeted minimum level set forth in this standard, staff will promptly recommend a plan for Board consideration to achieve the liquidity target within six months.

Funds received in conjunction with TCR auctions may be utilized to fund ERCOT working capital and project expenditure needs so long as liquidity is at or above the target levels and ERCOT's issuer rating remains investment grade. These funds may be utilized in place of borrowing under short term credit facilities to meet liquidity needs.

4.0 RESPONSIBILITIES

It is the responsibility of the Chief Executive Officer, Chief Compliance Officer and Chief Financial Officer to ensure that this standard is implemented and to recommend changes in the standard as needed.

5.0 FINANCIAL STANDARD ADOPTION

ERCOT's financial standard will be adopted by resolution of the Board of Directors. The standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.