



ERCOT Finance & Audit Committee Meeting
Hilton – Austin Airport – Wildflower Room
9515 New Airport Drive
December 9, 2008; 8:30am – 10:30am*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order General Session	C. Karnei	8:30am
2.	Decision required	Approval of general session minutes (Vote) (11/17/08)	C. Karnei	8:30am
3.	Informative	Guarantee agreements – CWG feedback	A. List / C. Yager	8:31am
4.	Informative	Claim Audit of ERCOT Health Plan by Sagebrush Solutions	N. Capezzuti	8:45am
5.	Informative	2008 SAS 70 audit report	S. Barry	8:50am
6.	Decision required	Review and approval of January 2009 operating budget (Vote)	M. Petterson	9:00am
7.	For discussion	Review listing of dealings with financial institutions that are also market participants	C. Yager	9:10am
8.	Decision required	Investment update – accounting for potential loss in Primary Fund (Vote)	M. Petterson / C. Yager	9:15am
9.	For discussion	Review results of Finance & Audit Committee self assessment	All	9:25am
10.	Informative	Committee Briefs (Q&A only)	All	9:35am
11.	Informative	Future agenda items	S. Byone	9:37am
		Recess General Session		9:40am
		Convene Executive Session		
12.	Decision required	12a. Approval of executive session minutes (Vote) (11/17/08)	C. Karnei	9:40am
	Decision required	12b. Approval of 2009 Internal Audit plan (Vote)	B. Wullenjohn	9:41am
	Informative	12c. Internal Audit status report	B. Wullenjohn	9:50am
	Informative	12d. Internal Audit staffing and budget update	B. Wullenjohn	9:55am
	Informative	12e. EthicsPoint update	B. Wullenjohn	10:00am
	For discussion	12f. Discussion with executive management	B. Kahn / S. Byone	10:05am
	For discussion	12g. Assessment of the adequacy and effectiveness of the Internal Audit staff	B. Wullenjohn	10:15am
	Informative	12h. Contracts, personnel, litigation and security	B. Kahn / M. Grable	10:25am
		Adjourn ISO meeting	C. Karnei	10:30am

** 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, January 20, 2009, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 168.*

Decision required
For discussion

2. Approval of General Session Minutes Clifton Karnei

- **Approval of General Session Minutes**
 - Vote 11/17/08

DRAFT ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
MINUTES OF THE ISO FINANCE & AUDIT COMMITTEE – GENERAL SESSION
7620 Metro Center Drive – Austin, Texas 78744
November 17, 2008

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. convened on the above-referenced date. Clifton Karnei confirmed that a quorum was present and called the meeting to order at approximately **7:35 a.m.** The Committee met in Executive Session from **7:35 a.m. to 8:00 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 (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 (Chair)	Brazos Electric Cooperative	Cooperative	Present
Thomas, Robert	Green Mountain Energy	Ind. Retail Electric Provider	Not Present
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Armentrout, Mark	Unaffiliated Board Member	Unaffiliated Board Member	Present
Smitherman, Barry T.	Public Utility Commission	PUC Chairman	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Barry, Sean	PricewaterhouseCoopers (<i>via phone</i>)
Brenton, Jim	ERCOT – Director, Corporate Security
Bruce, Mark	FPL Energy
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Coffing, Timothy	Luminant
Day, Betty	ERCOT – Director, Commercial Operations
Doolin, Estrellita	ERCOT – Assistant General Counsel
Dreyfus, Mark	Austin Energy
Forfia, David	ERCOT – Senior Director, Information Technology
Fox, Kip	AEP
Grable, Mike	ERCOT – Vice President and General Counsel
Greer, Clayton	J Aron & Company
Grimes, Mike	Horizon Wind
Hinsley, Ron	ERCOT – Vice President and Chief Information Officer
Jones, Don	Reliant
Kolodziej, Eddie	Customized Energy Solutions
Leady, Vickie	ERCOT – Associate Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant - Finance
Magness, Bill	Casey, Gentz & Magness, LLP
Moore, John	EON

Pappas, Laurie	Office of the Public Utility Counsel
Petterson, Mike	ERCOT – Controller
Reid, Walter	Wind Coalition
Roberts, Grady	ERCOT – Director, Contract Administration & Procurement
Robinson, Lane	Babcock & Brown
Seely, Chad	ERCOT – Corporate Counsel
Smallwood, Aaron	ERCOT – Director, IT Strategic & Financial Services
Stauffer, Tarra	ERCOT – Legal Assistant
Taylor, William	Calpine
Troxell, David	ERCOT – Director, Program Management Office
Vincent, Susan	Texas Regional Entity – Director, Legal Affairs
Wagner, Marguerite	PSEG, Texas
Wiswell, Steve	Competitive Assets
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of Prior Meeting General Session Minutes

Nick Fehrenbach moved to approved the minutes for the General Session of the Finance & Audit Committee meeting held on October 21, 2008. Miguel Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

2008 SAS 70 Audit

Sean Barry joined the meeting via telephone and provided a brief update on the 2008 SAS 70 Audit. Mr. Barry informed the Committee that no significant issues had been identified for the audit period that ended September 30, 2008. He also informed the Committee that the final report was expected to be delivered to the Board in December 2008.

Collateral Management

Cheryl Yager referred to materials that had been distributed prior to the meeting and led a discussion about how ERCOT manages collateral it receives from Market Participants. Ms. Yager reviewed applicable ERCOT Protocol language, historical levels of cash collateral, current ERCOT practices, other ISO practices, possible options for collateral management and next steps for the Committee. Brad Cox acknowledged that any approach for managing collateral would have pros and cons and suggested that ERCOT consider removing itself from between the Market Participant and fund managers by creating escrow accounts. Ms. Yager commented that there was some concern about the level of complexity associated with creating escrow accounts for each Market Participant that posted collateral. Clifton Karnei asked whether an escrow account was an alternative that a Market Participant could request. Ms. Yager responded affirmatively and noted that ERCOT could decline to honor such a request in its sole discretion. She added that ERCOT had received one or two requests to create escrow accounts in the past and that ERCOT had chose not to create the accounts. Mr. Cox suggested that ERCOT Legal and possibly outside counsel review the Protocol language and make suggestions to clarify any ambiguous language.

Miguel Espinosa asked whether the structure of funds maintained for Market Participants had any effect on ERCOT's ability to access funds. Ms. Yager responded that a concern over access to funds during default situations was one reason that ERCOT had held collateral at ERCOT rather than in escrow accounts. She noted that ERCOT does not commingle funds held as collateral with ERCOT, Inc. operating funds and maintains collateral accounts separately from operating accounts.

During the discussion about other ISO practices, Mr. Karnei confirmed that other ISO Market Participants were allowed to select from funds that had been pre-approved by an ISO then asked which entity (the Market Participant or the ISO) would bear the risk of loss. Ms. Yager responded that she had been unable as of the meeting time to get a definitive answer from any of the other ISOs regarding the risk of loss question.

Mr. Cox stressed the importance of diversifying risk and expressed a need to understand with certainty which entity (the Market Participant or ERCOT) would bear the risk of loss in all the structure options being considered. Mr. Espinosa agreed with the comments about diversification and further suggested that he would prefer to see more than four or six funds used and probably no more than \$25 million in any one fund. PUC Chairman Smitherman cautioned the Committee about only considering the number of funds and suggested that they focus on the underlying investments of the funds selected.

Clifton Karnei suggested that the Committee first confirm its primary objective with respect to managing collateral before deciding whether to change the current structure. PUC Chairman Barry T. Smitherman suggested that investing in US Government securities could be an option if there was no obligation to obtain large returns. Mr. Karnei acknowledged that while there was no obligation to obtain large returns, historically there was implicit pressure to keep the returns as high as possible to minimize the negatives associated with requiring collateral. He commented that lower returns would be a bigger hit to Market Participants since they received the benefit of interest income.

Mark Armentrout suggested that ERCOT's primary objectives with respect to managing collateral were (1) to have funds available when needed, (2) preservation of collateral, and (3) complete control of deposited collateral.

Mr. Karnei requested that staff prepare a recommendation (including a legal opinion on the issues previously discussed) for achieving the following three objectives: (1) preserve collateral, (2) timely access to collateral, and (3) ease of returning collateral. Ms. Yager agreed to provide the recommendation after the December meeting.

Financial Corporate Standard

Cheryl Yager referred to the Financial Corporate Standard that had been distributed prior to the meeting and reviewed the proposed changes. **Miguel Espinosa moved to approve the Financial Corporate Standard including the proposed changes; Nick Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Investment Corporate Standard

Cheryl Yager led a discussion on the Investment Corporate Standard that had been distributed to the Committee prior to the meeting. Ms. Yager covered investment objectives, risk-return consideration, approaches, identified changes and next steps. Clifton Karnei suggested the Purpose section of the Standard be revised to capture the Committee's conclusions regarding return objectives. In response to Mr. Karnei's suggestion, Ms. Yager agreed to present staff's recommendation regarding changes to the Investment Corporate Standard to the Committee in January. Steve Byone reminded the Committee that changes to the Investment Corporate Standard could have implications on the administration fee since part of operating costs had been offset by revenues from investments in the past.

2008 Year End Projections

Michael Petterson reviewed for the Committee the expected favorable variance in base operating activity projected for 2008. Committee members generally agreed with management's recommendation to make a \$12.5 million principal payment in November 2008 as planned. Mr. Petterson explained that the principal reduction would be made to the revolver rather than the term loan facility to enhance ERCOT's financial flexibility.

Timeline for Approval of Revised 2009 Base Operating Budget

Mike Petterson provided information on the updated timeline for approval of the 2009 Base Operating Budget and solicited input from the Committee. He explained that the original approval schedule, which was very tight and allowed no room for slippage of upstream activity, now required revisions due to delays with preparation of an updated Nodal Program budget. He described the revised approval timeline as a two-step process. The first step being to request approval of a one-month budget for January 2009 in December 2008 and the second step being to request approval of the full, revised 2009 base operating budget in January 2009. Committee members did not voice any opposition to the two-step approval process as described.

Timeline for Nodal Program Budget

Mr. Espinosa asked Ron Hinsley when there would be a completed Nodal budget. Mr. Hinsley responded that the Cost Benefit Analysis would need to be completed before a budget could be finalized. Mr. Karnei commented that Nodal Project budget would be discussed at length during the Executive Session of the Board of Directors meeting.

Nodal Interim Rate Relief Request

Cheryl Yager reviewed for the Committee the facts and circumstances leading up to the need to request an increase in the Nodal fee. She noted that approximately \$12 million per month of spending authority was requested by Nodal Program leadership to continue to progress the Program and that the funding would need to be accomplished through some combination of revenue and/or debt financing. Brad Cox asked whether ERCOT had received from Market Participants reactions regarding the proposed fee increase. Bob Kahn responded that any change to the fee would cause issues because Market Participants' budgets were set. Mr. Kahn added that the rate increase sought was an interim increase. Steve Byone commented that he understood the rate increase would be difficult for Market Participants and reminded the Committee of the need to identify a viable funding source if the Nodal Program was to continue. Charles Jenkins acknowledged the need to fund the Nodal Program with a larger equity proportion than had occurred to date, but expressed discomfort with sourcing the additional costs required—even on an interim basis—with 100 percent equity. Mr. Byone commented that utilizing ERCOT's available debt capacity to fund the Nodal Program would mean less debt to fund other projects such as advanced metering and construction projects and could mean ERCOT would be unable to address unexpected needs.

Charles Jenkins moved to recommend that the Board authorize ERCOT to make a filing with the Public Utility Commission of Texas to request an increase in the Nodal Surcharge from \$0.169 per MWh to an amount that corresponds to a 40 percent equity/ 60 percent debt split (approximately \$0.22 per MWh); Dan Wilkerson seconded the motion. The motion was approved. Clifton Karnei and Nick Fehrenbach opposed the motion.

Audit Committee Meeting Planner for 2009

Steve Byone sought approval of the audit committee meeting planner for the upcoming year and confirmed mutual expectations with management and auditors. He mentioned that the items on

the Yearly Schedule were the same items included in 2008 schedule. No concerns or additions were voiced.

Finance & Audit Committee Self Assessment

Steve Byone reminded Committee members that the Committee Charter required that a self-assessment be completed. He informed them that each Committee member would receive instructions for completing the annual Committee self-assessment via email and that they might have an option to complete the assessment online. He added that results from the assessment would be compiled and prepared for review during the December Committee meeting.

Market Participant Guarantee Agreements

Tim Coffing, Vice-Chair of the Credit Work Group (CWG), addressed the Committee and asked for clarification on the reasons why the draft Guarantee Agreements proposed by CWG were rejected by the Committee. Clifton Karnei responded that the drafts were “watered down” compared to the drafts initially proposed by ERCOT Legal. Mr. Karnei explained that the Committee was inclined to approved the more stringent versions initially proposed by ERCOT Legal without additional rationale from CWG regarding the “watered down” changes. Mr. Coffing responded that he would try to gather and provide more information for the Committee. Messrs. Gent, Karnei and Cox asked that Mr. Coffing provide brief explanation of the reasoning behind each item proposed by ERCOT Legal that was removed or changed in order of most to least significant. Mr. Coffing agreed to try to get the information from Market Participants no later than the January Committee meeting.

Credit Work Group Charter and Membership Requirements

Tim Coffing and Cheryl Yager referred to the Credit Work Group Charter that had been distributed prior to the meeting and reviewed the changes that had been proposed by ERCOT staff and approved by the Credit Work Group (CWG). **Dan Wilkerson moved to approve the CWG Charter including the proposed changes; Nick Fehrenbach seconded the motion. The motion passed.**

Market Credit Risk Standard

Tim Coffing provided an update on the status of the Market Credit Risk Standard under review by the Credit Work Group (CWG). He explained that CWG had not reached consensus regarding the standard and that two camps existed. One camp preferred to revise the standard to give staff more flexibility; the other preferred to approve the standard as proposed. Clifton Karnei encouraged CWG to work towards consensus and come back to the Committee in February with a recommendation.

Committee Briefs

Steve Byone referred to materials distributed prior to the meeting for the following areas:

1. Market Credit
2. Internal Control Management Program
3. Enterprise Risk Management
4. Project Management Organization

He directed the Committee’s attention to the Risk Management Event Profile Matrix (“Stop Light Report”) and commented that the risk level for Technology Infrastructure was elevated because of data center capacity issues.

Future Agenda Items

Clifton Karnei referred to the following future agenda items asked if there were any suggestions for additional future agenda items:

1. Approval of 2009 Internal Audit plan
2. Review results of Finance & Audit Committee self-assessment
3. Assessment of the adequacy and effectiveness of the Internal Audit staff
4. Review and approval of 2009 operating budget
5. Update on ERCOT credit risk standard
6. Update on investments and investment policy
7. Review listing of dealings with financial institutions that are also market participants
8. Committee briefs
9. Future agenda items

Adjournment

Clifton Karnei adjourned the meeting at approximately 9:55 a.m.

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

Credit Work Group Feedback

4. Claim Audit of ERCOT Health Plan by Sagebrush Solutions, LLC Nancy Capezzuti

- **ERCOT hired Sagebrush Solutions to review and evaluate claims processing by Cigna for our health plan**
- **Sample claims were audited from July 2007 – May 2008 for both medical and pharmacy claims**
- **Audit results are attached as a separate document**



Electric Reliability Council of Texas

FINAL REPORT **Claims Administration Audit and** **Electronic Claims Testing of** **Connecticut General Life Insurance** **Company**

November 2008

Table of Contents

Project Overview	2
Medical Claim Audit Results.....	2
Pharmacy Claim Audit Results.....	4
Focused Reviews	4
Observations and Recommendations.....	4
Medical Sample Selection and Testing.....	6
Medical Audit Results.....	8
Medical Turnaround Time	13
Pharmacy Audit Results.....	14
Stop Loss Review	15
Duplicate Payment Review	16
Clinical Edits.....	16
Eligibility Test	17
Claims Funding Test.....	17
Medical Claim Administrator Questionnaire.....	18
Eligibility and Enrollment.....	18
Claims Processing.....	18
Customer Service	19
Quality Assurance	19
Training.....	20
Utilization Review and Case Management.....	20
Fraud and Abuse Program	21
HIPAA Compliance	22
Refund Recovery	22
Medicare Coordination and Medicare Secondary Payor	23
Pharmacy Administrator Questionnaire.....	23
Pharmacy Eligibility and Enrollment.....	23
Pharmacy Claims Processing.....	24
Pharmacy Customer Service	24
Pharmacy Quality Assurance.....	25
Pharmacy Training.....	25
Pharmacy Fraud and Abuse	25
Random Sample Errors	27
Vendor Response	29

Project Overview

Sagebrush Solutions LLC (Sagebrush) was engaged by Electric Reliability Council of Texas (ERCOT) to review and evaluate the claims processing services provided on behalf of the ERCOT employee benefit plan by Connecticut General Life Insurance Company (CIGNA). Sagebrush also reviewed some operational aspects at CIGNA consisting of the completion of a detailed administrative questionnaire and review of related documentation including but not limited to operating policies and procedures, SAS 70 reports, HIPAA compliance, and business continuity / disaster recovery. The objectives of the audit were to determine the degree of accuracy with which ERCOT medical and pharmacy claims are processed and provide an overview of CIGNA claims operations. The overall purpose of this review was to provide an independent assessment of CIGNA Healthcare's performance relative to the administration of the ERCOT benefit plan and to identify potential claim overpayments.

Sagebrush conducted an onsite review of claims at the CIGNA location in Denison, Texas starting on August 18, 2008 and ending on August 21, 2008. Additional follow-up audit work was conducted September 19, 2008. During this review, the audit team tested a sample of 200 medical claims for financial and processing accuracy. The claims were tested for eligibility, timeliness, payment accuracy and adherence to plan benefits and administration procedures. The sample was selected from the population of ERCOT medical claims processed between July 1, 2007 and May 31, 2008. A sample of 200 pharmacy claims was also tested for payment and processing accuracy. The pharmacy claims sample was selected from the population of ERCOT pharmacy claims processed between July 1, 2007 and May 31, 2008.

In addition to the statistical claim review, Sagebrush conducted focused reviews on the claims reinsurance process (stop loss), eligibility, standard clinical edits, claims funding review, and duplicate payments.

The following summary provides an overview of the audit findings along with our observations and recommendations. The complete audit results are discussed in the body of the report.

Medical Claim Audit Results

Medical Claims Adjudication Accuracy

The medical claim review identified ten (10) payment errors, Six (6) overpayments totaling \$3,225.25 and four (4) underpayments totaling \$139.07. The net value of the identified medical payment errors is an overpayment of \$3,086.18. Two (2) procedural (non-payment) errors were identified in the sample. CIGNA agreed with eleven (11) of the errors.

- Based on the distribution of the ten (10) financial errors identified in the medical sample, the projected gross financial (dollar) accuracy within the medical claim population is 99.4%. The standard commonly found in the industry for financial accuracy is 99.0%. The reported standard for financial accuracy for CIGNA benefit examiners is 99.0%. The

performance guarantee for financial accuracy is 97.0% and above. There is no performance guarantee for financial accuracy for ERCOT.

- From the extrapolation of the identified payment errors to the medical claim population, our best estimate of the total absolute financial (dollar) error in the population is \$21,196.11.
- Ten (10) payment errors were identified in the medical sample. Based on the distribution of the errors, the projected payment accuracy of the medical claim population is 95.0%. Payment accuracy refers to the incidence of correct claim payments. The common industry standard for this measure is 95% - 97%. The reported standard for payment accuracy for CIGNA benefit examiners is 97.0%. There is no performance guarantee for payment accuracy.
- Two (2) procedural errors were assessed during the audit. Based on this result, the projected procedural accuracy of the claim population is 99.0%. The common industry standard for this measure is 95%. The reported standard for non-payment processing accuracy is 95.0%. CIGNA does not have a performance guarantee for procedural accuracy.

The audited results indicate that CIGNA Healthcare's performance for financial accuracy meets the standard for its benefit examiners, the industry standard and the ERCOT performance guarantee.

For payment accuracy and processing accuracy, the audit results are consistent with or exceed industry standards.

Turnaround Time

Turnaround time (TAT) is defined as the total number of days needed to process a claim. Turnaround time is significant from several perspectives. Claims that do not receive prompt consideration when they are submitted can potentially cause member and provider relation difficulties. Secondly, when claim adjudication does not occur promptly, claims are re-submitted by members and providers, increasing claim volume as well as the probability that duplicate claim payments will occur.

Most claim administrators strive to process 85% - 90% of all claims within 14 calendar days and 99% within 30 calendar days. The reported CIGNA office target for TAT is 90% of clean claims within 14 calendar days and 98% within 30 calendar days, excluding adjustments. We were unable to separate clean claims in the data sets provided by CIGNA; therefore, the statistics provided include all claims processed during the period.

- Our testing of the claim population indicates that 91% of all claims were processed within 14 calendar days, and 95% were processed within 30 days.

Based on industry standards, we conclude that CIGNA did not perform adequately with respect to claim turnaround time during the period tested.

Pharmacy Claim Audit Results

Pharmacy Claims Adjudication Accuracy

Sagebrush did not identify any assessable claim exceptions in the three categories tested: financial accuracy, payment accuracy, and procedural accuracy.

Focused Reviews

Sagebrush conducted focused reviews of: potential duplicate payments; stop loss claims; claim payments involving clinical edits; claims funding, and member eligibility. Briefly, our testing revealed:

- Sagebrush conducted a test of potential stop loss claims incurred by member. We found that four (4) members with expenses exceeding the stop loss limit during the audit period. Sagebrush reviewed the stop loss information provided.
- A total of \$918.11 in duplicate claim payments were identified and validated during the onsite review.
- Sagebrush conducted an analysis of claim payments involving clinical edits: multiple surgical procedures, incidental procedures and mutually exclusive procedures. Our testing did identify several payment errors but did not reveal a high incidence or significant issues.
- Sagebrush compared the eligibility file provided by ERCOT to eligibility on the CIGNA claims system on several members that appeared to have claims paid after the coverage termination date.
- Sagebrush reviewed claims funding documents against claims payment activity to assess whether the numbers balance.

Observations and Recommendations

The project results indicate that CIGNA Healthcare's performance relative to claims accuracy and timeliness and operational efficiency is generally within acceptable standards and guidelines. Our overall conclusion based on the results of the claim reviews, our observations during the onsite review and the analysis of the administrative questionnaire is that CIGNA claims operations appear to be appropriate and efficient. Based on the results of the claim review there is room for improvement, especially in the area of ineligible members.

The claims operation effectively utilizes technological solutions as evidenced by: the largely paperless environment and efficient claims processing system. The following information provides a summary of our general observations and recommendations relative to the claims and operational review and electronic testing. Additional information is provided in the corresponding sections of this report.

- In review of the claims Turnaround Time (TAT), Sagebrush tested the length of time CIGNA took to process claims and determined that 94.5% of claims were processed within 30 days. This fell short of the industry standard of 99% processed within 30 days.

Recommendation: CIGNA should take necessary measures to ensure timely processing of claims that do not auto adjudicate. The monthly claim volume for ERCOT members is not prohibitively high.

- Sagebrush identified instances in the random sample review and the focused review where multiple surgery cutbacks were not appropriately applied. Errors attributed to clinical editing software issues can be costly in the long run if they go un-checked.

Recommendation: CIGNA should periodically test the clinical editing software to ensure it is accurately applying the appropriate cutbacks for secondary procedures. Overpayments recovered by CIGNA overpayment vendor could be used to train individuals or as a tool to assist with system configuration going forward.

- Sagebrush identified net overpayments amounting to \$10,704 during the random sample review and focused tests.

Recommendation: CIGNA should take steps to recover on the identified overpaid claims on behalf of ERCOT.

Medical Sample Selection and Testing

Sagebrush used a stratified random sampling technique to select the medical sample. This technique was selected because it permits the financial results to be extrapolated to the entire population of claims with statistical significance. The estimated sample size for the overall sample was intended to achieve a 95% confidence level with a 3% precision if the payment error rate was 5%. The actual precision rate varies based on the tested error rate.

A sample of 200 medical claims totaling \$1,048,908.50 in benefits paid was selected from a population of 14,179 claims paid at \$3,344,875.18 for claims incurred and paid during the period of July 1, 2007 through May 31, 2008. The sample was selected from the claim data files provided by CIGNA. For adjusted claims, only the most recent iteration was eligible for selection.

Using a stratified random sampling technique, the claims were selected randomly within each of five payment bands listed below. The strata were selected using an optimal allocation formula that takes into account the actual distribution of the population sampled.

Strata number	Payment range	
1	\$0.00	\$199.99
2	\$200.00	\$849.99
3	\$850.00	\$3249.99
4	\$3,250.00	\$21,999.99
5	\$22,000.00	+

Sample Tests

Each claim in the selected sample was tested for payment and coding accuracy, adherence to plan benefits and administration procedures, and timeliness. Each claim was tested (“re-adjudicated”) on the CIGNA claim adjudication system, Proclaim, for financial and procedural accuracy. Claims were compared to system information, original claim documentation (imaged and electronic), plan provisions and written CIGNA policies and procedures. The following elements were tested for each claim:

- ☐ Was the paper submission an unaltered original? Did it contain all required information to process the claim?
- ☐ Was the claimant eligible for medical benefits on the date(s) of service?
- ☐ Was the claim submitted within the specified time as defined by the plan?
- ☐ Were managed care discounts and contractual provisions applied correctly?
- ☐ Were the procedures covered, billed and paid, and were procedures medically necessary and appropriate according to CIGNA medical review?
- ☐ Were claims for multiple procedures, bilateral procedures, unbundled services, and experimental prescription drugs/services submitted to the appropriate levels for review and adjudicated correctly?
- ☐ Were benefit coordination and subrogation accurately determined if the claimant had other coverage available?
- ☐ Did the correct claimant or assignee receive payment?
- ☐ Did the claim contain all required information and was it coded properly in the claim processing system?
- ☐ Were benefits applied in accordance with plan requirements?
- ☐ Were the mathematical computations and the application of co-payments, out-of-pocket limits, and deductibles accurate?
- ☐ Were allowable charge limitations of the plan correctly applied?
- ☐ Were preauthorization, second surgical opinion, and ambulatory procedures followed and documented when appropriate?
- ☐ Was the claim paid only once?
- ☐ Did claim payment response time meet contractual provisions and generally accepted industry standards?

Medical Audit Results

Definition of Accuracy Measures

All claims were tested for accuracy in three areas:

- ❑ Financial Accuracy
- ❑ Payment Accuracy
- ❑ Procedural (non-payment) Accuracy

Descriptions of the accuracy measures are outlined below. Our experience has shown that these measures are commonly found within the industry.

Since the tested medical sample was selected using stratification, the mathematical formulas described below for payment and procedural (non-payment) accuracy are first applied to each stratum. Then a composite rate is developed for the medical population by weighting each stratum based on the relative proportion of the given population stratum to the total population.

Summing the projected absolute dollar error for each claim stratum, and comparing the result to the total paid dollars in the population derive the estimated financial accuracy for the medical claim population. The projected absolute dollar error is based on the average tested dollar error times the number of claims in each stratum.

The sample items were tested for accuracy using the following accuracy measures and formulas:

$$\text{Financial Accuracy} = 1 - \frac{\text{Total Projected Absolute Dollar Error for all Claim Strata}}{\text{Total Population Dollars Paid}}$$

For purposes of a claim administration audit, financial accuracy reflects the financial implication of payment errors identified in the audit. The standard commonly found in the industry for financial accuracy is 99%.

$$\text{Payment Accuracy} = \frac{\text{Number of Claims Paid Correctly}}{\text{Number of Claims Paid}}$$

Payment accuracy reflects the percentage of claims that result in the correct payment of benefits. The common industry standard for this measure is 95% - 97%.

$$\text{Procedural Accuracy} = \frac{\text{Number of Claims without Procedural Errors}}{\text{Number of Claims Paid}}$$

Procedural accuracy reflects the percentage of claims that do not contain coding, data entry, or other errors not resulting in the incorrect payment of the claim. The common industry standard for this measure is 95%.

While procedural errors do not directly have a financial impact, they are noteworthy because procedural errors often lead to future payment errors. An example is when a procedure code on a given claim is keyed incorrectly. A subsequent duplicate payment could occur since the examiner or system logic will not be able to identify the duplicate procedure.

Claims Adjudication Accuracy

In claims with more than one error, one error per claim was counted. If a claim had a financial and procedural error, we counted the financial error. Each identified potential error or question was submitted to CIGNA in writing for review and written response.

A total of ten (10) payment errors were assessed. CIGNA agreed with all ten (10) errors. There were two (2) procedural errors and CIGNA agreed one (1) error and disagreed with one (1) error.

The results of the claim testing are outlined in the following tables. Table 1 provides a summary of the audited accuracy rates, along with CIGNA internal targets and commonly seen industry standards.

Table 2 shows the payment and procedural accuracy rates by medical claim stratum. Composite accuracy rates are derived by weighting the tested error rate for each claim stratum based on the relative proportion of the given population stratum to the total population. The composite rates are included in Table 1.

Table 3 shows the estimated financial accuracy of the medical claim population. Totaling the projected absolute dollar error for each claim stratum and comparing the result to the total paid dollars in the population derive the estimated financial accuracy for the claim population. The projected absolute dollar error is based on the average tested dollar error times the number of claims in each stratum.

Table 1: Summary of Accuracy Rates

Measure	Claim Accuracy	CIGNA Stated Goals	Common Industry Standards
Financial Accuracy	99.4%	99.0%	99%
Payment Accuracy	95%	97%	95% - 97%
Procedural Accuracy	99%	95%	95%

Table 2: Medical Payment and Procedural Accuracy Rates by Claim Strata

Claim Strata	# Of Claims	Sample Size	# Pmt. Errors	Payment Accuracy	# Proc. Errors	Procedural Accuracy
\$0 - \$199.99	11,922	40	5	87.5%	1	97.5%
\$200 - \$849.99	1,693	40	0	100%	0	100.0%
\$850 – \$3249.99	439	40	2	95%	0	100.0%
\$3,250 – \$21,999.99	115	40	3	92.5%	1	97.5%
\$22,000 +	10	40	0	100.00%	0	100.00%
Total/Weighted	14,179	200	10	95.0%	2	99.0%

Table 3: Estimated Financial Accuracy of the Medical Claim Population

Claim Strata	Sample Absolute \$ Error	Sample Size	Avg. \$ Error	# Of Claims	Projected Absolute \$ Error	Paid Population	Financial Accuracy
\$0 - \$199.99	27.57	40	\$0.69	11,922	\$8,217.24	\$655,188.01	98.7%
\$200 - \$849.99	\$0	40	\$0	1,693	\$0	\$663,736.02	100%
\$850 – \$3,249.99	417.99	40	\$10.45	439	\$4,587.44	\$680,673.08	99.3%
\$3,250 – \$21,999.99	\$2,918.76	40	\$72.97	115	\$8,391.44	\$684,912.89	98.8%
\$22,000 +	\$0	40	\$0	10	\$0	\$660,365.18	100%
Total/Weighted	\$3,364.32	200	\$84.11	14,179	\$21,196.11	\$3,344,875.18	99.4%

Financial Accuracy

The stratified random sampling method permits projection of the audited financial accuracy rate to the entire population. The auditor's ability to statistically project the audit findings in this manner depends on the sampling technique used.

The tested gross financial error in the medical sample is \$3,364.32. Based on the distribution of the errors within the claim strata; our best estimate of the absolute (gross) financial error is \$21,196.11 in the paid claim population of \$3,344,875.18, resulting in a projected gross financial (dollar) accuracy within the claim population of 99.4%. The standard commonly observed in the industry is 99.0%.

Classification of Errors

The following tables provide a breakdown of the errors identified in the audited samples.

Error Classification	# Of Errors	\$ Error
Overpayments	6	\$3,225.25
Underpayments	4	(\$139.07)
Total/Net Error	10	3,086.18

Error Type	#	% Of Total	Absolute \$ Error	% Of Total \$
Allowable amounts	4	33.3%	\$39.50	1.17%
Benefit Type	3	25.0%	\$141.83	4.22%
Multiple Surgery Cutback/Assistant Surgeon Cutback	2	16.7%	\$3,175.75	94.4%
Charge Previously Considered	1	8.3%	\$0.00	0.0%
Incorrect Provider Suffix Chosen	2	16.7%	\$7.24	.21%
Total	12	100%	\$3,364.32	100%

* This list includes two procedural errors.

The medical claim review identified 12 errors. CIGNA agreed with eleven (11) errors and disagreed with one (1) error.

Allowable amounts: Two (2) overpayments totaling \$2.00 were identified because the fee schedule was not updated. (Sample Numbers: 7, 39) Two (2) overpayments were assessed because claim did not pay at the proper default percentage in absence of a fee schedule. (Sample Numbers: 38, 121)

Benefit Type: One (1) claim underpaid \$.83 because the claim applied a \$20.00 co-pay and paid at 90% instead of paying at 100% for lab work. One (1) claim underpaid \$111.00 for Emergency Room services because a \$250 deductible was taken instead of the \$50 Emergency Room co-pay and paying at a 90% coinsurance rate. One (1) overpayment was assessed for a \$30 due to an office visit co-pay was not taken. (Sample Numbers: 18, 120, 142)

Multiple Surgery Cutback/Assistant Surgeon: One (1) claim overpaid \$2,868.76 because services for Assistant Surgeon were not cutback. One (1) overpayment for \$306.99 was assessed for a multiple surgery cutback that was not taken. (Sample Numbers: 98, 153)

Charge Previously Considered: A procedural error was assessed on Sample 26, as a charge was considered twice for the same rendering physician.

Incorrect Provider Suffix: One (1) underpayment of \$7.24 was assessed on sample 28 because the out of network provider suffix was chosen for a provider that is in network. A procedural error was assessed on Sample 137, as the provider name on the claim did not match the remit to provider.

Medical Turnaround Time

Turnaround time (TAT) is defined as the total number of days needed to process a claim. The calculation covers the period from the day the claim is received to the day the claim payment is processed, suspended, or denied.

Turnaround time is significant from several perspectives. Claims that do not receive prompt consideration when they are submitted can potentially cause member and provider relation difficulties. Secondly, when claim adjudication does not occur promptly, claims are re-submitted by claimants and providers, increasing claim volume as well as the probability that duplicate claim payments will occur. In addition, delays in processing claims can have an adverse impact on Incurred But Not Reported (IBNR) claims calculations, experience rating and projected loss ratios.

Most claim administrators strive to process 85% - 90% of all claims within 14 calendar days and 99% within 30 calendar days. The reported CIGNA office target for TAT is 90% of all clean claims within 14 calendar days, excluding adjustments.

The following tables represent the TAT statistics for the CIGNA claim population for claims incurred and processed during the period July 1, 2007 through May 31, 2008. We were unable to differentiate clean from non-clean claims in the data sets provided by CIGNA; therefore, the statistics provided include all claims processed during the period. For adjusted claims, the final disposition is included.

Claim Population Turnaround Time

Calendar Days	Number of Claims	Percentage of Pop.	Cumulative Calendar Days	Cumulative Number of Claims	Cumulative Percentage Of Pop.
0 – 7 days	12,413	83.54%	7 days	12,413	83.54%
8 – 14 days	1090	7.34%	14 days	13,503	90.88%
15 – 21 days	332	2.23%	21 days	13,835	93.11%
22 – 30 days	214	1.44%	30 days	14,049	94.55%
31 – 60 days	353	2.37%	60 days	14,402	96.92%
Over 60 days	457	3.08%	Over 60 days	14,859	100.00%

Our analysis indicates that CIGNA processed 91% of all claims within 14 calendar days of receipt. CIGNA processed 95% of all claims within 30 calendar days.

The TAT does not meet the industry standard of 99% of all claims in 30 days.

Pharmacy Audit Results

Sample Selection

A random sample of 200 pharmacy claims totaling \$15,144.75 in paid dollars were selected and tested from the population of ERCOT pharmacy claims processed by CIGNA Pharmacy Management. CIGNA provided Sagebrush with claim screen prints to review the pharmacy payments.

Sample Tests

Each ERCOT pharmacy claim in the selected sample was tested for payment and dispensing accuracy and adherence to plan benefits and administration procedures.

CIGNA uses the Average Wholesale Price (AWP) minus a discount and Maximum Allowable Cost (MAC) to determine reimbursement rates.

The following elements were tested for each claim:

- Was the claimant eligible for benefits on the date(s) of service?
- Did the correct claimant or assignee receive payment?
- Were benefits applied in accordance with plan requirements?
- Were the claims accurately priced using the appropriate and most current AWP, MAC, U&C, or submitted charge allowances?
- Were the mathematical computations, discounts, the application of co-payments, and professional fees accurate?

Results

Financial Accuracy: The tested financial accuracy rate of the sample is 100 percent. This accuracy exceeds the CIGNA internal goal of 99.3 percent and the generally observed industry standard of 99.0 percent.

Payment Accuracy: The payment accuracy rate for the audit sample is 100 percent. This accuracy exceeds the CIGNA internal goal of 98.0 percent and the generally observed industry standard of 95.0 to 97.0 percent.

Procedural Accuracy: The procedural accuracy rate for the audit sample is 100 percent. We did not identify any procedural errors. This accuracy exceeds the CIGNA internal goal of 95.0 percent. This accuracy rate exceeds the generally accepted industry standard of 95.0 percent.

The table below outlines the results of the audit sample.

	ERCOT Pharmacy
Number of Claims Sampled	200
Dollar value of Sample	\$15,144.75
Dollar value of Overpayments	\$0
Dollar Value of Underpayments	\$0
Number of Payment Errors	0
Number of Procedural Errors	0
Financial Accuracy Rate	100%
Payment Accuracy Rate	100%
Procedural Accuracy Rate	100%

Focused Review Results

In addition to the statistical claim review, Sagebrush conducted four (4) focused reviews. We electronically tested the claims data to identify potential duplicate claim payments. We tested the population to identify members above the individual stop loss level of \$125,000. We analyzed medical claim payments utilizing Clinical Editing Software. We tested a sample of claims for eligibility. During the onsite claim review, Sagebrush validated those claims identified as potential errors.

Stop Loss Review

ERCOT reinsured with CIGNA on losses over \$105,000. Sagebrush conducted a test of claims processed between July 1, 2007 and May 31, 2008 for individuals that accumulated claims that exceeded \$100,000 to determine whether the claims paid in excess of the stop loss threshold were properly sent for re-insurance. Sagebrush identified four individuals that incurred claims in excess of \$100,000 and all four episodes properly triggered the re-insurance mechanism at the proper attachment point.

Duplicate Payment Review

Sagebrush tested the claims processed between July 1, 2007 and May 31, 2008 for potential duplicate payments. In a preliminary diagnostic test, we identified potential duplicate payments. The actual duplicates can only be verified with an onsite assessment of each individual claim.

During the onsite visit, we validated a sample of 40 sets of payments that had been identified as potential duplicates. Each set had two or more payments. The validation process determined which claims were duplicate payments, contained a related error, or were paid correctly.

Sagebrush reviewed the claims and the member's history applying the rule that the most recent payment is considered the duplicate payment unless the available information indicates otherwise. Sagebrush tested the sample and provided CIGNA with the listing of claims that were identified as potential errors. CIGNA reviewed the claims and provided Sagebrush with their findings.

Results

In the 40 sets Sagebrush identified nine (9) duplicate payments, totaling \$2,318.43. CIGNA agreed to seven (7) of the overpayments for \$918.11.

Clinical Edits

Sagebrush conducted an analysis of claim payments involving standard clinical edits for: age, gender, cosmetic procedures, mutually exclusive procedures, multiple surgical procedures, global fees, and unbundling procedures. Sagebrush reviewed the claims history against our Clinical Editing Software. This software is widely used by payers in the industry to perform clinical editing on claims during processing. The results provide a comparison of CIGNA's multiple surgery edits against those programmed within Proclaim. Sagebrush does not customize the multiple surgery edits within the software; therefore, our test results are often more aggressive (cutbacks are more frequent) than those seen at payers whom customize the program or use other coding packages.

Our testing did not reveal a high incidence of claims that were not reduced according to multiple surgery guidelines. The testing identified a rather small population of claims with potential multiple surgery processing issues as defined by the Clinical Editing Software edits. A sample was reviewed onsite. The majority of the claims reviewed were false positives that either had been reduced or reduction was not required as the procedures were in separate surgical sites. For those claims reviewed that had not been reduced per Clinical Editing guidelines, it appeared the absence of a reduction was due to differences in the edits between the Sagebrush Clinical Editing Software and the CIGNA software.

Results

- Sagebrush reviewed eighty (80) claims with potential mutually exclusive services. Five (5) claims were submitted to CIGNA with overpayments for \$302.37. CIGNA agreed with four (4) for \$281.07.
- Sagebrush identified twenty-five (25) potential multiple surgery episodes to determine whether the proper multiple procedure cutback was applied. Fifteen (15) claims were identified not taking the multiple surgery reduction for \$6,305.18. CIGNA agreed with ten (10) errors for \$4,892.71
- Sagebrush reviewed fifty-seven (57) claims with procedures that may be incidental to another billed procedure on the same date of service. Seventeen (17) claims were submitted to CIGNA to review for \$4,801.14. CIGNA agreed with one (1) overpayment for \$681.67.

Based on the outcomes of all other claims in our analysis and the lack of clinical edit errors in the medical sample, it appears that the CIGNA clinical editor is performing appropriately.

Eligibility Test

ERCOT provided Sagebrush with the eligibility files for the audit period July 1, 2007 – May 31, 2008. Sagebrush electronically compared the eligibility files to the dates of services for claim payments in the CIGNA claims payment file.

We compared the ERCOT eligibility files to each claim in our sample and identified potential overpayments.

We selected a sample of claims from an electronic audit of payments to members who had a change in coverage and were potentially ineligible.

Results

Sagebrush identified eleven (11) members, based on the eligibility file provided by ERCOT, that had claims paid after the policy termination date. Eligibility information later verified on the CIGNA claims system revealed that ten (10) members had COBRA that extended coverage beyond the date noted in the ERCOT eligibility file. One (1) member had matching termination dates between ERCOT and CIGNA with overpayments totaling \$190.26.

Claims Funding Test

Sagebrush conducted a review of claims funding transfers made by ERCOT against the claims data to ensure the funding reports matched the value of claims paid by CIGNA. ERCOT provided Electronic Funds Transfer data and claims data for review and CIGNA presented check log documents. Our analysis determined that the ERCOT funding matched the claim expenditures within 2.7 percent. ERCOT wired \$4.6 million to CIGNA for claims paid during

the audit period and CIGNA paid \$4.7 million in claims. The difference is attributable to claim adjustments and to some extent the timing.

Medical Claim Administrator Questionnaire

Prior to conducting the onsite review, CIGNA provided Sagebrush with a completed copy Operational Questionnaire. The administrative questionnaire addressed issues such as system capabilities, claim adjudication procedures, member services, mail processing, quality assurance, training and staffing.

The following topics were touched on the Operational Questionnaire:

Eligibility and Enrollment

Prior to January 2008 eligibility maintenance was maintained by ERCOT on the CIGNA access website. Starting in January 2008, ERCOT began providing an automated file with eligibility updates on a weekly basis. An eligibility determination is made for paper claims submitted during the indexing process performed at the mail center. The processor matches the claim to a member on file based on the employer group, name, address and/or SSN. If a match is not found, the claim is returned to the sender. An electronic claim is rejected at the gateway.

Active eligibility information is generally not archived. It remains on the system for seven (7) years.

Retroactive terminations are the responsibility of the Eligibility Department. In case of retroactive terminations, the claims history is reviewed for claims that were processed after the termination date. Overpayment requests are sent on overpaid claims that result from retroactive terminations and are pursued by CIGNA's overpayment recovery vendor.

CIGNA verifies dependent student status by sending student verification letters on August 1st. If CIGNA does not receive a response by October 15th or the dependent is no longer a student, the dependent is terminated effective September 30th.

CIGNA investigates coordination of benefits on a rolling 14-month basis. Claim Processors request COB information by utilizing a message on EOB's or correspondence letter. CIGNA accepts response by mail or by telephone.

Claims Processing

CIGNA notes that 83.7% of received claims are by electronic submissions and the auto-adjudication rate for ERCOT claims is 80.7%. Claims that are not auto-adjudicated are routed to

claim processors by iTrack, CIGNA Healthcare's workflow application that electronically routes pending claims and correspondence.

CIGNA processes ERCOT claims on the Proclaim claims system. Based on our observations, the system seems to perform adequately. The system appears to have sufficient edits and accumulators as evidenced by the low incidence of accumulator errors. It is reported that the system utilizes ClaimCheck clinical editing and unbundling software package.

The computer disaster recovery and business continuity plans described by CIGNA are appropriate and adequate. These plans are reviewed and tested routinely to ensure accuracy and completeness and to ensure that recovery time is well within standard parameters. CIGNA also conducts a routine backup of claims data for disaster recover purposes.

CIGNA indicates that in 2008 there are 52 management/supervisory staff, 294 examiner/processor staff members and 2 technical staff in the Denison office claims department. There are 5 claims processors dedicated to the ERCOT account.

Customer Service

CIGNA has a service unit separate from claims processing to handle member service phone calls. A designated call unit handles ERCOT inquiries. The average call wait time is 15 seconds.

The primary responsibility of the Customer Service Representative is to handle phone calls from members and providers. CSR's access the processing system and claims history using a desktop tool called iCare. The eTalk call monitoring system has two components that allow review of the audio portion of the call as well computer movements, keyboard strokes and, mouse movements. Ten calls a month are reviewed. Customer Service Representatives average 65-75 calls a day

The CSR is authorized to make simple claim adjustment while the caller is on the line. All other adjustments are documented in iCare and sent high priority electronically to the adjustment team.

Quality Assurance

CIGNA has an internal quality assessment (QA) program at the Denison office and at the corporate level. The QA department has several components of quality review that include pre-disbursement reviews as well as post disbursement reviews. Random sample reviews are conducted on 2-3% of claims for each processor. In addition, high dollar claims receive multiple levels of review to ensure accuracy before payment is released.

Each claim is reviewed for system applications, eligibility, provider information, claims processing. The assessment measures financial accuracy, but there is no internal tracking for payment accuracy and procedural accuracy. Errors identified are captured and reported to the Claims Managers. The examiner is given the opportunity to provide additional information to substantiate their actions, as appropriate.

The Quality results are used to identify and track specific issues and trends. Results are utilized to provide ongoing education and training and to identify situations where focused audits would be appropriate.

Corporate quality standards are also measured tracking claims processors for financial accuracy, payment accuracy and procedural accuracy. Claims Processors are promoted and receive salary increases based on these performance reviews.

Training

Claims Processing

CIGNA maintains a formal training program. All processors are not required to have prior health claim processing experience. The initial training program consists of three months of formal claims processing training conducted in classroom, along with computer-based and one-on-one settings.

New benefit examiners take a series of tests that determine areas where additional training is needed. Each trainee is under 100% review and must meet appropriate quality standards prior to release. CIGNA has specific training modules that can be customized to meet the individual needs of an examiner based on ongoing assessments.

Ongoing training needs are identified through the internal quality program and supervisor feedback. Refresher training and instruction on new procedures is provided to all employees on an as needed basis.

Utilization Review and Case Management

CIGNA maintains an in house Utilization Review (UR) Department. The Utilization Review Program is designed to manage the utilization of resources provided to members and allows providers to discuss concerns with CIGNA representatives. UR activities are conducted in accordance with standards developed by the CIGNA Medical Advisory Committees, specialty panels, and internal medical staff.

Inpatient Preauthorization

ERCOT has selected the PHS medical management model. Preauthorization is required for all inpatient hospital stays under this model. CIGNA posts its current review list requiring preauthorization on their website and updates any changes on an ongoing basis.

The member's network provider is responsible for preauthorizing in-network care.

For other out-of-network and out-of-area care, the provider typically secures authorization of charges. Patients are encouraged to work with providers on out of network stays to ensure authorization is secured to avoid penalties.

Preauthorization standards are based on clinical screening criteria to ensure eligibility of services, cost efficiency, medical necessity, and appropriateness. Nurses determine medical necessity and length of stay with the help of Intracorp Care Facilitation Center. Claim Nurse Reviewers (CNR) and the Care Facilitation Centers enter all certifications into the ICMS utilization management system. ICMS interfaces with eligibility, the provider module, and the claims system to support auto adjudication of claims. Authorizations are reviewed according the following criteria:

- Appropriateness of procedure
- Location and level of care
- Length of stay
- Appropriateness of pre-operative days
- Assignment of next review date

ICMS is also an automated tool that empowers staff to identify potential candidates for case management. It is used to identify risk factors such as diagnosis of chronic conditions, sudden catastrophic occurrences, abnormal utilization patterns, and specialty referrals.

Fraud and Abuse Program

CIGNA has internally developed a fraud detection program. This program is designed to detect aberrant utilization and/or billing patterns through the analysis of claims information, anti-fraud education of CIGNA staff and standardized policies and procedures.

CIGNA Healthcare's Internal Audit Department Special Investigations (SI) is responsible for minimizing CIGNA Healthcare's risk to healthcare fraud. The SI team partners with Claims Operations to identify suspicious claims and patterns of potential fraud. The SI team also works with federal and state law enforcement agencies and regulatory agencies to detect, prevent, and prosecute healthcare fraud.

Claim processors and customer service representatives are trained to identify potential fraud. Claims that meet criteria for potential fraud are referred to the SI unit for investigation and supporting documentation.

CIGNA Healthcare utilizes claim system controls to reduce the risk of fraud and abuse. This includes software that rebundles fragmented claims, reasonable and customary guidelines, duplicate edits and hospital bill audit indicators.

HIPAA Compliance

CIGNA provided a copy of their HIPAA overview and guidelines as. The overview outlines CIGNA Healthcare's commitment to protecting members' privacy and confidentiality in accordance with HIPAA privacy regulations.

Sagebrush observed that confidential information is contained in their secure internal operating system and access to such information is limited to those individuals who need access to perform their specific job functions.

CIGNA protects private health information through physical and system security measures, including passwords, filing documents and limited system access to the individuals who perform the functions. CIGNA enforces a strict policy that restricts the exchange of PHI to secure e-mail server when communicating externally. CIGNA employees are trained on HIPAA privacy rules and CIGNA privacy policy and procedures. CIGNA Healthcare has moved away from using the member's SSN as an identification number and currently creates a unique alpha - numeric 9-digit identifier.

Refund Recovery

Overpayments are refunded to CIGNA and credited to ERCOT through either the normal refund recovery process or a provider settlement. Once a refund is posted to a member's account it cannot be removed. As a refund is posted to the claims system, the refunded amount flows into the group's bank account.

Normal Refund Recovery Process

CIGNA Healthcare has several methods by which overpayments can be identified and recovered. An internal department is in place that identifies and recovers potential overpayments. CIGNA contracts with an overpayment vendor to identify and recover overpayments. CIGNA also utilizes a vendor that specializes in COB overpayment identification and recovery. Vendor recoveries are received through weekly reports and recoveries are processed on the claims system within 7-10 days.

In the event an overpayment is identified, CIGNA generates a refund request letter that is mailed to the provider requesting return of the overpayment. In an instance where the provider has disputed the amount overpaid or a settlement was made to obtain the refund, the amount recovered will be posted to the member's claim history and the client's bank account. In the rare instance that a refund cannot be processed to the member's account, CIGNA will credit ERCOT's bank account.

Provider Settlements

CIGNA does not have guidelines or corporate policy related to provider settlements.

Stop Payments / Voided Checks

CIGNA Healthcare issues, voids, stops, and refunds checks using CIGNA Healthcare's Issuance and Repository Processing System (CHIRPS).

Medicare Coordination and Medicare Secondary Payor

Each claim is verified for Medicare status against the membership file. CIGNA identifies Medicare as potentially the primary plan using the member's age, end stage renal disease (ESRD) status, disability and employment status. CIGNA will also identify a Medicare member if a Medicare EOB is received in the mail, or if information is received from a Medicare Secondary Payor (MSP).

Once documentation is received that shows Medicare coverage, the eligibility system and the claims system are updated to reflect the changed status and whether Medicare is the primary or secondary coverage. Additionally, CIGNA is contracted with a COB vendor that specializes in COB identification.

Claims for Medicare eligible members who are enrolled in the ERCOT plan and are not enrolled in Medicare are processed with ERCOT as the primary responsibility.

Pharmacy Administrator Questionnaire

CIGNA provided Sagebrush with a completed copy of the Pharmacy Operational Questionnaire after the onsite review was completed. The administrative questionnaire addressed issues such as system capabilities, claim adjudication procedures, member services, mail processing, quality assurance, training and staffing.

The following topics were touched on the Operational Questionnaire:

Pharmacy Eligibility and Enrollment

Prior to January 2008 eligibility maintenance was maintained by ERCOT on the CIGNA access website. Starting in January 2008, ERCOT began providing an automated file with eligibility

updates on a weekly basis. Discrepancies identified by CIGNA are returned to ERCOT for research and clarification.

Active eligibility information is generally not archived. Eligibility information does not purge from the Central Eligibility Database (CED).

Retroactive terminations are the responsibility of the Eligibility Department. In case of retroactive terminations, the claims history is reviewed for claims that were processed after the termination date. CIGNA will review the file for potential overpayments if ERCOT places a request to do so.

Pharmacy Claims Processing

CIGNA notes that 99 % of pharmacy claims are received by electronic submissions and the auto-adjudication rate for ERCOT claims is 100 %. Manual intervention is limited to keying paper claim submissions. When paper claims are received they process through the regional mail center where they are imaged and prepped for procession using iTrack. ITrack is a mail management system designed as an online mail repository and claims monitoring module.

ERCOT pharmacy claims are processed on the ARGUS system. Sagebrush is unable provide an evaluation of ARGUS as the system was not made available. CIGNA provided screen prints for the claims review.

CIGNA indicates that in 2008 there are 45 management/supervisory staff, 154 pharmacists, 118 pharmacy technicians, and 18 claims processors.

Pharmacy Customer Service

Pharmacy claims customer service is part of a combined unit with pharmacy claims processing. The average call wait time is 25 seconds and the call unit answered over a half million calls during the audit period.

The primary responsibility of the Customer Service Representative is to handle phone calls from members and providers. CSR's have online access to eligibility, benefits, and 13 months of claims history. Claims history older than 13 months can be requested from archives as needed. CIGNA randomly monitors calls for accuracy, tone and, responsiveness using a tool called eTalk. The eTalk call monitoring system has two components that allow review of the audio portion of the call as well computer movements, keyboard strokes and, mouse movements. Ten calls a month are reviewed. Customer Service Representatives average 80 calls a day.

The CSR does not have the authority to adjust claims and routes requests for claim adjustments to the adjustment team.

Pharmacy Quality Assurance

CIGNA performs random audits of claims processed chosen from the processor productivity reports. Each month 30 claims are randomly selected for each processor from the processor productivity reports. Claims are tested for payment accuracy, financial accuracy, and non-payment accuracy.

Pharmacy Training

Claims Processing

CIGNA maintains a formal training program. All processors are not required to have prior health claim processing experience. New claim processors undergo a two to three month training program in a classroom setting. Processors learn core basics in coding and terminology and build on those skills until they master more complex skill development and claims scenarios. CIGNA utilizes modules called Just in Time Delivery that match to the new hires skill level.

New pharmacy examiners take a series of tests to certify levels of mastery. . Each trainee is under 100% review and must meet appropriate quality standards prior to release.

Ongoing training is provided to all employees to keep up with changes to benefit plans, internal procedures, legislation, and system enhancements.

Pharmacy Fraud and Abuse

CIGNA Pharmacy Management has an audit program that is administered in partnership with CIGNA Healthcare's audit vendor. CIGNA Pharmacy Management and the audit vendor review 100 percent of all pharmacy network claims.

CIGNA also administers a Desk Top audit program performed by pharmacy professionals utilizing monthly analysis of claims data with the purpose of reviewing trends and inconsistencies.

An On-Site review can be administered by CIGNA as well. On-Site reviews are performed by pharmacy professionals and are designed to build program compliance and to deter fraudulent behavior. CIGNA identifies pharmacies that deviate from normal plan percentages through statistical analysis and identifies potential candidates for an on-site review.

Overall Conclusions

Our review of the CIGNA systems encompassed the on-line testing of each claim in the statistical sample. Our on-line testing consisted of “re-adjudicating” each of the claims sampled, just as a CIGNA examiner would have paid the claim using the CIGNA system. Our review did not include the application of CIGNA systems to functions beyond the scope of claims processing, such as member services, utilization management or general financial functions.

Based on the responses provided in the questionnaire, our understanding of CIGNA operations, and our testing of claims in the statistical claim audit, we conclude that CIGNA has appropriate and adequate guidelines and processes for each of the areas discussed above.

Random Sample Errors

Ref #	Payment	Correct Payment	Payment Error	Financial Error (Y/N)	Procedural Error (Y/N)	Error Description	Status
7	\$37.00	\$36.00	\$1.00	Y	N	Incorrect fee schedule or old fee schedule	Agree
18	\$44.64	\$45.47	(\$0.83)	Y	N	Lab charge paid at 90% instead of 100%	Agree
26	\$0.00	\$0.00	\$0.00	N	Y	Charge for same rendering twice	Disagree
28	\$148.20	\$155.44	(\$7.24)	Y	N	Paid service with out of network provider suffix in error/Par Provider	Agree
38	\$111.08	\$93.58	\$17.50	Y	N	Claim should pay at default rate of 50%	Agree
39	\$27.00	\$26.00	\$1.00	Y	N	Incorrect fee schedule or old fee schedule	Agree
98	\$1,387.54	\$1,080.50	\$306.99	Y	N	Multiple Surgery cutback not taken	Agree
120	\$1,212.00	\$1,101.00	(\$111.00)	Y	N	Claim should have with ER co-pay and 90% co-insurance	Agree
121	\$4,307.83	\$4,327.83	(\$20.00)	Y	N	Claim should pay at default rate of 30%	Agree

Ref #	Payment	Correct Payment	Payment Error	Financial Error (Y/N)	Procedural Error (Y/N)	Error Description	Status
137	\$1,159.61	\$1,169.61	\$0.00	N	Y	Provider name on claim did not match remit to provider	Agree
142	\$1,815.70	\$1,785.70	\$30.00	Y	N	Claim did not take Office Visit Co-pay	Agree
153	\$3,816.00	\$947.24	\$2,868.76	Y	N	Claim did not take cutback for Assistant Surgeon charge	Agree

Vendor Response

CIGNA RESPONSE

Denison Service Center

Denison, TX.

Claims Audit Report of CIGNA Corporation

Medical Claim Processing
Pharmacy Claim Processing

Electric Reliability Council of Texas

October 2008

Executive Summary:**Sagebrush Solutions Audit Objectives**

To determine the degree of accuracy with which ERCOT medical and pharmacy claims are processed and provide an overview of CIGNA claims operations.

CIGNA Claim Accuracy Commitment to Electric Reliability Council of TexasMedical Stratified Random Sample

CIGNA appreciates the feedback received from Sagebrush Solutions during this audit. The results of this review will be an integral part of our continuous Quality Improvement on behalf of Electric Reliability Council of Texas (ERCOT). We are very pleased with Sagebrush Solutions' findings for the Medical claim sample.

Medical	Industry Standard	Sagebrush Results Calculations
Financial Accuracy	99%	99.4%
Payment Accuracy	95% - 97%	95%
Processing Accuracy	95%	99%

The Client Service Partner has worked directly with the Claim Service Manager to provide appropriate feedback and training to the processing staff as a result of the errors identified during this audit.

In the medical claim sample of 200 claims, CIGNA agrees with most of the observations in the stratified random claim selection with the exception of:

Claim Sample #26 – Charge Previously Considered

For this sample both claims were billed with different tax identification numbers, group names, addresses and different total charges. A call to the provider was made on the sample claim, to validate the charges. Although the same rendering provider was noted on both bills, the provider we consulted did indicate the second billed service was not performed by their group. Based on our standard operating procedures and system edits for determine potential duplicate charges, along with the differences in the providers' billings, CIGNA believes these claims do not represent duplicate charges. Often with radiology procedures, CIGNA will receive separate billings for the professional and technical components of the procedure.

CIGNA's claim systems contain an effective process for duplicate identification that could fall into seven different categories. The most frequently identified are "Exact" duplicates or "Possible" duplicates. The system will compare the provider name, date of service, type of service and charges to flag for duplicate services.

Pharmacy Stratified Random Sample

We are extremely pleased with the Pharmacy audit findings reported by Sagebrush Solutions as they noted a result of 100% in each quality category listed below.

Pharmacy	Industry Standard	Sagebrush Results Calculations
Financial Accuracy	99%	100%
Payment Accuracy	95% - 97%	100%
Processing Accuracy	95%	100%

Time to Process

Sagebrush Solutions notes that CIGNA does not meet industry standards or CIGNA's internal goals for claim processing timeliness, specifically in the "percent processed within 30 calendar days" category. CIGNA disagrees with this statement. Time to process is systemically calculated on all claims, taking into consideration unclear claims where CIGNA was required to obtain information from the provider or member in order to finalize the claim. The data file used by Sagebrush Solutions does not contain all of the information required for this calculation.

ERCOT and Sagebrush Solutions are valued business partners and we look forward to reviewing the details of this audit with ERCOT and Sagebrush Solutions. CIGNA thanks Sagebrush Solutions for their work and the opportunity to respond to this draft report.

Recommendations & Responses

The following responses are related to the random sample review performed by Sagebrush.

Finding 1	In review of the claims Turnaround Time (TAT), Sagebrush tested the length of time CIGNA took to process claims and determined that 94.5% of claims were processed within 30 days. This fell short of the industry standard of 99% processed within 30 days
Recommendation	CIGNA should take necessary measures to ensure timely processing of claims that do not auto adjudicate. The monthly claim volume for ERCOT members is not prohibitively high.
CIGNA's Response	Sagebrush Solutions notes that CIGNA does not meet industry standards or CIGNA's internal goals for claim processing timeliness, specifically in the "percent processed within 30 calendar days" category. CIGNA disagrees with this statement. Time to process is systemically calculated on all claims, taking into consideration unclear claims where CIGNA was required to obtain information from the provider or member in order to finalize the claim. The data file used by Sagebrush Solutions does not contain all of the information required for this calculation. The Denison Service Center's Year-to-Date Turnaround Time results through August 31st are as follows: <ul style="list-style-type: none"> 96.0% of claims processed within 14 calendar days, and

	<ul style="list-style-type: none"> 98.7% of claims processed within 30 calendar days.
--	--

Finding 2	Sagebrush identified instances in the random sample review and the focused review where multiple surgery cutbacks were not appropriately applied. Errors attributed to clinical editing software issues can be costly in the long run if they go un-checked.
Recommendation	CIGNA should periodically test the clinical editing software to ensure it is accurately applying the appropriate cutbacks for secondary procedures. Overpayments recovered by CIGNA overpayment vendor could be used to train individuals or as a tool to assist with system configuration going forward.
CIGNA's Response	<p>CIGNA's Policy and Procedures team continuously monitors the success of the claim system and clinical editing software, along with changing industry coding standards to consider potential system updates.</p> <p>The majority of the errors within the multiple surgery reduction category were the result of processor error rather than system edits, and as a result, each error was shared with the individual processors' managers for individual coaching and feedback. Additional refresher training is being provided to entire processing team regarding correct application of Multiple Surgery Reduction provisions.</p> <p>For overpayments received by CIGNA, reports are regularly produced outlining overpayment data by reason code, provider, market, claim office, etc. and provided to an internal CIGNA team dedicated to analyzing trends and implementing error resolution. In addition, the claim offices are provided with error trend reports for their office on a monthly basis. These reports include summary level information, as well as detailed overpayment data at the individual claim processor level. These reports are also used for global claim office training and for individual processor re-training.</p> <p>Additionally, CIGNA monitors claim adjustment data for service improvement opportunities. Claim adjustments, while not always a result of an error, represent rework in the process. CIGNA strives to reduce rework by embracing Six Sigma concepts and methodologies to aid in identifying service improvement opportunities. Claim adjustment data, along with claim audit findings and customer feedback, are incorporated into our Six Sigma Quality improvement projects and work teams.</p>

Finding	Sagebrush identified net overpayments amounting to \$10,704.00 during the random sample review and focused tests.
---------	---

Recommendation	CIGNA should take steps to recover on the identified overpaid claims on behalf of ERCOT.
CIGNA's Response	CIGNA has begun the steps in recovering all overpaid claims that were identified during the audit process. All overpayments were sent to CIGNA's overpayment recovery vendor, Accent, on August 27, 2008 to begin the recovery process. Also, any underpayments that were identified were reprocessed with additional payment on August 30, 2008.

The following responses are related to the focused review performed by Sagebrush. While some minor incidences were identified, because it is a focused review, it would not be considered statistically valid and does not represent the results of overall claim processing.

Finding	In the 40 sets Sagebrush identified nine (9) duplicate payments, totaling \$2,318.43. CIGNA agreed to seven (7) of the overpayments for \$918.11.
CIGNA's Response	<p>All overpayments identified during the focused review were referred to Accent Recovery Services on October 14, 2008.</p> <p>CIGNA claim systems contain an effective process for duplicate identification that could fall into seven different categories. The most frequently identified are "Exact" duplicates or "Possible" duplicates. The system will compare the provider name, date of service, type of service and charges to flag for duplicate services.</p>

Finding	<ul style="list-style-type: none"> Sagebrush reviewed eighty (80) claims with potential mutually exclusive services. Five (5) claims were submitted to CIGNA with overpayments for \$302.37. CIGNA agreed with four (4) for \$281.07. Sagebrush identified twenty-five (25) potential multiple surgery episodes to determine whether the proper multiple procedure cutback was applied. Fifteen (15) claims were identified not taking the multiple surgery reduction for \$6,305.18. CIGNA agreed with ten (10) errors for \$4,892.71 Sagebrush reviewed fifty-seven (57) claims with procedures that may be incidental to another billed procedure on the same date of service. Seventeen (17) claims were submitted to CIGNA to review for \$4,801.14. CIGNA agreed with one (1) overpayment for \$681.67.
CIGNA's Response	All overpayments identified during the focused review were referred to Accent Recovery Services on October 14, 2008. Each error was shared with the individual processors' managers for individual coaching and feedback.

Finding	Sagebrush identified eleven (11) members, based on the eligibility file provided by ERCOT, that had claims paid after the policy termination
---------	--

	date. Eligibility information later verified on the CIGNA claims system revealed that ten (10) members had COBRA that extended coverage beyond the date noted in the ERCOT eligibility file. One (1) member had matching termination dates between ERCOT and CIGNA with overpayments totaling \$190.26.
CIGNA's Response	The one member that was identified as terminated and having claims with overpayments totaling \$190.26, has been sent to CIGNA's overpayment recovery vendor, Accent, for recovery on October 14, 2008.

Finding	Sagebrush conducted a review of claims funding transfers made by ERCOT against the claims data to ensure the funding reports matched the value of claims paid by CIGNA. ERCOT provided Electronic Funds Transfer data and claims data for review and CIGNA presented check log documents. Our analysis determined that the ERCOT funding matched the claim expenditures within 2.7 percent. ERCOT wired \$4.6 million to CIGNA for claims paid during the audit period and CIGNA paid \$4.7 million in claims. The difference is attributable to claim adjustments and to some extent the timing.
CIGNA's Response	The data file provided to Sagebrush Solutions for data analysis and audit sample selections contained finalized claim transactions during the audit scope period. Claims on the data file represented fee for service claims that were either paid, adjusted, or denied along with the date the claim was finalized by the claim processor. The data file does not include the date the check was cut or cleared, nor the date funding was requested from ERCOT. Additionally, the claim data file does not include any claim administration fees that may have been charged to ERCOT. As noted by Sagebrush, differences between the funding file and the claims paid file can be a result of the timing difference between claim finalization and claim funding. For example, if a claim was finalized by a processor during the last few days of the scope period, based on the funding cycle for the provider in question the actual payment (funding) may not occur for a few days (outside of the scope period). In this case the issuance of the funds by ERCOT would not be an exact match to the claims data file. CIGNA provided check log documents to Sagebrush to support the funding requests made from ERCOT. Due to the differences in the data sources, a 2.7% variance appears reasonable.
Finding	Operational Review: Based on the responses provided in the questionnaire, our understanding of CIGNA operations, and our testing of claims in the statistical claim audit, we conclude that CIGNA has appropriate and adequate guidelines and processes for each of the areas discussed above.
CIGNA's Response	CIGNA is pleased with Sagebrush Solutions findings that our operational procedures and controls appear appropriate and adequate.

Informative

6. Review and Approval of January 2009 Operating Budget (Vote) Mike Petterson

- **Vote – The Committee is expected to develop a recommendation to the Board that the January 2009 operating budget be accepted**
 - See Board agenda item 13 – “Review and approval of January 2009 operating budget” for the decision template

7. Review Listing of Dealings with Financial Institutions That Are Also Market Participants – Cheryl Yager

<u>Market Participant</u>	<u>Financial Institution</u>	<u>Services Provided</u>
Bank of America, N.A.	Bank of America, N.A. or affiliate	Lender, bank account
Citigroup Energy Inc.	Smith Barney (part of Citigroup)	Investment consultant for 401(k)
JPMorgan Ventures Energy Corporation	JPMorgan Chase, N.A. or affiliate	Lender, bank accounts, money market funds, purchasing card, 401(k) mutual fund option

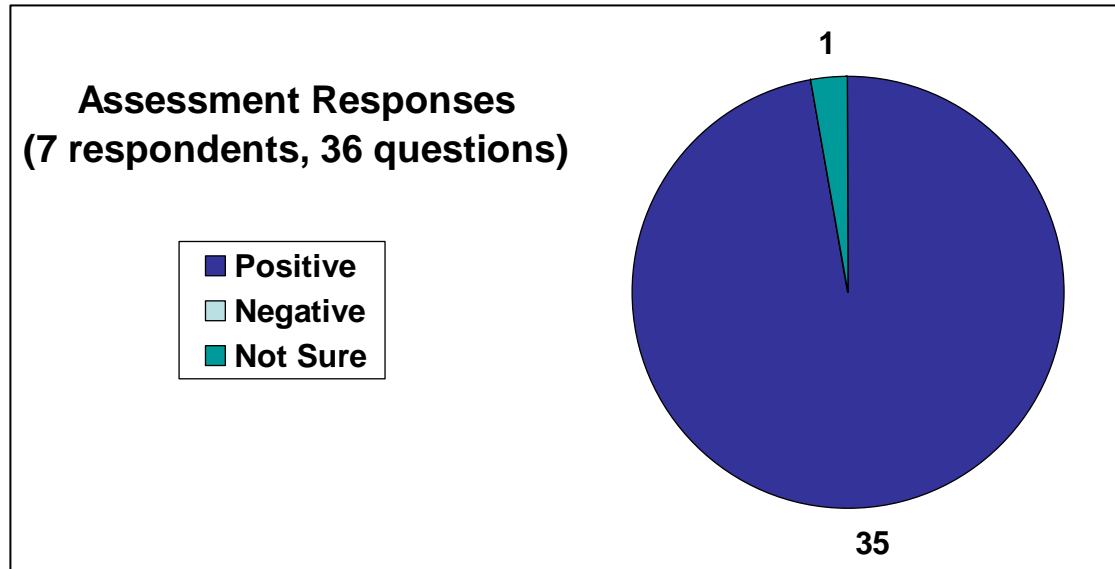
8. Investment Update – Accounting for Potential Loss in Primary Fund

Mike Petterson / Cheryl Yager

- **A press release from The Reserve indicates that a \$0.99 NAV is now applicable for ERCOT's investment in the Primary Fund. If confirmed, ERCOT would incur an investment loss of approximately \$0.5 million.**
- **To be conservative, ERCOT has marked down the value of the investment in the Primary Fund and recognized this potential loss on ERCOT's books.**
- **Group discussion and recommendation on how to address potential loss.**
- **<Vote>**

9. Review Results of Finance & Audit Committee Self Assessment Clifton Karnei

- **Survey completed in November**



- **Areas of Uncertainty**
 - Continuing education for members
- **Group discussion – Next Steps**
- **Tabulated results follow as a separate document**

	ERCOT Finance & Audit Committee Self-Evaluation December 2007	Yes	No	Not Sure	Comments
1.	Does the committee have the appropriate number of members? The committee should not be so large that: <ul style="list-style-type: none"> its ability to operate efficiently and effectively is reduced members' ability to raise issues is hampered it is difficult to get a quorum when a time-sensitive issue arises 	6	0	1	<ul style="list-style-type: none"> Could be a little large at times
2.	Committee members demonstrate their objectivity during meetings through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.	7	0	0	<ul style="list-style-type: none"> Most of the committee members most of the time focus on what is best for ERCOT, Inc. and stakeholders in general. In other words there is some, but not much, segment specific advocacy. This is a strength of the Committee.
3.	Differences of opinion on issues are resolved to the satisfaction of the committee.	7	0	0	<ul style="list-style-type: none"> Generally issues are discussed until a consensus is reached on how to proceed.
4.	Committee members challenge the Chair as appropriate.	7	0	0	<ul style="list-style-type: none"> The Chair does a good job encouraging comments from all members and respecting the various points of view.
5.	The committee charter is used as a document to guide the committee in its efforts, and to help guide the committee's agenda.	6	0	1	<ul style="list-style-type: none"> The committee charter is referred to when appropriate. The Charter is not often referred to, but may be so well understood that it is a de facto guide to drive the agenda.
6.	6.1 Committee members are financially literate, and the committee has determined that it has adequate financial expertise in accordance with its charter.	6	0	0	<ul style="list-style-type: none"> Obviously, not all members have the same financial literacy.
	6.2 Committee members participate in some form of continuing education to stay abreast of changes in the financial accounting and reporting, regulatory and ethics areas.	0	1	5	<ul style="list-style-type: none"> I do not know what every member does. I took a special course in financial planning as prep. If continuing education is a requirement, we need to be made aware of the requirement and develop a program for those of us that are not in compliance with the requirement.

	ERCOT Finance & Audit Committee Self-Evaluation December 2007	Yes	No	Not Sure	Comments
	6.3 The committee understands how the organization's performance compares with its budgetary targets and its peers, and how management plans to address any unfavorable variances.	6	0	0	<ul style="list-style-type: none"> The committee understands performance against budgetary targets and, if applicable, how management will respond to unfavorable variances. There is occasional discussion of financial performance against peers. I don't think there is a need for detailed, on-going peer comparisons. The other ISO's are very different organizations.
	6.4 The committee discusses the initial selection of or changes in significant accounting policies used in developing the financial statements, the reason for and impact of any changes in policy, and reasons alternative treatments were not adopted.	5	0	1	<ul style="list-style-type: none"> PWC reviews these with the committee. I don't believe any have come up since I've been on the committee.
	6.5 The committee discusses significant, complex, or unusual transactions with management and the external auditors.	6	0	0	<ul style="list-style-type: none"> The Committee has done this multiple times.
	6.6 The committee understands which areas represent high risk for material misstatement of the financial statements, and discusses assumptions and approaches used with management and the external auditors.	6	0	0	
	6.7 The committee forms its own view of the risk of material misstatement due to fraud, discusses with management and the external auditors their views on the risk of material misstatement due to fraud, and is comfortable that any differences in views can be reconciled.	5	0	1	
	6.8 The committee fully understands significant changes in financial statements from prior years and from budget, and is provided with sufficient, reliable evidence to support variances.	6	0	0	
	6.9 The committee commits sufficient time to review, discuss, and consider the financial statements.	6	0	0	
	6.10 The committee makes optimum use of the meeting time allotted.	6	0	0	<ul style="list-style-type: none"> We are very efficient.
	6.11 The committee meets with financial management to discuss results reported before finalization.	5	0	1	

	ERCOT Finance & Audit Committee Self-Evaluation December 2007	Yes	No	Not Sure	Comments
7.	Committee members have a clear understanding of ERCOT's debt structure and cash management practices.	6	0	0	<ul style="list-style-type: none"> • After recent events, we do now.
8.	Committee members receive sufficient details regarding long-term financial planning.	5	0	1	<ul style="list-style-type: none"> • This has been a strong emphasis this year. • Yes, but long term planning at ERCOT is two years.
9.	The Committee makes appropriate use of workgroups or task forces to investigate issues defined by the Committee.	5	0	1	<ul style="list-style-type: none"> • Apart from CWG, the committee doesn't have any workgroups for task forces. At present, there doesn't seem to be a need for this kind of resource.
10.	The committee engages outside experts as appropriate.	6	0	0	
11.	11.1 The organization's financial reporting processes are stronger as a result of management's interactions with the committee.	6	0	0	
	11.2 The committee understands and agrees with the board on which categories of internal control it oversees. Categories include: <ul style="list-style-type: none"> ▪ Integrity of financial reporting ▪ Compliance with laws and regulations ▪ Operational efficiency and effectiveness 	6	0	0	
	11.3 The committee and the board concur with any changes to the committee's internal control oversight mandate.	5	0	1	
	11.4 The committee understands the current high-risk areas - including information technology and computer systems - in the categories of controls it oversees, as well as how management addresses those areas.	6	0	0	<ul style="list-style-type: none"> • Internal Audit is a great tools to insure that we have the proper oversight.
12.	The committee is cognizant of the line between oversight and management, and endeavors to respect that line.	6	0	0	

	ERCOT Finance & Audit Committee Self-Evaluation December 2007	Yes	No	Not Sure	Comments
13.	The committee conducts executive sessions in a manner that offers a "safe haven" to the individual, while at the same time asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution.	6	0	0	
14.	14.1 The committee does its part to ensure the objectivity of the internal audit team.	6	0	0	
	14.2 The committee provides constructive feedback to the chief audit executive at least annually.	6	0	0	
	14.3 The committee receives sufficient detail regarding material issues and complaints brought forward which relate to the company's fraud, ethics or accounting practices.	6	0	0	<ul style="list-style-type: none"> • Management does a good job with this, both with the regular Ethics Point presentation and with the important issues that arise outside of the Ethics Point process.
	14.4 The committee has developed the scope of work to be done by the independent auditor and by the internal audit department based upon a reasoned review of the risks or exposures to the company.	6	0	0	<ul style="list-style-type: none"> • The "scope of work" is developed by staff, not the committee. The committee discusses, modifies if necessary, and approves the scope.
15.	The committee communicates at an appropriate level of detail when informing the Board of its actions.	6	0	0	<ul style="list-style-type: none"> • The Chair does a good job reporting on committee activities at full board meetings. The Chair also communicating, as appropriate, with the board Chair and ERCOT senior management between board and committee meetings. • I hope so.
16.	Committee members receive clear and succinct agendas and supporting written material sufficiently prior to scheduled meetings.	6	0	0	<ul style="list-style-type: none"> • Material has improved greatly over the years and is very succinct.
17.	Committee members have adequate opportunities to discuss issues and ask questions.	6	0	0	
18.	The frequency of committee meetings is appropriate for the responsibilities assigned to the committee.	6	0	0	

	ERCOT Finance & Audit Committee Self-Evaluation December 2007	Yes	No	Not Sure	Comments
19.	Meeting facilities and presentation materials are effective for the conduct of committee activities.	6	0	0	
20.	The committee is efficient and value adding.	6	0	0	
21.	Please add additional comments, questions and suggestions here.				<ul style="list-style-type: none"> I particularly like the way the background materials are made available electronically to the committee members. The Chairman does an outstanding job and we are most fortunate that he is willing to continue in that role.

Q&A only

ERCOT Market Credit Status

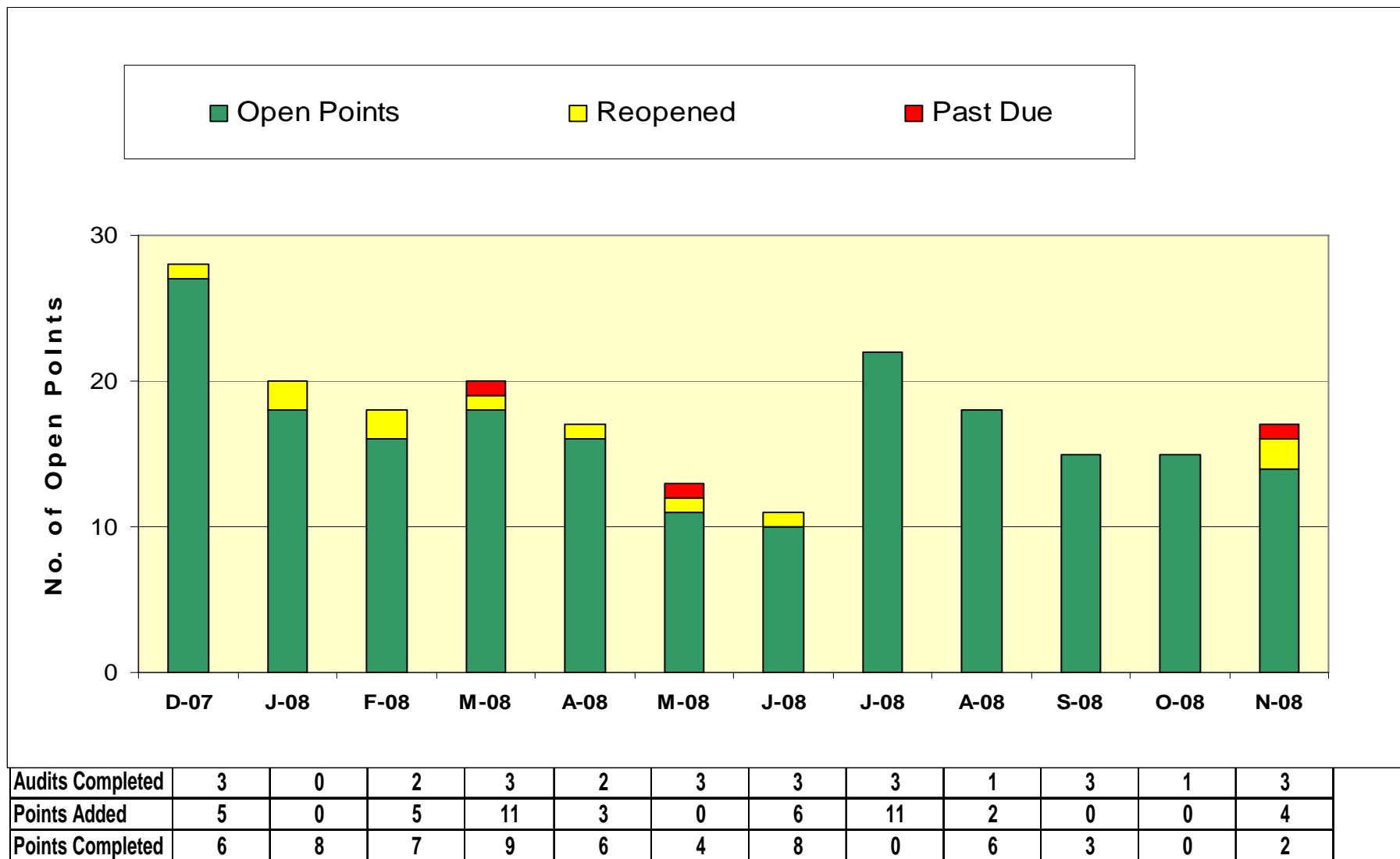
as of 10/31/2008						as of 11/30/2008*					
	# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted			# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
Exposure in the ERCOT Market (owed to ERCOT)											
<u><i>QSEs that meet ERCOT Creditworthiness Standards</i></u>											
Ratings over BBB-	12	44,077,227	10%	176,982,396	U		14	42,569,941	11%	205,467,211	U
<u><i>QSEs that do not meet ERCOT Creditworthiness Standards</i></u>											
Ratings below BBB- or not rated											
Cash & Letters of Credit	53	279,604,279	61%	561,741,963	S		49	223,466,617	56%	473,342,630	S
Guarantee Agreements	15	131,772,667	29%	467,233,082	S		15	136,243,708	33%	461,308,482	S
Total Exposure	80	455,454,173	100%				78	402,280,266	100%		
Other QSEs in the ERCOT Market (ERCOT owes)											
<u><i>QSEs that meet ERCOT Creditworthiness Standards</i></u>											
Ratings over BBB-	6	(2,038,458)	-5%	48,542,455	U		3	(51,363)	0%	12,000,000	U
<u><i>QSEs that do not meet ERCOT Creditworthiness Standards</i></u>											
Ratings below BBB- or not rated											
Cash & Letters of Credit	54	(14,443,365)	-35%	9,473,141	S		62	(20,253,434)	-59%	21,610,680	S
Guarantee Agreements	7	(24,423,573)	-60%	166,700,000	S		7	(13,964,451)	-41%	156,700,000	S
Total	67	(40,905,396)	-100%				72	(34,269,248)	-100%		
Total	147						150				

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

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

Cheryl Moseley



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

Audits Completed

(last 3 months)

Internal Audits

- Internal Controls Tested
- Nodal Contractor Billings
- Q2 2008 Fraud Auditing Program
- Retrospective Assessment of IBM's Independent Reviews of Nodal Program Controls (Special Request)
- Cash & Investments
- Q3 2008 Fraud Auditing Program
- Operational Procedure Compliance

External Audits*

- Benefit Plan Audit (Maxwell, Locke & Ritter)

Open Audits

Internal Audits

- Vendor-Performed Background Checks & Drug Screens for Contractors
- Protocol 1.4 Ethics Compliance
- Annual Employee Ethics Compliance Audit
- PC Remediation Plan (Special Request- Part 2 of 2)

External Audits*

- SAS70 Audit (PricewaterhouseCoopers)
- Nodal Program Review of New Schedule/Budget (Report #8; Utilicast, LLC)

Planned Audits

(next 3 months)

Internal Audits

- NERC CIP Standards – Auditable Compliance (Special Request – Part 2 of 2)
- FY 2008 Fraud Auditing Program
- 2008 Year End Accruals Review (Special Request)
- Protocol 14.2 REC Program
- ERCOT's Long-Term Technology Strategy

External Audits*

- 2008 Financial Audit (PricewaterhouseCoopers)

**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 December 1st, 2008)

 Strategic	 Operational Excellence	 Market Facilitation	 Grid Reliability	 Reporting	 Legal and Regulatory Compliance
 Strategy Development <i>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</i>	 Performance Monitoring <i>Clearly defined and actively monitored performance metrics linked to mission and goals. Performance status communicated and corrective action taken.</i>	 Customer Choice <i>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</i>	 Grid Operations <i>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.</i>	 Review Practices <i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</i>	 Legal & Legislative <i>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</i>
 Mission and Goals <i>Corporate objectives and performance standards are understood and followed.</i>	 Business Practices <i>Business planning, processes and management standards are effective and efficient.</i>	 Nodal Implementation Project <i>Nodal Implementation on budget on schedule, and within defined scope.</i>	 Planning <i>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</i>	 Disclosure <i>Reporting and other disclosures to intended parties is timely, accurate and effective.</i>	 Internal Control Compliance <i>Internal Control Compliance, processes and management standards are effective and efficient.</i>
<p>New Strategic Plan needs to be integrated into the latest business planning cycle.</p>	<p>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. The Exchange system is now site redundant and all users will be on the redundant systems by the end of the year. Market Ops BC/DR testing for zonal systems is scheduled for completion by Q2-09.</p> <p>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.</p>	<p>Program is "RED" based on the old schedule and budget. A preliminary budget and schedule have been released and discussions will begin with the market immediately. Program reviews are underway by UtiliCast. The cost benefit analysis from Charles River Associates will be completed mid-December. The Independent Market Monitor liaison to the PUCT continues to attend key nodal meetings and has a firm grasp of the program objectives. TPTF engagement will increase with the release of the schedule.</p> <p>No critical path milestones have been missed since the new schedule was base-lined in October 2008. Critical path items include a validated Common Information Model (CIM) that can be consumed by the energy management and market management systems. Other deliverables include release 5 of the network model management system.</p> <p>Several ERCOT employees have been added to the project while use of contractors has steadied. A new risk to the program is concerns by staff over the long-term viability of the program due to outside influences. The CBA results and pending commission rulings will help to ease these concerns.</p>	<p>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, and a plan is in place to complete the LTSA as required.</p>	<p>ERCOT is reviewing the format and content of nodal reporting to insure information is adequate to support BOD governance function.</p>	<p>ERCOT is developing a process to ensure changes to policies/procedures are periodically communicated to all ERCOT staff and contract workers.</p>
 Reputation <i>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</i>	 Workforce <i>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</i>	 Counterparty Credit <i>Maintain credit risk exposure for overall market within acceptable limits.</i>	 Bulk System Resources <i>Market Participants construct and make available adequate bulk electric grid resources.</i>	 Communication <i>Internal & external communications are timely and effective.</i>	 Industry Standards <i>Business practices provide stakeholders with required assurances of quality.</i>
<p>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.</p>	<p>Turnover rate has improved and we are currently at 10.8% for voluntary turnover. The nodal readiness metric for employee staffing remains amber. There are a large number of contractors with expiration dates of December 2008 so work is underway to evaluate the continued need and extend contracts, as necessary. Since most contracts have a termination notice period of 30 days or less, ERCOT is extending the contracts beyond December 2008 to calm short term concerns. Succession plans are in place for employees at the officer and director level and a succession plan is being developed for critical nodal resources to also mitigate this risk. ERCOT is current recruiting for approximately 30 positions.</p>	<p>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 December/January.</p>			<p>Initiation of ERO/TRE reliability standard Compliance Monitoring and Regional Entity Compliance Program in June introduces additional audit and penalty risks which ERCOT is still assessing. Although current decentralized compliance activities are adequate, ERCOT is in the process of centralizing the compliance function to provide more focus on these issues. The Chief Compliance Officer position is posted. The NERC Compliance Audit occurred September 9-12.</p>
 Fiscal Management <i>ISO design requires competent, prudent and cost effective provision of services.</i>	 Technology Infrastructure <i>Information systems, supporting facilities and data are effectively managed and are reliable.</i>	 Administration, Settlement & Billing <i>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</i>	 Operational Responsibility <i>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</i>	 Adequacy and Integrity <i>Robust processes exist to support management assertions embodied within financial reports.</i>	 Regulatory Filings <i>Evidence, testimony and other supporting materials are compelling and successful.</i>
<p>ERCOT is beginning a review of collateral management practices and the company's Investment Policy. We continue to actively monitor the liquidation process associated with ERCOT funds held by The Reserve.</p>	<p>Systems remain stable in nearly all areas. Retail systems struggling to maintain SLA levels, especially Texas Market Link (TML). Implementation of system performance upgrades have improved overall system performance and stability. Normal operation growth patterns are increasing the demands on data center capacity and options to add capacity are limited until new facilities are built.</p>		<p>Response of generators and LaaRs to grid operation events has been improving. Enhanced enforcement of NERC standards and ERCOT Protocols and Operating Guides will exist through the ERO / TRE and IMM which will provide additional incentive for improved performance. Increased wind generation will present additional operational challenges that 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.</p>		<p>ERCOT filed a request with the PUCT on 11/19 for an interim Nodal Surcharge rate of \$0.38 per MWH and to postpone Nodal debt repayments originally scheduled to begin in 2009.</p>

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.)
CART	Corporate Operations	6	1	8	11	2	16	44	9	0	4	57	12	12
	IT Operations	0	0	1	5	0	13	19	1	0	0	20	10	14
	Market/Retail Operations	0	0	3	5	3	7	18	1	1	13	33	9	10
	System Operations	0	0	1	3	0	3	7	0	0	0	7	3	4
	Totals by Phase	6	1	13	24	5	39	88	11	1	17	117	34	40
	Total Non-Active								29					

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

* Projects Gone Live in November 2008

(SO) PR-80037_01 Starter Phasor Monitoring System (SPMS)

(MORO) PR-70006_02 Website Enhancements for ERCOT Outage Notification Phase Two

(MORO) PR-70057_01 AMIT Study for Long Term Settlement Solution









10. 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	6	1	6	12	2	10		8	16	61	
Unexpected Carry Over From 2007												30
	PUCT										0	
	Market				1		1				2	
	ERCOT			2	3	2	19	1	1		28	
New Projects Added (Since PPL Approval in October 2007)												23
	PUCT										0	
	Market				1						1	
	ERCOT			5	6	0	9		2		22	
2008 PPL Totals to Date												117
	PUCT	0	0	0	0	0	0	0	0	0	0	
	Market	0	0	0	3	1	1	0	0	1	6	
	ERCOT	6	1	13	21	4	38	1	11	16	111	
Totals by Project Phase		6	1	13	24	5	39	1	11	17	117	

Year to Date Projects Over \$1 Million

(CART) Project Number and Description	Total Budget	Total Committed	Metrics	
(Duration) Phase (Sponsor)	Scheduled Completion		Schedule	Budget
(CO) PR-60075_01: Identity Access Management <i>Schedule stoplight red due to time taken to re-schedule around Nodal 168 hour test.</i>	\$2.46M	\$2.30M		
<i>(2006-2009) Currently in Execution (B. Kahn)</i>	<i>Expected Completion 1st Qtr 2009</i>			
(CO) PR-80001_01: (2 sub-projects, PR-80001_02 & PR-80001_03) MET Center Facility Analysis Deployment Phase 2	\$70M	\$1.0M		
<i>(2008 - 2011) PR-80001_01, PR-80001_02 & PR-80001_03 currently in Planning (B. Kahn)</i>	<i>Expected Completion 4th Qtr 2011</i>			
(MO/RO) PR-70007_01: MarkeTrak Enhancements	\$1.62M	\$1.45M		
<i>(2007-2009) Currently in Execution (T. Doggett)</i>	<i>Expected Completion 1st Qtr 2009</i>			
(IO) PR-70054_01: (1 sub-project, PR-70054_02) Blade Refresh Deployment Phase 2	\$2.50M	\$2.18M		
<i>(2007-2008) PR-70054_01 Currently in Closed & PR-70054_02 Currently in Execution, (R. Hinsley)</i>	<i>Expected Completion 4th Qtr 2008</i>			

10. 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
70023_01	Firewall Access Control Rationalization	2008	450,485	160,640	289,860	64%	The AlgoSec software was negotiated and purchased at a much less cost than was originally estimated.
70040_01	IMM TRE Build Out	2008	207,590	85,592	122,008	59%	Did not utilize contingency. The original plan was based on deploying cubicle spaces; the final plan did not utilize cubicle work spaces but tables against the walls (less expensive).
70044_01	MET Center Analysis	2007	236,884	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	108,668	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	ERCOT.com Outage Notification	2007	118,428	57,612	60,788	51%	Scope split to deliver the remaining work in 70006_02.
70055_01	Additional Production SAN Capacity	2008	1,749,999	903,708	846,292	48%	There were significant cost savings regarding hardware due to price negotiations.
70026_01	Virtual Tape Backup	2007	1,349,999	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	760,930	522,884	238,016	31%	Used internal resources more than anticipated (thus reducing the number of hours worked by contracted resources) for the deskside systems replacement effort and Altiris redesign effort. Software purchased for hardware-independent imaging reduced the number of internal labor hours required for creating standards.
70037_01	OC-3 Microwave Replacement	2007	325,995	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	228,083	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.
70030_01	Tellabs DSC Replacement	2008	535,000	426,357	108,643	20%	The total budget was initially \$535K, but when we got to 2008 the current year budget was reduced to \$130K - this reduced the overall project budget to \$428K, which is the amount on the PSR.
70005_01	MO SAS 70 Proc Optimization	2008	285,999	229,827	56,173	20%	Tasks over estimated by 10% and 10% contingency.
60077_01	ERCOT.com Secured Area Enhancements	2007	207,590	284,399	(76,799)	(37)%	Completed the project with FTE's instead of Contractors
70053_01	Video Teleconferencing	2008	131,837	106,747	25,053	19%	Actuals is reduced due to a true-up with Accounting for project closure
70048_01	MV90xi System Upgrade	2008	89,249	73,452	15,748	18%	IT hardware cost reductions due to volume discount purchases.
60055_01	Enterprise Service Management	2008	1,612,831	1,334,826	277,974	17%	Savings through sales tax exemptions, maintenance charges booked to pre-pay accounts. Labor costs lower than budgeted.
70012_01	Secure Remote Access	2008	403,041	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.

10. Committee Brief – PMO

David Troxtell

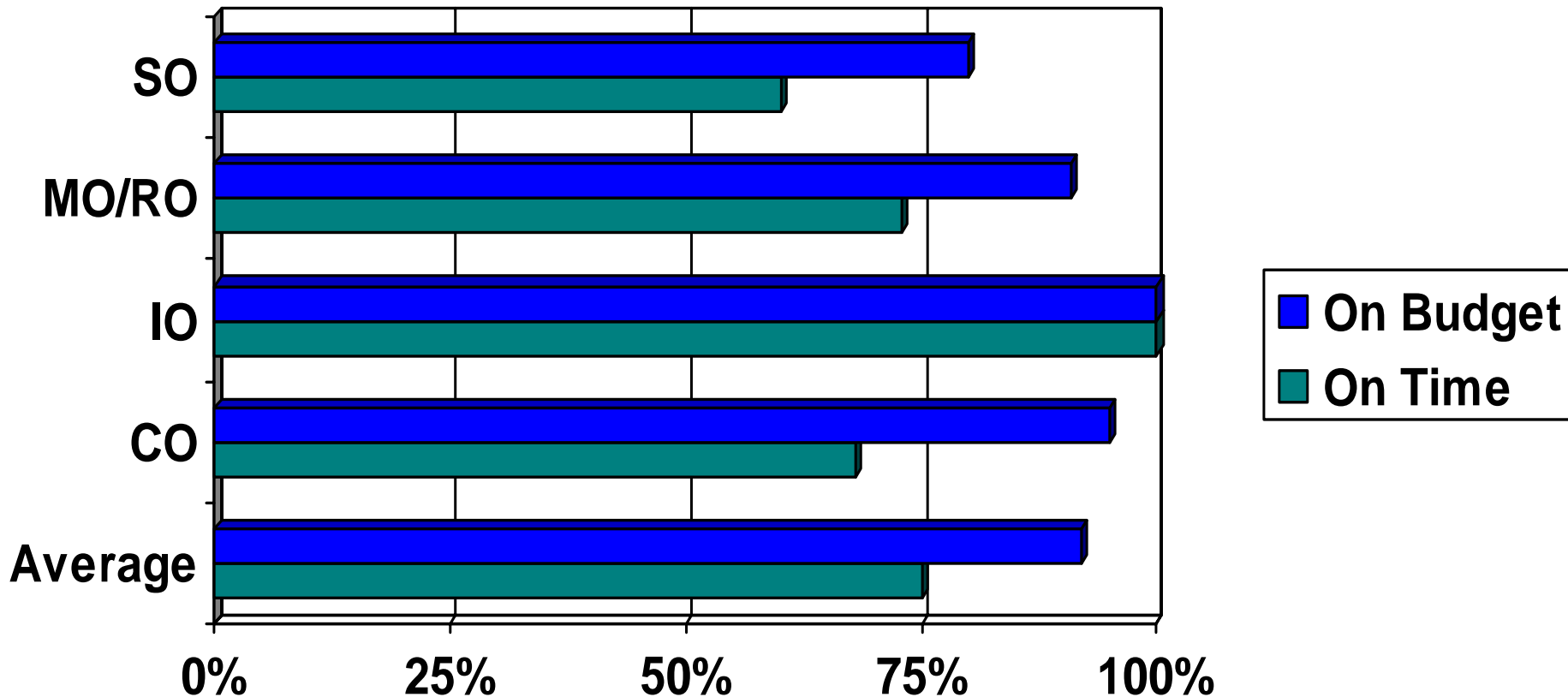
Baseline Budget vs. Actuals for Projects Closed in Lawson for 2008

Project	Description	Year Implemented	Baseline Budget	Actuals	\$ Variance Fav/(Unfav)	% Variance Fav/(Unfav)	Explanation
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.
70041_01	Control Room Display Replacement	2008	418,300	366,562	51,738	12%	Did not use contingency and equipment was \$14,000 less than forecasted.
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.
80035_01	Intranet Assessment for HR and Communications	2008	14,600	13,053	1,548	11%	Did not use contingency.
60099_01	TCC2 Finish-out and Annex Construction	2007	2,362,000	2,142,026	219,974	9%	
70049_01	San Hardening	2007	880,000	805,429	74,571	8%	
70038_01	ERCOT com Infrastructure Enhancement	2008	397,200	363,607	33,593	8%	
70050_01	EIS ETL Tool Implementation	2007	478,500	442,473	36,027	8%	
70051_01	Exempt Non Exempt	2008	89,800	86,967	2,833	3%	
50031	EDW EMMS Decommission	2007	485,600	476,864	8,736	2%	
60104_01	EMMS Hardware Replacement	2008	905,400	899,726	5,674	1%	
60073_01	eRecruiting Deliverables	2008	127,200	130,416	(3,216)	(3)%	
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)%	PR-50137_02 had a change in scope and a budget reduction on the 2007 PPL to \$10,000 in early 1Q of 2007. The budget was allocated for a fixed-fee consultant contract of \$10,000 that was executed in December 2007. However, the PPL budget allocation did not account for additional travel expenses for the consultant, which amounted to a total of \$1,207 and was accrued in 2007.
60077_01	ERCOT_com Secured Area Enhancements	2007	207,600	284,399	(76,799)	(37)%	Completed the project with FTE's instead of Contractors
70047_01	Corporate Application Environment True up	2008	220,500	320,677	(100,177)	(45)%	Accounting error--a pending journal entry will remove \$92,794.39 in HW/SW Maintenance costs from this project
50070_01	Unit Testing Automation and Electronic Submittal via Web	2008	180,000	263,510	(83,510)	(46)%	PRR750 added the Unannounced Testing scope. Internal ERCOT added the following functionality. (Ability to test Combined Cycle Units, Add color coding to identify QSE entered fields, Disable 90% of HSL field if Unit if not applicable & EMS Batch Load Process)
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)%	Original resources were replaced with contract resources that were at a higher rate as they brought specific Lawson experience.
		Count = 40	\$ 22,669,100	\$ 19,117,500	\$ 3,551,600	16%	

NOTES:

1. Baseline budget does not include change controls that were approved without granting a new baseline budget.
2. List and totals include projects delivered and reported in previous years Project Management reports but closed in Lawson in 2008.
3. Favorable is when a project is delivered under budget. (UnFav)orable is when a project is delivered over budget.
4. Explanations are not required for variance + or - 10%

2008 Active Projects Performance



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

Go Live Projects for November

- **PR-80037_01 Starter Phasor Monitoring System (SPMS)**
 - **Scope:** Implement, on a pilot basis, a starter phasor monitoring system at ERCOT to observe, analyze, and learn from the wide-range of potential reliability applications of this technology.
 - **Deliverables:** Implement a Starter Phasor Monitoring System (SPMS) with Real Time Dynamic Monitoring System (RTDMS) software at ERCOT. Phasor data from substation Phasor Measurement Units (PMUs) located at strategic points on the ERCOT grid will be received from AEP and made available to operators and support engineers for evaluation.
 - **Timeline:** September 2008 – November 2008

Go Live Projects for November

- **PR-70006_02 Website Enhancements for ERCOT Outage Notification Phase Two**

Scope:

- Integration with ERCOT's application systems to support the Outage Notification system on ERCOT.com

Deliverables:

- Integration with list serve to allow automated delivery of initial unplanned outage notification via limited information email.
- Integration with Remedy Incident management will provide automation of the posting of the message after the appropriate service level agreement has been triggered.
- Automation with system monitoring tools to provide an alert without direct manual intervention.

Timeline: March 2008 – November 2008

Go Live Projects for November

- **PR70057_01 AMIT Study for Long Term Settlement Solution**

Scope:

- Identify maximum capacity of ERCOT system to process Interval Data Recorder data based on scaling of current systems.
- Conduct study to evaluate possible solutions for ERCOT to change its systems to accommodate full settlement using 15-minute interval data from Advanced Meters – providing costs, benefits, conceptual design and estimated timelines for implementation.

Deliverables:

- The maximum capacity of ERCOT systems to process Interval Data Recorder data based on scaling of current systems. Third-party evaluation and recommendation of a solution for the settlement of the ERCOT Market with the deployment of Advanced Meters to as many as 7 million ESI IDs.

Timeline: December 2007 – November 2008

ERCOT Enterprise Projects Summary Report

ERCOT Overall Projects Report

Reporting Period:

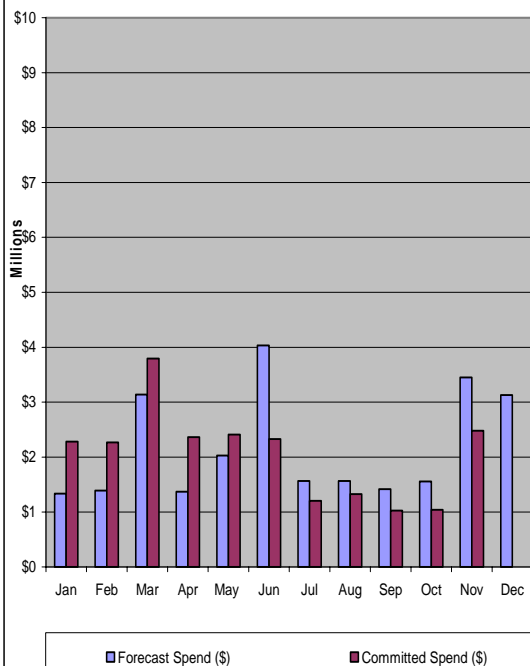
11/25/2008

Summary

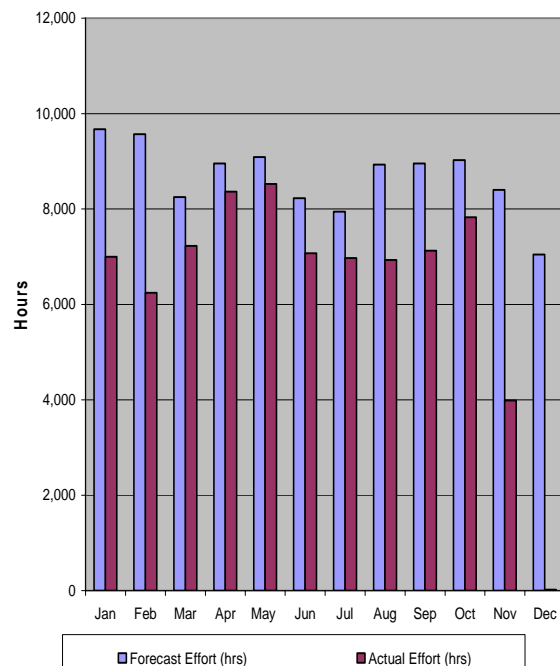
ERCOT Projects Leadership		Projects in ERCOT's Portfolio					Portfolio Performance		
Executives		On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget	Milestones
Kent Saathoff	Trip Doggett	1	1	13	25	5	Y	G	Y
Ron Hinsley	Steve Byone	Closed	39	Total Active		44			
		Cancelled	11	Projects Not Started:		6		Current Year Funding:	\$33,746,880

Portfolio Performance Summary

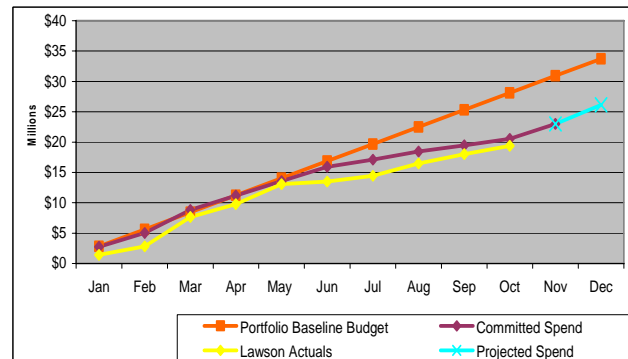
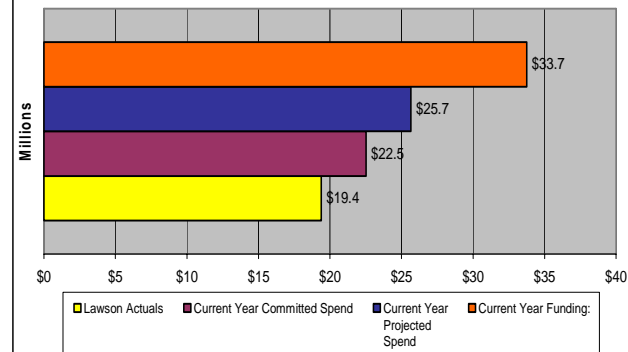
ERCOT Projects
Current Year - Spend



ERCOT Projects
Current Year - Effort



ERCOT Projects
Current Year to Date Financials



Notes

Note:

Lawson Actuals for November are not included in this report

Project/Status Count/Budget Variance:

CO:(4 Deferred); MORO:(13 Deferred); SO-DPO:(1 NODAL in Execution).

Future Agenda Items – January 2009

- **Elect Officers and confirm financial qualifications**
- **Approval of CWG Chair and Vice-Chair**
- **Quarterly review of investment results**
- **Review of proposed annual 2009 operating budget and financial plan**
- **Review of collateral management recommendation**
- **Update on investments and investment policy (Vote)**
- **Update on ERCOT credit risk standard**
- **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