



**ERCOT Finance & Audit Committee Meeting**  
**7620 Metro Center Drive, Austin, Texas**  
**Met Center, Conference Room 168**  
**January 20, 2009; 7:30am – 10:00am\***

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order Executive Session	C. Karnei	7:30am
2.	Decision required	2a. Approval of executive session minutes (Vote) (12/09/08)	C. Karnei	7:30am
	For discussion	2b. Internal Audit status report	B. Wullenjohn	7:32am
	Informative	2c. EthicsPoint update	B. Wullenjohn	7:35am
	For discussion	2d. Quarterly private discussion with Chief Audit Executive	B. Wullenjohn	7:40am
	Informative	2e. Contracts, personnel, litigation and security	B. Kahn / M. Grable	7:45am
		Recess Executive Session		7:50am
		<b>Convene General Session</b>		
3.	Decision required	Approval of general session meeting minutes (Vote) (12/09/08)	C. Karnei	7:50am
4.	Decision required	Election of committee Chair and Vice-Chair (Vote)	S. Byone / E. Doolin	7:51am
5.	Decision required	Approval of CWG Chair and Vice-Chair (if nominated by CWG) (Vote)	C. Yager	7:55am
6.	For discussion	Review of Finance and Audit Committee structure	D. Ballard	8:00am
7.	Decision required	Review of 2009 revised base operating budget and 5-year financial plan (Vote)	M. Petterson	8:10am
8.	For discussion	Review of collateral management practices and alternatives	C. Yager	8:30am
9.	For discussion	Review of potential changes to Investment practices	C. Yager	8:45am
10.	For discussion	Quarterly review of investment results	C. Yager	9:00am
11.	For discussion	Credit update - Credit Risk Standard - Comments related to NPRR 140	C. Yager	9:05am
12.	For discussion	Review and recommendation on updated standard form guarantee agreements	C. Seely	9:20am
13.	Informative	Committee Briefs (Q&A only)	All	9:45am
14.	Informative	Future agenda items	S. Byone	9:47am
		Adjourn ISO meeting	C. Karnei	9:50am

*\* 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, February 17, 2009, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 168.*

Decision required
For discussion

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

- **Approval of General Session Minutes**
  - Vote 12/09/08

**DRAFT** ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.  
**MINUTES OF THE ISO FINANCE & AUDIT COMMITTEE – GENERAL SESSION**  
Hilton Austin Airport, 9515 Hotel Drive – Austin, Texas 78719  
December 9, 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 **8:34 a.m.** The Committee met in General Session from **8:34 a.m.** to **10:03 a.m.**, at which time it recessed to Executive 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	Present
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Armentrout, Mark	Unaffiliated Board Member	Unaffiliated Board Member	Present
Ballard, Don	Office of Public Utility Counsel	Residential Consumers Segment	Present
Bartley, Steve	CPS Energy	Municipal	Present
Crowder, Calvin	Electric Transmission Texas	Investor Owned Utility	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Barry, Sean	PricewaterhouseCoopers
Brenton, Jim	ERCOT – Director, Corporate Security
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Capezzuti, Nancy	ERCOT – Vice President of Human Resources and Organizational Development
Day, Betty	ERCOT – Director, Commercial Operations
Doolin, Estrellita	ERCOT – Assistant General Counsel
Foln, Lynda	Tara Energy
Gage, Theresa	ERCOT – Government Relations Manager
Gable, Mike	ERCOT – Vice President and General Counsel
Greer, Clayton	J Aron & Company
Gresham, Kevin	Reliant Energy
Kahn, Bob	ERCOT – President and Chief Executive Officer
Kisic, Ron	Direct Energy ( <i>via telephone</i> )
Leady, Vickie	ERCOT – Associate Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant - Finance
Letkeman, Sheila	ERCOT – Client Relations Specialist

List, Amanda J.	Direct Energy ( <i>via telephone</i> )
Petterson, Mike	ERCOT – Controller
Rexrode, Carolyn	Customized Energy Solutions
Rocap, Nisha	PricewaterhouseCoopers
Schubert, Eric	BP Energy
Seely, Chad	ERCOT – Corporate Counsel
Stauffer, Tarra	ERCOT – Legal Assistant
TroxteLL, David	ERCOT – Director, Program Management Office
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 November 17, 2008. Miguel Espinosa seconded the motion. The motion passed by voice vote with Robert Thomas abstaining.**

**Guarantee Agreements – CWG feedback**

Cheryl Yager directed the Committee to Market Participant comments that she had sent to Committee members via email prior to the meeting. She also welcomed Credit Work Group (CWG) Chair, Amanda List, and attorney Ron Kusic—both of whom joined the meeting via telephone. Clifton Karnei explained that the Committee was most interested in getting a brief explanation of the reasoning behind each of the seven items (initially proposed by ERCOT Legal) that were removed from or changed in the Agreement—in order of most to least significant. Michehl Gent requested that references to other ISO practices included in the Market Participant comments be expanded into a more robust comparison. Brad Cox commented that comparisons to other ISOs are helpful, but should not be the determining factor. Robert Thomas asked about the risks related to the Agreement versions under consideration. Additional discussions occurred about the relationship between guarantee agreements and unsecured creditors. At the conclusion of the discussion, Clifton Karnei asked ERCOT Legal to (1) prioritize the seven proposed changes in order of most to least beneficial, (2) prepare a risk statement for each item and (3) report to the Committee in January. He also asked CWG to rank (from greatest to least) the seven proposed changes based on their concerns.

**Claim Audit of ERCOT Health Plan by Sagebrush Solutions**

Nancy Capezzuti referred to the Final Report of the Claims Administration Audit and Electronic Claims Testing of Connecticut General Life Insurance Company that had been provided to Committee members prior to the meeting. She informed the Committee that the audit was not required audit, but prudent considering the size of total claims (approximately \$4 million).

**2008 SAS 70 Audit**

Sean Barry informed the Committee that the 2008 SAS 70 Audit Report had been issued with a clean audit opinion and no exceptions. He then introduced PwC Project Manager, Nisa Rocap, who reviewed the scope, background, and specific results of the audit. Mr. Barry and Ms. Rocap responded to questions regarding their audit testing and the Audit Report. Ms. Rocap reiterated that the audit was completed on time and on budget due to thorough planning, establishment of clear expectations, and support from ERCOT staff. Betty Day informed the Committee that the Audit Report was available to Market Participants and that a market notice with information about how to access the report would be issued.

### **Review and Approval of January 2009 Operating Budget**

Mike Petterson addressed the Committee and brought their attention to Board agenda item 13, "Review & Approval of January 2009 Operating Budget" and a handout entitled, "ERCOT Funding vs. Spending Authorization Requirements". The Committee reviewed management's proposal for a one-month budget covering January 2009 for ERCOT's base operating activity. Mr. Petterson informed the Committee the proposed monthly budget (1) was consistent with recent monthly expenditure trends, (2) was in-line with expenditures in January 2007 and January 2008, and (3) included no extra ordinary or unusual expenditure requests. Mr. Petterson also reminded the Committee that they would receive a revised base operating budget for all of 2009 at their January meeting. He also noted that the Board of Directors was expected to vote to approve the proposed, revised 2009 budget in January 2009.

**Mr. Gent moved to recommend that the Board approve the January 2009 budget as presented in the materials prepared for all Board members. Robert Thomas seconded the motion. The motion passed with unanimous voice vote.**

Mr. Fehrenbach asked when the full, revised 2009 budget would be available and Mr. Byone reiterated that it would be distributed to Committee members prior to their January meeting. Mr. Gent asked whether the revised 2009 budget would include a proposed change in the System Administrative Fee in effect during 2008, and Mr. Byone responded that it did not.

### **Review Listing of Dealings with Financial Institutions That Are Also Market Participants**

Cheryl Yager explained that every six months ERCOT discloses to the Committee a list of financial institutions providing services to ERCOT that are also Market Participants. Ms. Yager directed the Committee to the information provided in the materials distributed prior to the meeting, discussed each of the entities, and responded to questions.

### **Investment Update – Accounting For Potential Loss in Primary Fund**

Cheryl Yager distributed a document to supplement materials provided prior to the meeting. She noted that the document was prepared to provide background to the Committee as they considered the treatment of potential losses from the Primary Fund. She then reviewed the status of ERCOT investments held at The Reserve as well as the write-offs taken to date.

Ms. Yager noted that about 50% of all funds held at The Reserve had been recovered and that 100% of the investments held in the US Government funds were expected to be returned in early January 2009. She pointed out that there was still \$10 million in the Primary Fund and that The Reserve had established a distribution plan for those funds. She noted that The Reserve had also indicated that they would establish a litigation reserve (amount still to be determined) and would distribute investments from the Primary Fund only to the amount of the litigation reserve. Mike Grable noted that The Reserve had significant discretion in setting the amount of the litigation reserve and that the level of the litigation reserve could significantly influence the distribution timeframe from the Primary Fund. Mr. Grable indicated that it was difficult to predict how the situation would be resolved given the lack of precedent. He noted that the last time a money market fund "broke the buck" was in 1994. Mr. Grable reminded the Committee that while ERCOT had reason to believe the bulk of the investments held at The Reserve would be returned, there was no guarantee that there would not be further losses.

Ms. Yager highlighted that through November 2008, ERCOT had recorded (1) \$0.5 million of estimated losses on investments and (2) \$0.5 million of interest expense for payment of interest on security deposits that it would not have otherwise incurred. Mr. Gent commented that ERCOT was paying Market Participants interest on security deposits regardless of whether ERCOT received interest from The Reserve. Calvin Crowder inquired about the source of the

funds and Ms. Yager clarified that ERCOT had determined in September, with input from the ad hoc group, to pay interest on security deposits from ERCOT operating funds if needed.

Mr. Byone added that since the close of the November books, ERCOT had received additional information from The Reserve that indicated additional losses might need to be recorded. Mr. Espinosa asked how much additional loss might need to be recorded and Mr. Byone responded that based on the information received to date; an additional \$250,000 of loss may be recorded in December for investments in the Primary Fund. Ms. Yager further discussed the guarantees around investments in the US Government Fund. Mr. Byone responded to a question from Mr. Crowder about the Government Fund payout in January 2009, stating that while he was reasonably confident that principal would be returned, he was not sure how much (if any) interest would be paid on the investments in the US Government Fund.

Mr. Fehrenbach asked about the TCR revenue held in the Primary Fund relative to when those funds were or would be paid out. Ms. Yager responded that TCR revenues are paid out monthly and that the investments held at The Reserve were to be paid out in October 2008, November 2008 and December 2008 and January 2009. She added that distributions from the Primary Fund through November 2008 had been adequate to fund TCR revenue distributions.

Ms. Yager then outlined options for treatment of losses including (1) Option 1 – Record loss on books and fund through the System Administration Fee, (2) Option 2 – Pas through loss to entities that would receive the benefit of the funds, and (3) some combination of Option 1 and Option 2. After thorough discussion, the Committee asked ERCOT staff to move forward with Option 1 for 2008 activity. Mr. Karnei noted that he would inform the Board of the decision and that no further action was necessary. Ms. Yager informed the Committee that ERCOT invests in funds that only hold Treasury and Treasury-based securities. She noted that ERCOT had engaged a contractor that was actively researching additional investment options. Mr. Byone confirmed that ERCOT would continue to report to the Committee on the accounting treatment of loss and interest costs including the treatment of interest payments made on security deposits.

### **Review Results of Finance & Audit Committee Self Assessment**

Mr. Karnei referred the Committee to the materials distributed prior to the meeting regarding the results of the Finance & Audit Committee Self Assessment. Committee members agreed to discuss details of the assessment later.

### **Committee Briefs**

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

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

Cheryl Yager mentioned that NPRR 140 was expected to come before the Board in January for approval and would cover certain changes to credit calculations. Mr. Espinosa asked that materials be distributed prior to the meeting to allow for review.

### **Future Agenda Items**

Mr. Byone identified the following future agenda items:

1. Elect Officers and confirm financial qualifications
2. Approval of CWG Chair and Vice-Chair
3. Quarterly review of investment results

4. Review of proposed annual 2009 operating budget and financial plan
5. Review of collateral management recommendation
6. Update on investments and investment policy
7. Update on ERCOT credit risk standard
8. Committee briefs
9. Future agenda items

**Executive Session**

The Committee went into Executive Session at approximately 10:03 a.m.

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

## 4. Election of Committee Chair and Vice-Chair Steve Byone / Estrellita Doolin

**<Vote>**

## 5. Approval of Credit Work Group Chair and Vice-Chair Cheryl Yager

**<Vote>**

**For discussion**

# FOUNDATIONS FOR SEPARATING THE FINANCE AND AUDIT COMMITTEES

## ITEM # 6 ERCOT Finance and Audit Committee January 20, 2009

As proposed in ERCOT's Workforce Analysis report (R.W. Beck, April 2008 – Recommendation 2-2), separation of the audit and finance committees is recommended.

- I. **SARBANES OXLEY ACT OF 2002 REQUIRES INDEPENDENT AUDIT COMMITTEES** in public organizations. (Section 301, Independence). The Corporate Governance trend is to include other non-profit and private organizations.
- II. **BEST PRACTICES FOR NON-PROFIT ORGANIZATIONS SUPPORT SEPARATE COMMITTEE.** Some states are implementing regulations for non-profit organizations that meet a certain revenue threshold to conduct independent financial audits. See Audit Committees: Does Your Association Need One.: Nat Bartholomew; Dollars & Cents, March 2006).

ASAE & The Center for Association Leadership  
www.asaecenter.org

Audit Committees: Does Your Association Need One Dollars & Cents, March 2006 By: Nat Bartholomew

In California non-profit organizations are required to have an audit committee that is separate from the finance committee

### III. BEST PRACTICES FOR NON-PROFITS

- A. Sarbanes-Oxley Act – Best Practices for non-profit organizations:  
“Have an independent and competent Audit Committee that is separate from the Finance Committee, that is not compensated for its work, that does not include directors who do business with the organization or other employees with voting rights.
- B. “A standing Audit Committee should be appointed, to be comprised entirely of independent directors.” (Best Practices: Non-profit Corporate Governance, McDermott, Will, & Emery, 2004)

The board working with its Audit or similar Committee should be responsible for ensuring the transparency and the integrity of corporate financial statements.

C. National Association of Corporate Directors - Separation of Audit and Finance functions.

Frequently Asked Questions in Corporate Governance

<https://secure.nacdonline.org/Source/Meetings/faq-details.cfm?faq=2#11>

“The audit committee focuses primarily on making sure that financial reports are accurate and internal controls are sound. The finance committee, also called the finance and investments committee, focuses on how the company can obtain capital, and how well it is managing that capital via investments. To compare an audit and a finance committee charter from the same company, see the Corporate Governance section of Dell Inc.'s website.”

**IV. PRIVATE CORPORATION EXPERIENCE**

PBS&J, a privately held corporation, not required to comply with SOX established an independent audit committee and uncovered a long-running embezzlement scheme within the finance department. See SOX Compliance: A True Tale of Discovery, John B. Zumwalt, III, NACD Directors Monthly, June 2008. Attached.

**V. THE BUSINESS ROUNDTABLE, PRINCIPLES OF CORPORATE GOVERNANCE (MAY 2002).**

“Every Publicly owned corporation should have an audit committee comprised solely of independent directors...Audit committees consist of 3 to 5 members.”

“It is the responsibility of the board and its audit committee to engage an independent accounting firm to audit the financial statements prepared by management and to issue an opinion on those statements based on Generally Accepted Accounting Principles. The board, its audit committee and management must be vigilant to ensure that no actions are taken by the corporation or its employees that compromise the independence of the outside auditor.

The board, through its audit committee, bears responsibility for engaging an outside auditor to audit the corporation's financial statements and for ongoing communications with the outside auditor. The board, through its audit committee, should periodically consider the independence and continued tenure of the auditor.”

## **VI. CRIMINAL PENALTIES APPLY MAY ATTACH.**

Audit functions must not be treated casually. The Worldcom case for exaple, U.S. v Ebbers, 458 F.3d 110, C.A.2 (N.Y.), 2006, held that the government did not need to prove that the accounting methods of the organization did not meet the Generally Accepted Accounting Principles in order to prove its case. Rather, “even where improper accounting is alleged, the statute requires proof only of intentionally misleading statements that are material, i.e., designed to affect the price of a security. 15 U.S.C. § 78ff. If the government proves that a defendant was responsible for financial reports that intentionally and materially misled investors, the statute is satisfied. The government is not required in addition to prevail in a battle of expert witnesses over the application of individual GAAP rules.

## **VII. FUNCTIONS OF SEPARATE COMMITTEES**

Finance – Prepares, reviews, and manages budget, capital, investments and debt.

Audit – Monitor internal operations, internal control over sensitive projects (Nodal, e.g.), ensure the transparency, accuracy, and integrity of financial statements, controls, and processes. Engage outside auditors and counsel, as needed.

# DIRECTORS MONTHLY

June 2008

Volume 32 Number 6



By John B. Zumwalt, III

## SOX Compliance: A True Tale of Discovery

**Uncovering a long-running embezzlement scheme made this chairman a true believer in the value of independent audit committees, internal investigations, and Sarbanes-Oxley.**

*The Sarbanes-Oxley Act of 2002 has meant expensive new accounting controls and auditing practices for many corporations. Are they worth the cost and extra work? For The PBSJ Corporation, the answer is a resounding yes!*

When I moved into the position of chairman of The PBSJ Corporation in January 2005, I saw nothing but success ahead for us. Our company was ranked 25th among the nation's top 500 engineering design firms by *Engineering News-Record*, and we had just posted our 29th year of consecutive profitability with an annual revenue of \$560 million. Our backlog was strong, and our employee turnover rate was one of the lowest in our industry. But our world was about to change. In March of 2005, we discovered that we were the victim of a long-running embezzlement scheme that we might never have known about had we not taken a proactive stance in applying some of the good governance and transparency practices advocated by the Sarbanes-Oxley Act of 2002 (SOX).

(Continued on page 3.)

### Inside

#### Peek Behind the Hedge

Unless you run one, you probably don't understand everything about hedge funds. Get some clarity by asking this list of important questions. **6**

#### With Change Comes Responsibility

Do you know what your fiduciary duties are surrounding a change in control? Check out these recent Delaware decisions to be sure. **14**

#### Risky Business

Your risk management system had better be coordinated, or you're adding even more risk. Rate your board against these 12 leading practices. **17**

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## Setting the Stage for Self-Discovery

The PBSJ Corporation is not traded on any stock exchange, but we have filed with the SEC since 2000 due to our large number of employee shareholders. While we were not required to comply with SOX regulations, addressing at least some of them seemed like good business practice. Unsuspecting that we might already have a problem within our ranks, we established an independent audit committee that included non-employee experts and specialists, and we empowered the committee to conduct independent investigations of financial-type irregularities using the outside legal counsel, accountants, and other consultants of its choosing. We also established the framework for the company's independent auditors to report directly to the committee for an additional "checks and balances" component.

Moving forward with enthusiasm, but certainly no great sense of urgency, the audit committee developed a charter and hired an internal auditor. By February of 2005, following our first-quarter filing with the SEC, the auditor had flagged an anomaly in the company's health-care reserves. Without a satisfactory explanation from our chief financial officer, she reported the discrepancy to the audit committee. Backed by The PBSJ Corporation's board of directors, which had wholeheartedly approved its charter, the committee acted immediately, hiring special legal counsel, forensic auditors, and private investigators to support an independent self-investigation. Within a week's time, an offline bank account unknown to the company was found, and a long-running embezzlement scheme within our corporate finance and treasury department began to unravel.

## How Did It Happen?

Certainly, nothing could have been more of a shock to our company, which had built a business culture around the virtues of honesty and integrity. But the facts were before us: For 13 years, our business systems manager, accounting manager, and chief financial officer had worked in collusion to defraud the company of \$36 million—all to support lavish, personal lifestyles. Two of the three conspirators had been with the company for 27 years; the third was approaching his 20th anniversary.

How did their scheme go on undetected for so long? There were several major factors at work. PBSJ had come through a period of rapid geographic and technical expansion. Between 1990 and 2005, we doubled, and then redoubled, the size of our company as we grew from approximately 1,000 employees in the early 1990s to nearly 4,000 in 2005. In addition to organic growth, we had acquired 15 smaller companies, each with separate business systems.

## For 13 years, our business systems manager, accounting manager, and chief financial officer had worked in collusion to defraud the company of \$36 million.

Add to the challenges of this high-growth period the level of collusion among the embezzlers, the trust that the company placed in these three key employees, their creative and changing methods of "misappropriation" to escape detection, and their subtle discouragement of appropriate controls over financial reporting—and the climate to avoid detection was ideal.

## The Steps to Resolution

At the beginning, our audit committee consisted of both PBSJ employees who were not on the board of directors, and industry and financial experts external to the company. As the investigation got under way, we released the employee members from the committee to ensure total objectivity and appointed the three external, non-shareholder committee members to our corporate board of directors to expedite information sharing and decision making. With the external directors managing the investigation, our internal directors could focus on the practice of voluntary disclosure, transparency, openness, and honesty, with employees, clients, and government agencies that would continue throughout the ordeal.

Careful and competent management by the experts on our committee, regular meetings with the SEC and the Department of Justice, and our open sharing of findings with our employees, clients, and government agencies enabled us to maintain credibility with these key stakeholder groups as well as more efficiently manage the investigation. The benefits of this to us were significant:

**Director Summary:** One private company's decision to apply Sarbanes-Oxley regulations to its company's governance practices uncovered 13 years' worth of fraud. The chairman and CEO of The PBSJ Corporation, a national engineering design firm, provides a firsthand account of how the fraud was revealed, the lessons that were learned, and the improvements his company has incorporated as a result.

**It was only in striving to address SOX requirements that we discovered what had been going on within our own walls for years.**

less disruption within the company, and the ability to complete the investigation expeditiously.

Like many investigations in which intense scrutiny is given to every aspect of financial management, PBSJ's self-investigation uncovered other practices that needed to be addressed. As a result, the company has since changed the way it creates overhead rates for contracts impacted by the Federal Acquisition Regulation and revisited its political contribution process. The more obvious lessons learned in the area of financial controls sped up our implementation of a new business system, and our sensitivity to ethical conduct prompted us to create an ethics and compliance office. Subsequently, we established and disseminated a business code of conduct and began providing ethics and compliance training. Today, we also offer a hotline for employees to be able to confidentially and anonymously report ethics issues, and all of our employees are charged with being vigilant with respect to ethical business practices.

**Benefit of SOX**

While I leave discussion of the pros and cons of the specifics of SOX to debaters, experience has taught our corporation that the intent of the legislation is clearly beneficial. Adequate internal controls are essential to the well-being of any responsible company. And while this may sound like a no-brainer, it's important to note that during the period of the embezzlement scheme at PBSJ, no irregularities were ever discovered by outside auditors, nor were any management letters issued to warn us of deficiencies in our internal controls.

It was only in striving to address SOX requirements that we discovered what had been going on within our own walls for years. Establishing an independent audit committee provided us with a vital mechanism for self-monitoring. Through it, we gained a focused and objective review of our financial statements, established critical internal controls, and received important guidance in the disclosure of financial information. ■

**John Zumwalt** has been a director of The PBSJ Corporation since 1995 and has served as chairman and CEO since 2005. He joined PBSJ as a young engineer in 1973 and served as president and CEO of the corporation's chief subsidiary company, PBS&J, from 2002 to 2005. Mr. Zumwalt serves on the board of the Florida Chamber of Commerce, and the executive committee of Florida Tax Watch. He is a member of the Florida Council of 100. He has also served as past chair of the Florida Chamber Foundation, and is a past board member of Enterprise Florida.

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**Audit Committees: Does Your Association Need One**  
*Dollars & Cents, March 2006*  
By: *Nat Bartholomew*

Recent legislation mandating audit committees has spawned many questions about—as well as resources for—nonprofit fiscal governance.

The buzz about audit committees can be traced to the passage of the California Nonprofit Integrity Act of 2004. With the stroke of the governor's pen, California effectively legislated that certain philanthropic organizations must, among other things, undergo an annual financial audit governed specifically by an audit committee. Other states had shown cards that indicated they were going to legislate this issue, but California actually did it. Not only that, the statute affects national philanthropic organizations doing business in the Golden State.

**California's rules**

Charitable corporations, unincorporated associations, and trusts that have registered with California's attorney general and have annual gross revenues of \$2 million or more must appoint an audit committee. Members of the board-appointed audit committee can include non-board members, but all committee members must be independent (i.e., may not be members of the not-for-profit organization's staff, receive compensation other than director's compensation, or have a material financial interest in any organization doing business with the not-for-profit organization).

If the not-for-profit has a finance committee, the audit committee must be separate from this group and the chair of the audit committee cannot be a member of the finance committee. Furthermore, members of the finance committee must constitute less than 50 percent of the audit committee.

Hospitals, religious, and educational organizations are exempt from this state statute.

**More state legislation?**

In the wake of California's bold move, many 501(c)(6) organizations and other associations, as well as philanthropic organizations that didn't meet that state's established criteria, wondered if they should create an audit committee. Even if the California law did not apply to them, was further legislation headed their way? Was California blazing a trail for other states to follow?

To date, only a few states have followed suit or made changes to statutes already on the books:

- Beginning last June, philanthropic organizations with revenues of \$200,000 or more and doing business in Connecticut must file audited financial statements with the state's Department of Consumer Protection.

- As of April 2005, charitable organizations receiving \$500,000 or more in a fiscal year and operating in [Kansas \(PDF\)](#) must file audited financial statements with the secretary of state.

Bills are pending in Massachusetts, New Jersey, New York, Ohio, Pennsylvania, and Texas.

### **Federal legislation and the Panel on the Nonprofit Sector**

It was not a matter of if, but when. The Panel on the Nonprofit Sector—convened at the encouragement of the U.S. Senate Finance Committee—stirred things up in June 2005 with the release of its final report to Congress. “[Strengthening Transparency, Governance, and Accountability of Charitable Organizations](#)” contains 15 recommendations. The 4th recommendation suggests thresholds for both financial audits and reviews, and the 14th specifically addresses audit committees.

With respect to fiscal governance, the panel suggests that an organization’s board of directors “should include individuals with some financial literacy” and furthermore, the board “should consider establishing a separate audit committee.” The words *should* and *consider* leave a good bit of wiggle room as to whether a not-for-profit must create an audit committee. At this point, there exists no federal law addressing the role of the audit committee should your organization decide to create one.

### **What to do?**

As many loyal *Dollars & Cents* readers probably know, some things are legislated and others fit into that overused category called *best practices*. Currently, audit committees are not legislated, except in California, and that only affects philanthropic groups. In addition, there exists no proposed or pending legislation on the matter except for statutes that may concern philanthropic organizations some time in the future.

### **An argument for best practices**

The National Council of Nonprofit Associations offers a number of [resources](#) for audit committees, but what’s striking are the convincing arguments the council assembled for the creation of an audit committee:

“While many organizations may already have a finance committee in place, it is important to remember that an audit committee has different responsibilities. While the finance committee reviews investment policies and monitors the funds of the organization on a regular basis, the audit committee provides independent oversight into the organization’s accounting and financial reporting and oversees the organization’s annual audits (external and internal). The audit committee may oversee a broad range of areas under the blanket of this primary purpose. These areas include:

- Governance
- Ethics
- Adequacy of internal controls (i.e. review of accounting or fiscal operations manual).
- Compensatory reviews of executive level staff.
- Accuracy of records and reports presented to the board of directors.
- Proper authorization of activities and expenditures.

- Review of the tax-exempt status and identification of activities that could jeopardize this status.
- Protection of employees raising concerns about serious accounting or auditing irregularities.”

### **An argument against audit committees**

The most common argument against the formation of an audit committee is most often made by smaller organizations, where the pool of available and qualified volunteers needed to create an added layer of governance does not exist. Given the size of these organizations, the functions of the audit committee would typically be performed by the finance committee. This is not just an argument; this is the reality faced by thousands of small nonprofit organizations. Much like it's impossible to segregate duties when there is no staff available to add to a financial process, there are limitations on the fiscal fiduciary roles volunteers can perform. Most proposed legislation does take this into account by creating thresholds for compliance based on gross revenues earned.

### **Audit committee guidance and resources**

Is there good news in all of this? Yes—there are now more resources for associations dealing with this issue than ever before. The most concise resource is free and available to all not-for-profit organizations from the American Institute of Certified Public Accountants. *The AICPA Audit Committee Toolkit: Not-for-Profit Organizations* provides checklists, matrices, questionnaires, a sample RFP for certified public accountant services, and other materials to help the audit committee do its job.

### **The final word**

At the close of 2005, the Senate Finance Committee had not yet proposed national legislation to mandate audit committees or provide guidance on just what the roles and responsibilities of the audit committee member should be. That being said, there is overwhelming support for moving audit committees into the best practices category, and why not? There are now significant resources to help you get the job done.

*Nat Bartholomew, certified public accountant, is partner, Langan Associates, P.C., Arlington, Virginia. E-mail: [bartholomewn@langan CPA.com](mailto:bartholomewn@langan CPA.com)*

**Please see Board Agenda Item #15a for these materials, including decision template.**

## 8. Review of Collateral Management Practices and Alternatives

Cheryl Yager

- **Forms of collateral**
- **Objectives for collateral management**
- **Considerations when determining who bears risk of loss**
- **Collateral management options**
- **Collateral management recommendation**
- **Next steps**

## 8. Review of Collateral Management Practices and Alternatives Forms of Collateral – Cheryl Yager

- While ERCOT holds a significant amount of cash collateral, cash collateral is only around 18% of all collateral held (at December 31, 2008)
- Different forms of collateral have different levels of benefit in different default situations
  - Generally, cash collateral is a readily accessible form of collateral and easily applied in a default situation

### Forms of collateral held at December 31, 2008 for EAL <sup>(1)</sup>

(in millions)

Cash	\$ 193.8	18%	
Letters of credit	303.8	28%	
Guarantee agreements	585.0	54%	
Total secured credit	<u>1,082.6</u>	<u>100%</u>	85%
Unsecured credit	186.4		15%
Total credit allowed	<u>\$ 1,269.0</u>		<u>100%</u>

<sup>(1)</sup> Does not include collateral held for TCR Auctions

## 8. Review of Collateral Management Practices and Alternatives Objectives – Cheryl Yager

- 1) Ensure that collateral is for amounts commensurate with risk and in the forms required by the Protocols
- 2) Ensure that collateral is readily accessible to release to market participants, when appropriate and to fund defaults when needed
- 3) Ensure that it is clearly stated in appropriate documents a) who bears the risk of loss for cash collateral and b) how losses will be recovered if or when investments in which cash collateral is held incur losses

It became evident this fall that item 3) is not yet clear.

Collateral management practices selected should meet all objectives.

## 8. Review of Collateral Management Practices and Alternatives Considerations When Determining Who Bears Risk of Loss

Considerations	Source of funds - Market			
	Cash collateral	TCR Revenues	Settlement Payments	Other Prepays/Funds
Can MPs control whether cash is held by ERCOT?	Yes, MPs may post other forms of collateral.	Not at this time.	Not at this time.	Not at this time.
Who (currently) receives interest income from investments?	MPs	ERCOT	ERCOT	ERCOT
Who (currently) determines the investment vehicle?	ERCOT	ERCOT	ERCOT	ERCOT
Options for treatment of loss	<ol style="list-style-type: none"> <li>ERCOT, Inc. bears and funds the loss from SAF.</li> <li>Directly assign loss to entity that sent collateral.</li> <li>Define a method to uplift losses across market participants</li> </ol>	<ol style="list-style-type: none"> <li>ERCOT, Inc. bears and funds the loss from SAF.</li> <li>Reduce the amount available for distribution to load.</li> <li>Define a method to uplift losses across market participants</li> </ol>	<ol style="list-style-type: none"> <li>ERCOT, Inc. bears and funds the loss from SAF.</li> <li>Directly assign loss to entity that sent payment.</li> <li>Short pay the market and uplift losses.</li> </ol>	<ol style="list-style-type: none"> <li>ERCOT, Inc. bears and funds the loss from SAF.</li> <li>Directly assign loss to entity that sent payment.</li> <li>Short pay the market and uplift losses.</li> </ol>

# 8. Review of Collateral Management Practices and Alternatives Options - Cheryl Yager

	Description	UCC - documents required?	Add'l collateral documents required?	Separate accounts set up for each QSE?	Who has possession of cash?	Who bears risk of loss?	Who receives income on cash held?	Level of complexity of structure	Ability to react to problems in an investment fund	Ability to access funds when needed	Clear who bears risk of loss?	Guarantees zero investment losses?
Option 1	Have each MP establish an account at an ERCOT defined fund or fund family. ERCOT would file documents to ensure it holds a first priority security interest in the funds. Since funds would not be in ERCOT's possession, collateral documents would define ERCOT's rights to access funds.	Yes	Yes	Yes	MP	MP	MP	More	Less	Possibly Less	Yes	No
Option 2	Cash collateral is sent to ERCOT and is held in ERCOT owned accounts. Define in the Investment Standard that ERCOT does not bear the risk of loss. Define in the Protocols or other document how loss will be addressed.	No	See a-d below	No	ERCOT	MP	MP	See a-d below	See a-d below	See a-d below	See a-d below	See a-d below
Option 2a	ERCOT selects investment(s) as allowed by Investment Standard		No					Less	More	More	Yes	No
Option 2b	ERCOT invests in Treasury or Treasury-backed money market funds only		No					Less	More	More	Yes	No
Option 2c	MP selects type of money market investment (e.g. Prime Funds, Government Funds, Treasury or TB Funds). If no investment type is selected, ERCOT invests in Treasury or Treasury-backed Funds. ERCOT retains the right to move to a less risky investment in unique situations.		Yes					More -	More	More	Yes	No
Option 2d	MP selects a specific money market fund from funds approved by ERCOT. If no investment type is selected, ERCOT invests in Treasury or Treasury-backed Funds. ERCOT retains the right to move to a less risky investment in unique situations.		Yes					More -	More	More	Yes	No
Option 3	Cash collateral is sent to ERCOT and is held in ERCOT owned accounts. Define in the Investment Standard that ERCOT bears the risk of loss from the investment of these funds. ERCOT invests in Treasury or Treasury-backed Money Market Funds.	No	No	No	ERCOT	ERCOT	ERCOT	Less	More	More	Yes	No
Option 4	Outsource some or all of collateral management to a third party manager.	No	TBD	TBD	3rd party	TBD	TBD	More	More	Add'l layer of administration	TBD	No

- **ERCOT can work with any of the options listed**
- **ERCOT generally prefers Option 2**
  - If F&A chooses to move in this direction, ERCOT recommends alternative b) or c). Alternative c) is a way to give market participants discretion over the level of risk they wish to bear while considering efficiencies.

## 8. Review of Collateral Management Practices and Alternatives Next steps – Cheryl Yager

- **Confirm the direction to be taken with the F&A Committee and the Board of Directors.**
- **Update the Investment Standard and/or the Protocols to clearly spell out who bears the risk of loss.**

## 9. Review of Potential Changes to Investment Practices Overview – Cheryl Yager

- **Sources of funds held as investments**
- **Core assumptions**
- **Key objectives for investment practices review**
- **Possible approaches to investment management**
- **Proposed changes to investment controls and processes**
- **Investment options**
- **Considerations when determining who bears risk of loss**
- **Backup**

## 9. Review of Potential Changes to Investment Practices Source of Funds Held for Investment

- ERCOT has historically managed a significant amount of cash
- ERCOT invests funds originating from several sources
  - Investments are held primarily on behalf of market participants and to a lesser extent for ERCOT, Inc.

### Cash Trend

(in Thousands)

(per financial statements, net of outstanding checks)

	<u>2008</u>	<u>2007</u>
	<u>Total Cash Managed</u>	<u>Total Cash Managed</u>
December	356,215	217,951
November	230,464	220,092
October	244,742	158,926
September	219,841	139,536
August	172,319	160,669
July	297,293	152,909
June	256,716	161,712
May	271,081	151,912
April	233,894	124,711
March	206,513	115,682
February	197,839	123,352
January	214,230	132,223

### Investment balances at December 31, 2008 by source of funds (in millions)

ERCOT, Inc. operating cash	\$ 6.0	2%
Market cash		
Collateral	225.3	63%
TCR Revenues, prepayments, etc.	124.9	35%
Total	<u>356.2</u>	<u>100%</u>

## 9. Review of Potential Changes to Investment Practices Core Assumptions

- **ERCOT will hold a relatively significant amount of cash, particularly for the market, that must be managed on an ongoing basis**
  - Total amount of market cash held may be reduced, but the need to invest significant amounts of cash cannot be eliminated in the near term
- **There is risk inherent with any investment activity**
  - ERCOT's role is to manage the level of risk within the guidelines established by the Board as outlined in the Investment Standard

## 9. Review of Potential Changes to Investment Practices

### Key Objectives for Investment Practices Review

- **Looking forward, determine approach to investment management**
- **Assess ERCOT's investment controls and processes and update them given recent experience and the current credit environment**
- **Review approved investment options and update as needed**
- **Clarify who bears the risk of loss associated with market funds held by ERCOT, Inc.**
  - Gains or losses on investments of ERCOT, Inc. cash will be borne by ERCOT, Inc.
  - Ensure that it is clearly stated in appropriate documents who bears the risk of gains or losses for market funds held by ERCOT (ERCOT, Inc or others) and how losses (if any) will be recovered

# 9. Review of Potential Changes to Investment Practices Possible Approaches to Investment Management

	Description	ERCOT, Inc. accountable for cash under management?	Add'l tools/services required (cash portal, treasury workstation, etc?)	Level of complexity of structure	Ability to react to problems at an investment fund / bank / manager	Ability to access funds when needed	Clear who bears risk of loss?	Guarantees zero investment losses?
Option 1	Continue to manage investments internally with ERCOT staff.	Yes	See a-c below	See a-c below	See a-c below	See a-c below	See a-c below	No
Option 1a	Manage cash through money market funds, with a robust diversification of funds and investment options (e.g. more than 5 funds)		Yes	More	Yes	Yes	TBD	
Option 1b	Manage cash through money market funds, with diversification of fund, but using 5 or fewer funds		TBD	Less	Yes	Yes	TBD	
Option 1c	Manage cash using a combination of money market funds and/or direct investments in Treasuries		Yes	More	Yes	Yes	TBD	
Option 2	Outsource some or all investment management.	Yes	No	Comparable	Yes	Yes	TBD	No
Option 3	Maintain investments in multiple bank accounts at multiple banks. No return and costs approximately 10 basis	Yes	TBD	Less	Yes	Yes	TBD	In 2009, theoretically, no
Option 4	Other							

- ERCOT can work with any of the options listed
- Committee input or preference on investment approach?

## 9. Review of Potential Changes to Investment Practices Proposed Changes to Investment Controls and Processes

- **With the events of the last several months, ERCOT believes certain measures to strengthen oversight of investments held by ERCOT are warranted.**
  - Require a monthly review of the detail holdings in money market accounts
    - While such a review may identify potential problem investments, ERCOT staff cannot warrant that there will not be losses
  - Require a monthly review of concentrations within any money accounts which hold investments in corporate securities
  - Each quarter, provide the Board a list of the detail holdings for money market investments held by ERCOT

## 9. Review of Potential Changes to Investment Practices Proposed Changes to Investment Controls and Processes (*cont*)

- Limit exposure (considering all accounts) to any one fund
  - \$xx million (30 - 50) if the fund is other than a Treasury fund (e.g. prospectus doesn't require that at least 80% of securities held be Treasury or Treasury-backed securities)
  - \$xx million (50 - 100) if the fund is a Treasury fund (e.g. prospectus requires at least 80% of securities held be Treasury or Treasury-backed securities)
  
- Maintain accounts with at least two different fund families, cash portals, banks or other intermediaries

Does the Committee concur with these changes? Are there any other changes the Committee would like to include?

## 9. Review of Potential Changes to Investment Practices Investment Options

- **Currently, the Investment Standard authorizes investment in**
  - a) individual instruments (commercial paper, CDs, treasury instruments, etc) and
  - b) money market funds
- **Alternatives for investment options and limits**
  - a) Restrict investment options to money market funds that invest in Treasury or Treasury-backed securities
  - b) Leave investment options as they are and direct ERCOT staff to notify F&A before moving to investment vehicles other than money market funds that invest in Treasury or Treasury-backed securities

Committee preference?

## 9. Review of Potential Changes to Investment Practices Considerations When Determining Who Bears Risk of Loss

Considerations	Source of funds - Market			
	Cash collateral	TCR Revenues	Settlement Payments	Other Prepays/Funds
Can MPs control whether cash is held by ERCOT?	Yes, MPs may post other forms of collateral.	Not at this time.	Not at this time.	Not at this time.
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Who (currently) determines the investment vehicle?	ERCOT	ERCOT	ERCOT	ERCOT
Options for treatment of loss	<ol style="list-style-type: none"> <li>ERCOT, Inc. bears and funds the loss from SAF.</li> <li>Directly assign loss to entity that sent collateral.</li> <li>Define a method to uplift losses across MPs</li> </ol>	<ol style="list-style-type: none"> <li>ERCOT, Inc. bears and funds the loss from SAF.</li> <li>Reduce the amount available for distribution to load.</li> <li>Define a method to uplift losses across MPs</li> </ol>	<ol style="list-style-type: none"> <li>ERCOT, Inc. bears and funds the loss from SAF.</li> <li>Directly assign loss to entity that sent payment.</li> <li>Short pay the market and uplift losses.</li> </ol>	<ol style="list-style-type: none"> <li>ERCOT, Inc. bears and funds the loss from SAF.</li> <li>Directly assign loss to entity that sent payment.</li> <li>Short pay the market and uplift losses.</li> </ol>

- Committee preference?

## 9. Review of Potential Changes to Investment Practices Next Steps

- **ERCOT will take input from the Committee and incorporate into Investment Standard and bring that document back for review**

# Backup Slides

## 9. Review of Potential Changes to Investment Practices Cash Portal

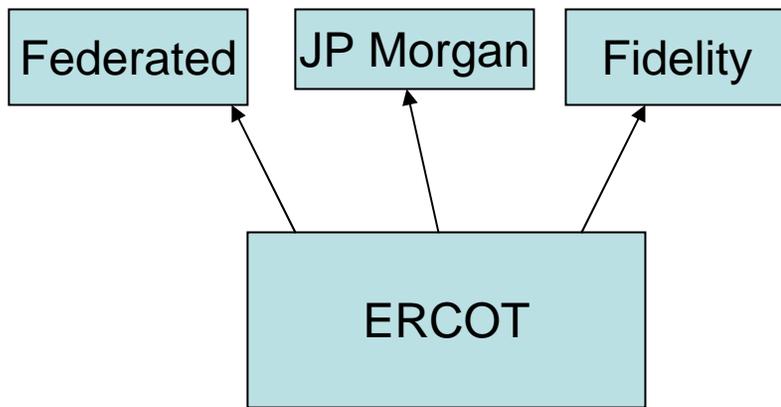
- **One product ERCOT has investigated is the “cash portal”**
  - A cash portal would allow ERCOT access to several funds through one site.
    - Easier access to data (prospectus, fact sheets, securities listing)
    - Easier management of multiple funds (fund balances, transaction history, etc)
    - More flexible – easily move cash from fund to fund within the portal
    - Less paperwork – contracts not required for each individual fund
    - No direct fees to ERCOT (costs are paid from 12b-7 fees as other intermediaries)

For additional information, there is an article describing what a cash portal is at <http://www.icdfunds.com/File/bennie.pdf>

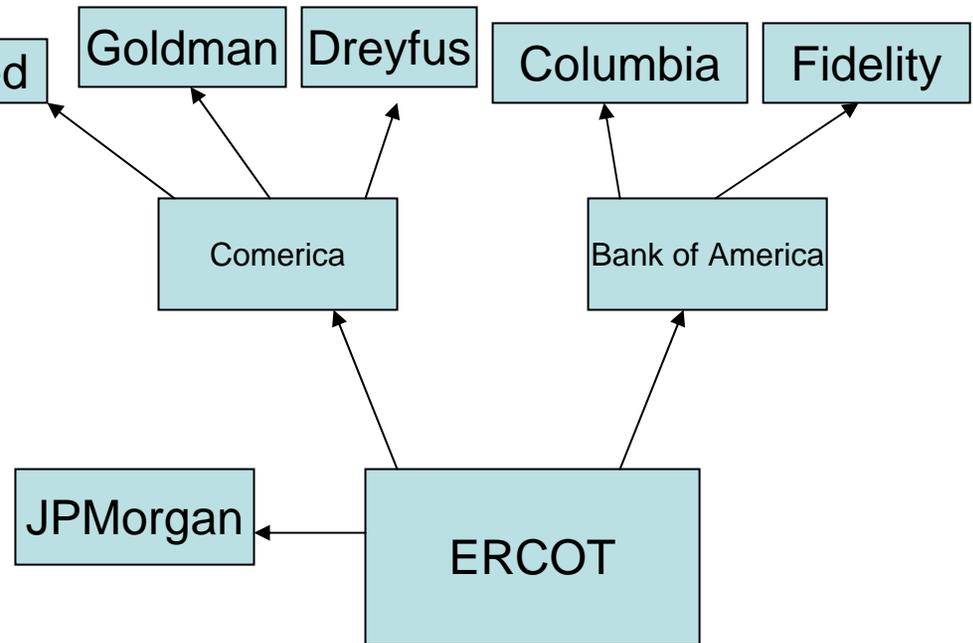
# 9. Review of Potential Changes to Investment Practices

## Sample Relationship Diagram

- **Direct Investment Structure**



- **Cash Portal Structure**



## 9. Review of Potential Changes to Investment Practices Sample Cash Portal Offerings

- **Comerica**
- **Bank of America**
- **ICD (Institutional Cash Distributors)**

**ERCOT has talked, to varying degrees, with each of the above entities.**

## 9. Review of Potential Changes to Investment Practices Fund Families Offered Through Comerica's Cash Portal

### **Treasury Institutional Fund Families:**

- Goldman Sachs
- Federated
- BlackRock
- JPMorgan
- Dreyfus

### **Treasury & Repo Inst:**

- JPMorgan
  - BGI
- 
- Comerica also offers a variety of other funds

## 9. Review of Potential Changes to Investment Practices Fund Families Offered Through Bank of America Cash Portal

- Columbia
  - Dreyfus
  - Federated
  - Fidelity
  - Goldman Sachs
  - JPMorgan
- 
- Bank of America also offers a variety of other funds

# Board Approved Investment Standard

## ERCOT CORPORATE STANDARD

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

### 1. PURPOSE

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

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

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

ERCOT funds specifically include proceeds from:

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

### 2.0 STANDARDS

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

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

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

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

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

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

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

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

If an ERCOT Board member or member of his or her immediate family is an officer or director, is employed by, or owns or has a beneficial interest in more than 10 percent of the stock in a bank or other financial institution that would otherwise be a Qualified Institution, such Board member shall provide full disclosure of such stock holdings or relationship in documented form to be filed with permanent records of ERCOT. Any institutions so disclosed will be excluded from consideration as a Qualified Institution without 1) full disclosure to the Board of Directors of the relationship and 2) approval of the Board to establish the relationship.

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

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

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

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

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

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

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

## APPENDIX A

### Requirements of Qualified Institutions

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

#### General Requirements

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

#### Additional Requirements for Depositories

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

#### Additional Requirements for Security Dealers

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

**APPENDIX B**

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

**Qualified Institution Certification for Security Dealers**

**Dealer / Investment Firm:** \_\_\_\_\_

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

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

\_\_\_\_\_  
Qualified Representative

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

## APPENDIX C

## Authorized Instruments

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

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

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

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

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

**For discussion**

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

<b>Investment Funds</b>	<b>Balance at Dec 31</b>	<b>Average Bal for Qtr</b>	<b>Interest 4th Qtr</b>	<b>Yield 4th Qtr</b>	<b>% of portfolio at Dec 31</b>
Federated Fund 068 Treasury Obligations Fund (Note 1)	110,026	40,669	25	0.24%	30.9%
Federated Fund 0125 US Treasury Cash Reserves Fund (Note 1)	70,630	25,598	29	0.46%	19.8%
JP Morgan Chase US Treasury Plus MM Fund (Note 1)	80,959	55,177	34	0.24%	22.7%
The Reserve Primary Fund (Note 2)	9,348	26,814	-	0.00%	2.6%
The Reserve US Government Fund (Note 3)	86,436	113,005	-	0.00%	24.3%
<b>Sub-Total</b>	<b>357,399</b>	<b>261,263</b>	<b>88</b>		<b>100%</b>
Other cash net of outstanding checks (Note 4)	(1,185)				
<b>Total cash and cash equivalents (est)</b>	<b>356,215</b>	<b>261,263</b>	<b>88</b>		<b>100%</b>

**Benchmark data** (Note 5)

Not Available

**Notes**

- Note 1: In October 2008, new money market funds investing in Treasury and Treasury backed securities were set up at JP Morgan Chase and Federated Investors.
- Note 2: The Reserve is liquidating this fund. This balance is net of \$.7 million estimated losses recorded by ERCOT based on information from The Reserve. Since September 16, 2008, this fund has returned \$37.8 million of the principal.
- Note 3: The Reserve is liquidating this fund; since September 16, 2008, this fund has returned \$61.5 million of the principal.
- Note 4: All other cash, net of outstanding checks, held by ERCOT in bank accounts as of December 31, 2008. The balance is negative due to outstanding checks that have not yet been funded.
- Note 5: Given the current market situation, all investments are held in Treasury or Treasury backed funds. iMoneyNet.com does not provide benchmark data on Treasury funds. ERCOT will look for new options for benchmark information.
- Note 6: No individual securities held at December 31, 2008.

**Statement of Compliance**

Upon a review of the investment activity for the 3 month period ended December 31, 2008, I have no knowledge of any ERCOT action that does not comply with that required by the Investment Standard. However, investments in The Reserve Primary and US Government funds do not comply with the objectives in the ERCOT Investment Standard for the period from September 16, 2008 to December 31, 2008. ERCOT has issued valid redemption requests for all investments held in these funds but has not yet received the full proceeds. This out of compliance condition is expected to continue until final distributions are received from the The Reserve Primary and US Government Funds.

Signature On File  
Cheryl Yager, Treasurer

Signature On File  
Steve Byone, Chief Financial Officer

**Electric Reliability Council of Texas, Inc.**  
**Summary of Investment Results**  
**Balance as of December 31, 2008**  
(in 000's)

	<u>Operating</u>		<u>Market</u>		<u>Total</u>	<u>Comments</u>
	<u>ISO</u>	<u>TRE</u>	<u>Collateral/ Restricted Cash</u>	<u>TCR Revenue/ Prepaid Settlements</u>		
Federated Fund 068 Treasury Obligations Fund	757	3,541	17,937	87,790	110,026	For detail of fund holdings as of December 31, 2008, please see "Attachment A"
Federated Fund 0125 US Treasury Cash Reserves Fund			50,630	20,000	70,630	For detail of fund holdings as of December 31, 2008, please see "Attachment B"
JP Morgan Chase US Treasury Plus MM Fund	488		70,294	10,177	80,959	For detail of fund holdings as of January 8, 2009, please see "Attachment C"
The Reserve Primary Fund	1,778	640		6,930	9,348	For detail of fund holdings as of January 2, 2009, please see "Attachment D"
The Reserve US Government Fund			86,436		86,436	For detail of fund holdings as of January 2, 2009, please see "Attachment E"
<b>Sub Total Investments</b>	<u>3,023</u>	<u>4,181</u>	<u>225,297</u>	<u>124,897</u>	<u>357,399</u>	
Other cash net of outstanding checks	(1,185)				(1,185)	
<b>Total cash and cash equivalents (est)</b>	<u>1,839</u>	<u>4,181</u>	<u>225,297</u>	<u>124,897</u>	<u>356,215</u>	

## TREASURY OBLIGATIONS FUND

**Federated**WORLD-CLASS INVESTMENT MANAGER<sup>®</sup>**PORTFOLIO AS OF DECEMBER 31, 2008**  
**CURRENT NET ASSETS – \$ 34,105,319,678**

Principal Amount or Shares		Value
<b>REPURCHASE AGREEMENTS—68.7%</b>		
\$ 1,038,000,000	BNP Paribas Securities Corp., 0.005%, dated 12/31/2008, due 1/2/2009	\$ 1,038,000,000
698,000,000	BNP Paribas Securities Corp., 0.010%, dated 12/31/2008, due 1/2/2009	698,000,000
860,000,000	(1) BNP Paribas Securities Corp., 0.050%, dated 12/29/2008, due 1/28/2009	860,000,000
1,950,000,000	Barclays Capital, Inc., 0.020%, dated 12/31/2008, due 1/2/2009	1,950,000,000
90,000,000	(1) Barclays Capital, Inc., 2.100%, dated 8/13/2008, due 2/9/2009	90,000,000
250,000,000	CIBC World Markets Corp., 0.020%, dated 12/31/2008, due 1/2/2009	250,000,000
750,000,000	Calyon Securities (USA), Inc., 0.040%, dated 12/31/2008, due 1/2/2009	750,000,000
2,558,000,000	Citigroup Global Markets, Inc., 0.010%, dated 12/31/2008, due 1/2/2009	2,558,000,000
2,058,000,000	Credit Suisse First Boston LLC, 0.030%, dated 12/31/2008, due 1/2/2009	2,058,000,000
271,000,000	(1) Credit Suisse First Boston LLC, 2.040%, dated 8/20/2008, due 1/21/2009	271,000,000
800,000,000	Deutsche Bank Securities, Inc., 0.020%, dated 12/31/2008, due 1/2/2009	800,000,000
881,000,000	Goldman Sachs & Co., 0.000%, dated 12/31/2008, due 1/2/2009	881,000,000
1,450,000,000	ING Financial Markets LLC, 0.020%, dated 12/31/2008, due 1/2/2009	1,450,000,000
1,058,000,000	ING Financial Markets LLC, 0.020%, dated 12/31/2008, due 1/2/2009	1,058,000,000
1,500,000,000	J.P. Morgan Securities, Inc., 0.010%, dated 12/31/2008, due 1/2/2009	1,500,000,000
4,454,104,000	J.P. Morgan Securities, Inc., 0.030%, dated 12/31/2008, due 1/2/2009	4,454,104,000
308,000,000	Mizuho Securities USA, Inc., 0.020%, dated 12/31/2008, due 1/2/2009	308,000,000
900,000,000	Mizuho Securities USA, Inc., 0.020%, dated 12/31/2008, due 1/2/2009	900,000,000
500,000,000	Morgan Stanley & Co., Inc., 0.010%, dated 12/31/2008, due 1/2/2009	500,000,000
196,000,000	UBS Securities LLC, 0.040%, dated 12/31/2008, due 1/2/2009	196,000,000
863,000,000	(1) UBS Securities LLC, 0.070%, dated 12/29/2008, due 1/5/2009	863,000,000
	<b>TOTAL REPURCHASE AGREEMENTS</b>	<b>23,433,104,000</b>
<b>U.S. TREASURY—31.4%</b>		
160,000,000	(2) United States Treasury Bills, 0.000%, 1/2/2009	160,000,000
50,000,000	(2) United States Treasury Bills, 0.005%, 2/12/2009	49,999,708
1,058,000,000	(2) United States Treasury Bills, 0.250% - 2.295%, 7/2/2009	1,052,155,623
3,557,000,000	(2) United States Treasury Bills, 0.320% - 1.945%, 1/15/2009	3,555,784,183
898,900,000	(2) United States Treasury Bills, 0.420%, 1/22/2009	898,679,768
300,000,000	(2) United States Treasury Bills, 0.970% - 1.000%, 10/22/2009	297,574,498
300,000,000	(2) United States Treasury Bills, 0.990%, 5/15/2009	298,894,500
1,275,000,000	(2) United States Treasury Bills, 1.100%, 4/16/2009	1,270,909,369
653,000,000	(2) United States Treasury Bills, 1.600% - 2.425%, 6/4/2009	647,725,928
895,000,000	(2) United States Treasury Bills, 1.885% - 1.920%, 2/26/2009	892,355,983
237,500,000	United States Treasury Notes, 4.000%, 8/31/2009	241,592,677

Principal Amount or Shares		Value
311,750,000	United States Treasury Notes, 4.500%, 3/31/2009	313,787,862
62,000,000	United States Treasury Notes, 4.625%, 7/31/2009	63,550,159
224,000,000	United States Treasury Notes, 4.875%, 1/31/2009	224,568,018
91,500,000	United States Treasury Notes, 4.875%, 5/15/2009	92,347,691
137,500,000	United States Treasury Notes, 4.875%, 5/31/2009	138,986,238
498,800,000	United States Treasury Notes, 4.875%, 8/15/2009	512,665,290
	<b>TOTAL U.S. TREASURY</b>	<b>10,711,577,495</b>
	<b>TOTAL INVESTMENTS</b>	<b>\$ 34,144,681,495</b>

- (1) Although the repurchase date is more than seven days after the date of purchase, the Fund has the right to terminate the repurchase agreement at any time with seven-days' notice.
- (2) Discount rate at time of purchase.

Note: The categories of investments are shown as a percentage of net assets (\$34,105,319,678) at the close of business on December 31, 2008, and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes.

The following acronym is used throughout this portfolio:

LLC --Limited Liability Corporation

Note: An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in these funds.

Portfolio holdings are shown as of the date indicated and are unaudited. Since market conditions fluctuate suddenly and frequently, the portfolio holdings may change and this list is not indicative of future portfolio composition. These portfolio holdings are not intended to be and do not constitute recommendations that others buy, sell, or hold any of the securities listed.

*For more complete information on the fund, visit [www.FederatedInvestors.com](http://www.FederatedInvestors.com) for a prospectus. You should consider the fund's investment objectives, risks, charges, and expenses carefully before you invest. Information about these and other important subjects is in the fund's prospectus, which you should read carefully before investing.*

**NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE**

Federated Securities Corp., Distributor  
12/08

68-TOF

## US Treasury Cash Reserves

# Federated

WORLD-CLASS INVESTMENT MANAGER<sup>®</sup>

PORTFOLIO AS OF DECEMBER 31, 2008  
CURRENT NET ASSETS — \$49,671,300,551

Principal Amount or Shares		Value
<b>U.S. TREASURY — 100.9%</b>		
\$ 264,114,000	U.S. Treasury Inflation Protected Note, Series A-2009, 3.875%, 1/15/2009	\$ 262,695,132
900,000,000	(1) United States Treasury Bills, 0.000% - 0.080%, 2/5/2009	899,990,764
3,384,000,000	(1) United States Treasury Bills, 0.000% - 1.240%, 1/29/2009	3,381,488,111
8,365,900,000	(1) United States Treasury Bills, 0.000% - 1.250%, 1/22/2009	8,363,580,710
7,744,045,000	(1) United States Treasury Bills, 0.000% - 2.060%, 1/2/2009	7,743,931,699
250,000,000	(1) United States Treasury Bills, 0.000%, 2/12/2009	250,000,000
1,136,100,000	(1) United States Treasury Bills, 0.010% - 0.150%, 2/26/2009	1,135,914,757
578,000,000	(1) United States Treasury Bills, 0.010% - 0.210%, 2/19/2009	577,910,466
1,600,000,000	(1) United States Treasury Bills, 0.010% - 0.530%, 5/15/2009	1,598,349,195
5,954,000,000	(1) United States Treasury Bills, 0.010% - 1.650%, 1/8/2009	5,952,568,180
400,000,000	(1) United States Treasury Bills, 0.010%, 5/14/2009	399,985,222
133,000,000	(1) United States Treasury Bills, 0.015% - 0.020%, 5/21/2009	132,990,297
635,000,000	(1) United States Treasury Bills, 0.020% - 0.710%, 3/5/2009	634,757,581
125,000,000	(1) United States Treasury Bills, 0.035% - 0.070%, 3/12/2009	124,989,792
762,000,000	(1) United States Treasury Bills, 0.040% - 0.120%, 3/26/2009	761,878,807
3,592,700,000	(1) United States Treasury Bills, 0.045% - 0.050%, 3/19/2009	3,592,316,956
218,000,000	(1) United States Treasury Bills, 0.070%, 6/4/2009	217,934,721
425,000,000	(1) United States Treasury Bills, 0.100% - 0.370%, 4/29/2009	424,639,444
730,000,000	(1) United States Treasury Bills, 0.210% - 0.250%, 7/2/2009	729,127,342
4,793,500,000	(1) United States Treasury Bills, 0.340% - 1.950%, 1/15/2009	4,791,365,727
605,000,000	(1) United States Treasury Bills, 0.525%, 5/28/2009	603,703,031

250,000,000	(1) United States Treasury Bills, 0.830%, 4/2/2009	249,475,486
115,045,000	(1) United States Treasury Bills, 1.050%, 7/30/2009	114,340,349
526,000,000	United States Treasury Notes, 2.625%, 3/15/2009	528,114,118
2,192,550,000	United States Treasury Notes, 3.000% - 4.500%, 2/15/2009	2,202,313,891
50,000,000	United States Treasury Notes, 3.125%, 4/15/2009	50,388,060
125,000,000	United States Treasury Notes, 3.250%, 1/15/2009	125,151,910
616,650,000	United States Treasury Notes, 3.875% - 5.500%, 5/15/2009	626,086,444
389,000,000	United States Treasury Notes, 4.500%, 3/31/2009	392,975,577
350,000,000	United States Treasury Notes, 4.500%, 4/30/2009	354,355,972
1,046,000,000	United States Treasury Notes, 4.750%, 2/28/2009	1,053,476,431
1,153,906,000	United States Treasury Notes, 4.875%, 1/31/2009	1,157,795,115
659,000,000	United States Treasury Notes, 4.875%, 5/31/2009	671,607,514
	<b>TOTAL</b>	<b>50,106,198,801</b>
	<b>TOTAL INVESTMENTS</b>	<b>\$50,106,198,801</b>

(1) Discount rate at time of purchase.

Note: The categories of investments are shown as a percentage of net assets (\$49,671,300,551) at the close of business on December 31, 2008, and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes.

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Portfolio holdings are shown as of the date indicated and are unaudited. Since market conditions fluctuate suddenly and frequently, the portfolio holdings may change and this list is not indicative of future portfolio composition. These portfolio holdings are not intended to be and do not constitute recommendations that others buy, sell, or hold any of the securities listed.

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**USTCR - 2**

# JPM US Treasury Plus Money Market Fund - 148020

Data as at **8-Jan-09**

Security ID	Instrument Name	Coupon	Effective Maturity Date	Moody's Quality	S&P Quality	Instrument Type	Par	Currency	% of fund	
USD	US DOLLAR	0.00	2009-01-09			Cash	992.23	USD	0.0	0.0
0BAR09P4	BARCLAYS CAPITA REPO	0.0600	2009-01-09	P-1	A-1+	Repo	2,600,000,000.00	USD	9.7	
0CTG01XH	CITIGROUP INC. REPO	0.0400	2009-01-09	P-1	A-1+	Repo	1,500,000,000.00	USD	5.6	
0CSF08KG	CREDIT SUISSE F REPO	0.0500	2009-01-09	P-1	A-1	Repo	2,500,000,000.00	USD	9.4	
0DBS10P8	DEUTSCHE BANK S REPO	0.0500	2009-01-09	P-1	A-1+	Repo	1,540,217,000.00	USD	5.8	
0DBS10PB	DEUTSCHE BANK S REPO	0.0700	2009-01-09	P-1	A-1+	Repo	200,000,000.00	USD	0.7	
0GOL16F6	GOLDMAN SACHS & REPO	0.0100	2009-01-09	P-1	A-1+	Repo	150,000,000.00	USD	0.6	
0GCM09CA	GREENWICH CAPIT REPO	0.2500	2009-01-15	P-1	A-1+	Repo	700,000,000.00	USD	2.6	
0HSB06NQ	HSBC SECURITIES REPO	0.0500	2009-01-09	P-1	A-1	Repo	3,400,000,000.00	USD	12.7	
0MLG10DY	MERRILL LYNCH G REPO	0.0600	2009-01-09	P-1	A-1	Repo	1,450,000,000.00	USD	5.4	
0UBS14M7	UBS WARBURG LLC REPO	0.0500	2009-01-09	P-1	A-1+	Repo	750,000,000.00	USD	2.8	55.4
US912795T926	CASH MGMT BILL	0.00	2009-04-29	P-1	A-1+	Treasury Bills	1,400,000,000.00	USD	5.2	
US912795V328	CASH MGMT BILL	0.00	2009-05-15	P-1	A-1+	Treasury Bills	500,000,000.00	USD	1.9	
US912795U254	CASH MGMT BILL	0.00	2009-06-24	P-1	A-1+	Treasury Bills	250,000,000.00	USD	0.9	
US912795J778	TREASURY BILL	0.00	2009-01-15	P-1	A-1+	Treasury Bills	12,000,000.00	USD	0.0	
US912795J851	TREASURY BILL	0.00	2009-01-22	P-1	A-1+	Treasury Bills	950,000,000.00	USD	3.6	
US912795J935	TREASURY BILL	0.00	2009-01-29	P-1	A-1+	Treasury Bills	250,000,000.00	USD	0.9	
US912795K347	TREASURY BILL	0.00	2009-02-12	P-1	A-1+	Treasury Bills	600,000,000.00	USD	2.2	
US912795K594	TREASURY BILL	0.00	2009-02-26	P-1	A-1+	Treasury Bills	350,000,000.00	USD	1.3	
US912795K677	TREASURY BILL	0.00	2009-03-05	P-1	A-1+	Treasury Bills	150,000,000.00	USD	0.6	
US912795K750	TREASURY BILL	0.00	2009-03-12			Treasury Bills	500,000,000.00	USD	1.9	
US912795K834	TREASURY BILL	0.00	2009-03-19	P-1	A-1+	Treasury Bills	500,000,000.00	USD	1.9	
US912795L410	TREASURY BILL	0.00	2009-04-16	P-1	A-1+	Treasury Bills	400,000,000.00	USD	1.5	
US912795L584	TREASURY BILL	0.00	2009-04-23	P-1	A-1+	Treasury Bills	200,000,000.00	USD	0.7	
US912795L667	TREASURY BILL	0.00	2009-04-30	P-1	A-1+	Treasury Bills	1,150,000,000.00	USD	4.3	
US912795Q799	TREASURY BILL	0.00	2009-06-04	P-1	A-1+	Treasury Bills	1,125,000,000.00	USD	4.2	
US912795M400	TREASURY BILL	0.00	2009-06-11	P-1	A-1+	Treasury Bills	1,400,000,000.00	USD	5.2	
US912795Q872	TREASURY BILL	0.00	2009-07-02	P-1	A-1+	Treasury Bills	200,000,000.00	USD	0.7	
US912795Q955	TREASURY BILL	0.00	2009-07-30	P-1	A-1+	Treasury Bills	500,000,000.00	USD	1.9	
US912795S365	TREASURY BILL	0.00	2009-09-24	P-1	A-1+	Treasury Bills	250,000,000.00	USD	0.9	
US912795S449	TREASURY BILL	0.00	2009-10-22	P-1	A-1+	Treasury Bills	650,000,000.00	USD	2.4	
US912795S282	TREASURY SEC.	0.00	2009-08-27	P-1	A-1+	Treasury Bills	230,000,000.00	USD	0.9	43.3
US9128275G32	US TREASURY N/B	5.50	2009-05-15	Aaa	AAA	Treasury Notes	125,000,000.00	USD	0.5	
US912828CL25	US TREASURY N/B	4.00	2009-06-15	NR	NR	Treasury Notes	50,000,000.00	USD	0.2	
US912828GY00	US TREASURY N/B	4.63	2009-07-31	Aaa	AAA	Treasury Notes	75,000,000.00	USD	0.3	
US912828HB97	US TREASURY N/B	4.00	2009-08-31	Aaa	AAA	Treasury Notes	100,000,000.00	USD	0.4	1.4
<b>Total Fund</b>							<b>26,707,217,992.23</b>			

This unofficial report of the above fund is based on information available as at the date indicated in the report. We make no representations as to the accuracy of any of the information contained in this unofficial report. Therefore, the information in this unofficial report should not be relied upon for investment decisions, or used to evaluate the fund's performance in lieu of information provided in your official fund statements or other reports on the fund. J.P. Morgan Asset Management (Europe) S. a r.l nor any of its affiliates accept any liability for any losses, costs, liabilities or expenses (including, without limitation, loss of profits) which may arise from any inaccuracies in this unofficial report. Any discrepancies in this information provided in this unofficial report should be discussed with your relationship manager prior to any actions regarding your fund shares. Please note that fund investments are subject to change at any time.

We are providing this unofficial list of the fund investments as a service to the fund shareholders for your information only. We, therefore, request that you do not share this unofficial report with anyone else.

**Schedule of Investments**

(January 2, 2009 Unaudited)

**Fund Name: PRIMARY**

<u>DESCRIPTION</u>	<u>MATURITY DATE*</u>	<u>COUPON RATE (%)</u>	<u>UNITS (US\$)</u>	<u>PCT OF PORTFOLIO</u>
<b>Bank Notes</b>				
BANK AMER N A CHARLOTTE NC	02/27/2009	0.4712	75,000,000	0.68%
HSBC USA INC	08/14/2009	2.5325	200,000,000	1.82%
ROYAL BK SCOTLAND PLC	10/09/2009	2.3962	390,000,000	3.54%
SOCIETE GENERALE EXTENDIBLE	09/04/2009	2.6200	150,000,000	1.36%
<b>Total Bank Notes</b>			<b>815,000,000</b>	<b>7.41%</b>
<b>Certificate of Deposit - Variable Rate</b>				
ABBEY NAT'L TREASURY	08/28/2009	2.5312	300,000,000	2.73%
ANZ NATNL INT LMTD	08/28/2009	2.5712	250,000,000	2.27%
BARCLAYS BANK PLC	09/16/2009	2.3712	200,000,000	1.82%
BRANCH BANKING & TR	09/03/2009	2.6200	200,000,000	1.82%
CREDIT SUISSE NY	08/14/2009	2.4525	100,000,000	0.91%
CREDIT SUISSE NY	04/08/2009	4.5688	150,000,000	1.36%
SWEDBANK (SPARBANK)	01/14/2009	1.3650	100,000,000	0.91%
SWEDBANK (SPARBANK)	01/12/2009	1.8050	100,000,000	0.91%
UBS AG STAMFORD BRAN	03/17/2009	2.1212	75,000,000	0.68%
<b>Total Certificate of Deposit - Variable Rate</b>			<b>1,475,000,000</b>	<b>13.41%</b>
<b>Commercial Paper</b>				
ASB FINANCE LTD.	08/25/2009	2.5675	500,000,000	4.54%
NATIONAL AUSTRALIA BK LTD	10/06/2009	2.4225	100,000,000	0.91%
<b>Total Commercial Paper</b>			<b>600,000,000</b>	<b>5.45%</b>
<b>Commercial Paper - Discount</b>				
FORTIS FUNDING LLC	03/09/2009	3.0800	200,000,000	1.82%
FORTIS FUNDING LLC	01/12/2009	2.9700	125,000,000	1.14%
LEHMAN BRTHRS HLDG INC	10/29/2008	3.7100	185,000,000	1.68%
LEHMAN BRTHRS HLDG INC	10/27/2008	3.2900	200,000,000	1.82%
LEHMAN BRTHRS HLDG INC	10/10/2008	3.0000	150,000,000	1.36%
MORGAN STANLEY	01/23/2009	3.1100	175,000,000	1.59%
<b>Total Commercial Paper - Discount</b>			<b>1,035,000,000</b>	<b>9.41%</b>
<b>Floating Rate Note</b>				
AMERICAN EXPRESS BK FSB	02/20/2009	0.5075	40,000,000	0.36%
AMERICAN EXPRESS BK FSB MED	05/11/2009	2.1388	250,000,000	2.27%
BANK SCOTLAND PLC TREAS DIV	04/06/2009	2.9162	300,000,000	2.73%
CITIGROUP FDG INC	05/08/2009	3.6725	250,000,000	2.27%
DEUTSCHE BANK AG NY	10/21/2009	1.7350	250,000,000	2.27%
GENERAL ELEC CAP CORP	09/24/2009	0.5012	200,000,000	1.82%
GOLDMAN SACHS GROUP INC	01/15/2009	3.8750	125,000,000	1.14%
HSBC USA INC	10/15/2009	5.2188	275,000,000	2.50%
LEHMAN BROS HLDGS INC	03/20/2009	0.0000	250,000,000	2.27%
LLOYDS TSB GROUP PLC	08/07/2009	2.8065	275,000,000	2.50%
MERRILL LYNCH + CO INC	05/20/2009	4.0175	140,000,000	1.27%
MERRILL LYNCH + CO INC	01/30/2009	3.5550	66,000,000	0.60%
MERRILL LYNCH CO INC	03/27/2009	1.0700	500,000,000	4.54%



The Reserve

A Tradition of Financial Innovation™

<u>DESCRIPTION</u>	<u>MATURITY DATE*</u>	<u>COUPON RATE (%)</u>	<u>UNITS (US\$)</u>	<u>PCT OF PORTFOLIO</u>
MORGAN STANLEY	01/15/2009	3.8750	125,000,000	1.14%
NORDEA BK EXTENDIBLE SHORT	09/24/2009	3.8912	275,000,000	2.50%
SVENSKA HANDELSBANKEN AB	08/25/2009	3.8850	222,000,000	2.02%
WACHOVIA BK NATL ASSN	08/04/2009	4.6075	350,000,000	3.18%
WACHOVIA BK NATL ASSN	01/09/2009	2.9644	150,000,000	1.36%
<b>Total Floating Rate Note</b>			<b>4,043,000,000</b>	<b>36.75%</b>
<b>Repurchase Agreement</b>				
MORGAN STANLEY TRI PARTY REPO	09/15/2009	0.5200	1,300,000,000	11.82%
<b>Total Repurchase Agreement</b>			<b>1,300,000,000</b>	<b>11.82%</b>
<b>Time Deposit</b>				
BRANCH BANKING + TRUST COMPANY	01/05/2009	0.0200	475,000,000	4.32%
DEUTSCHE BANK	01/05/2009	0.0400	475,000,000	4.32%
TIME DEPOSIT BNP PARIBAS PARIS	01/05/2009	0.0500	475,000,000	4.32%
<b>Total Time Deposit</b>			<b>1,425,000,000</b>	<b>12.95%</b>
<b>Investment Total</b>			<b>10,693,000,000</b>	<b>97.19%</b>
<b>Cash Held at Custodian Bank*</b>			<b>309,475,583</b>	<b>2.81%</b>
<b>Portfolio Total</b>			<b>11,002,475,583</b>	<b>100.00%</b>
<b>Average Weighted Maturity</b>				<b>30 Days</b>

\*To determine the cash that is available for eventual distribution, add time deposits and securities maturing in one day to cash held at custodian bank. A negative cash number represents an overdrawn balance.

\*The maturities of the securities shown are the earliest date that the Fund would be able to realize the value of the investment, which could be the instrument's stated maturity, the date on which the Fund has the right to put the securities to the issuer, the date which the issue has been called or the date on which the security is scheduled to be pre-refunded.

Portfolio composition is subject to change at any time. If securities are sold with a delayed settlement date, the above portfolio listing will not reflect those securities. However, the securities are still assets of the fund and will continue to earn interest until the trade settles.

On September 16, 2008, the Lehman Brothers securities in the fund were valued at zero, where they remain. These securities are included in the line item "Portfolio Total" at their face value.

This data is unaudited and provided for informational purposes only and is not intended for trading purposes.

*An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund. You should carefully consider the investment objectives, risks and charges and expenses of the Fund before investing. The Fund's Prospectus contains this and other information about the Fund. The Fund's Prospectus may be obtained by writing to The Reserve, 1250 Broadway, New York, New York 10001-3701 or by calling 1-800-637-1700 and pressing "0." You should read the Prospectus carefully before you invest.*

*This information is for the use of U.S. residents only. The investment products and services referred to should not be considered a solicitation to buy products or an offering of any investment products to investors residing outside the United States or to any person in any jurisdiction in which such offers, solicitations, purchases or sales would be*

**Schedule of Investments**

(January 2, 2009 Unaudited)

**Fund Name: US GOVERNMENT**

<u>DESCRIPTION</u>	<u>MATURITY DATE*</u>	<u>COUPON RATE (%)</u>	<u>UNITS (US\$)</u>	<u>PCT OF PORTFOLIO</u>
<b>Fannie Mae</b>				
FANNIE MAE	10/07/2009	0.3400	200,000,000	3.15%
FANNIE MAE	01/23/2009	1.5600	200,000,000	3.15%
FEDERAL NATL MTG ASSN	09/03/2009	0.3800	375,000,000	5.90%
FEDERAL NATL MTG ASSN	01/09/2009	2.1000	875,000,000	13.77%
<b>Total Fannie Mae</b>			<b>1,650,000,000</b>	<b>25.97%</b>
<b>Federal Farm Credit Bank - Floating Rate</b>				
FED FARM CREDIT	03/11/2009	1.0300	100,000,000	1.57%
FEDERAL FARM CR BKS	02/23/2009	1.0000	200,000,000	3.15%
FEDERAL FARM CR BKS CONS SYST	03/17/2009	0.2900	250,000,000	3.93%
FEDERAL FARM CREDIT BANK	11/16/2009	1.0600	500,000,000	7.87%
<b>Total Federal Farm Credit Bank - Floating Rate</b>			<b>1,050,000,000</b>	<b>16.53%</b>
<b>Federal Home Loan Bank</b>				
FEDERAL HOME LN BK CONS DSC NT	01/05/2009	0.0010	25,000,000	0.39%
FEDERAL HOME LN BKS	11/23/2009	1.9680	200,000,000	3.15%
FEDERAL HOME LN BKS	11/20/2009	2.0380	200,000,000	3.15%
FEDERAL HOME LN BKS	08/07/2009	1.1200	250,000,000	3.93%
FEDERAL HOME LN BKS	04/21/2009	1.6650	100,000,000	1.57%
FEDERAL HOME LN BKS	02/20/2009	1.1300	250,000,000	3.93%
FEDERAL HOME LN BKS	01/30/2009	1.0600	500,000,000	7.87%
FEDERAL HOME LN BKS	01/30/2009	1.0600	200,000,000	3.15%
<b>Total Federal Home Loan Bank</b>			<b>1,725,000,000</b>	<b>27.15%</b>
<b>Federal Home Loan Mortgage Corp</b>				
FEDERAL HOME LN MTG DISC NTS	02/20/2009	1.0200	100,000,000	1.57%
<b>Total Federal Home Loan Mortgage Corp</b>			<b>100,000,000</b>	<b>1.57%</b>
<b>Repurchase Agreement</b>				
DEUTSCHE NG TRI PARTY	01/05/2009	0.0800	50,000,000	0.79%
<b>Total Repurchase Agreement</b>			<b>50,000,000</b>	<b>0.79%</b>
<b>Investment Total</b>			<b>4,575,000,000</b>	<b>72.01%</b>
<b>Cash Held at Custodian Bank*</b>			<b>1,778,660,111</b>	<b>27.99%</b>
<b>Portfolio Total</b>			<b>6,353,660,111</b>	<b>100.00%</b>
<b>Average Weighted Maturity</b>				<b>3 Days</b>

\*To determine the cash that is available for eventual distribution, add time deposits and securities maturing in one day to cash held at custodian bank. A negative cash number represents an overdrawn balance.

\*The maturities of the securities shown are the earliest date that the Fund would be able to realize the value of the investment, which could be the instrument's stated maturity, the date on which the Fund has the right to put the

securities to the issuer, the date which the issue has been called or the date on which the security is scheduled to be pre-refunded.

Portfolio composition is subject to change at any time. If securities are sold with a delayed settlement date, the above portfolio listing will not reflect those securities. However, the securities are still assets of the fund and will continue to earn interest until the trade settles.

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*Resrv Partners, Inc., Distributor. Member FINRA. 12/08*

**For discussion**

- **Overview of NPRR 140**
- **Reason for reviewing the change with F&A**
- **NPRR 140 revision to Protocol Section 7.5.5.3 – Auction**
- **NPRR 140 revision to Protocol Section 16.11.4.5**  
Ongoing collateral requirement
- **Initial values**
- **Conclusion**
- **Appendix**

1. **During a CRR auction, for CRR Obligations, the NPRR defines a specific formula to use to determine how much collateral must be in place for ongoing collateral requirements** (in addition to collateral for the purchase price of the CRR Obligation)
  - Currently there is only a general requirement to collateralize for ongoing obligations; ERCOT would use its judgment to define the amount
  - The formula specified includes variables
  - Allows TAC (with BOD approval) to reset the variables without a Protocol revision
  
2. **For the ongoing Nodal collateral calculation, the NPRR changes a component of the ongoing collateral calculation for CRR Obligations**
  - From fixed dollar amounts or limits to variables
  - Allows TAC (with BOD approval) to reset the variables without a Protocol revision

- **In both situations, the process to make a change to the collateral elements has not yet been defined (it does not follow the Protocol process).**
- **The draft Nodal Protocol language does not require that the CWG endorse any proposed change.**

- **This will be the first time that a change to a collateral requirement is not either**
  - Made through the Protocol revision process; or
  - Reviewed and approved by CWG
- **Since the TAC process has not yet been defined and to ensure that any proposed change in the collateral component variables was adequately reviewed, ERCOT staff filed comments**
  - Proposing additional language requiring the endorsement of the CWG or ERCOT Credit staff prior to going to the BOD
- **The comments were not accepted by PRS, and the NPRR going to the BOD does not include a requirement that proposed changes be endorsed by the CWG**

**Change from:**

- iii. the additional credit requirement for all awarded PTP Obligations.

**Change to:**

- iii. the additional credit requirement for all awarded PTP Obligations, which is \$A per MW per hour, plus the absolute value of the PTP Obligation bid price multiplied by M. The values of A and M shall be posted on the MIS Public Area. TAC shall review these values at least annually and may recommend to the ERCOT Board changes to these values that become effective at least 30 days prior to a monthly CRR Auction and 60 days prior to an annual CRR Auction. Any changes to these values shall be posted on the MIS Public Area within three Business Days of ERCOT Board approval.

*Note: ERCOT's proposed change would require endorsement by the Credit Work Group or ERCOT credit staff as part of the process.*

## Change from:

- **ACPE - Auction Clearing Price Exposure for PTP Obligations with the source  $j$  and the sink  $k$  for hour  $h$ —Exposure level calculated as follows:**
  - if the PTP Obligation Auction Clearing Price is greater than \$15 per MW, then 150 divided by the PTP Obligation Auction Clearing Price;
  - if the PTP Obligation Auction Clearing Price is between \$0 and \$15 per MW, then \$10 per MW;
  - and if the PTP Obligation Auction Clearing Price is negative, then \$10 per MW, plus the absolute value of the PTP Obligation Auction Price per MW.

## Change to:

- The parameters to determine ACPE (X and Y) shall be posted on the MIS Public Area. TAC shall review these values at least annually and may recommend to the ERCOT Board changes to these values. If changes to these values are approved by the ERCOT Board, such revised values shall be posted on the MIS Public Area within three Business Days of ERCOT Board approval.
- *ACPE - Auction Clearing Price Exposure for PTP Obligations* - Exposure level calculated as follows:
  - if the PTP Obligation Auction Clearing Price is greater than \$Y per MW, then  $Y \times X$  divided by the PTP Obligation Auction Clearing Price;
  - if the PTP Obligation Auction Clearing Price is between \$0 and \$Y per MW, then \$X per MW;
  - and if the PTP Obligation Auction Clearing Price is negative, then \$X per MW, plus the absolute value of the PTP Obligation Auction Price per MW.

*Note: ERCOT's proposed change would require endorsement by the Credit Work Group or ERCOT credit staff as part of the process.*

- While NPRR 140 establishes variables for several collateral components, both WMS and CWG discussed initial values for those variables. Both groups agreed on the following initial values:

During the auction –

An adder (\$A) = \$1.50 per mwh and a multiplier (M) of 1.

Ongoing collateral requirements

\$X = \$1.00 and \$Y = \$1.50

- If NPRR 140 is approved by the BOD, TAC will likely ask the BOD to approve these initial values.

# Backup Slides

**Current language in the Nodal Protocols**

- ERCOT shall enter into the CRR Auction engine model a credit constraint for each Counter-Party. A Counter-Party's CRR Auction credit limit is equal to the lesser of the credit limit as determined in Section 16.11.4.6.1, Credit Requirements for CRR Auction Participation, or, if provided, the Counter Party's self-imposed CRR Auction credit limit. The credit constraint for each Counter-Party ensures that the following sum for all of the Counter-Party's CRR Account Holders is less than or equal to the Counter-Party's CRR Auction credit limit:
  - i. all awarded CRR Auction Bids multiplied by the absolute value of the corresponding bid price; plus
  - ii. all awarded CRR Auction Offers with negative offer prices multiplied by the absolute value of their corresponding offer price; plus
  - iii. **the additional credit requirement for all awarded PTP Obligations.**

# 11. NPPRR 140 Protocol Section 16.11.4.5 (2) – Determination of the Counter-Party Future Credit Exposure

$$\mathbf{FCEOBL\ o} = \mathbf{Max (ACPEOBL\ o, - FMMOBL\ o)}$$

Where:

$$\mathbf{ACPEOBL\ o} = (\mathbf{ACPE\ h, (j,k) * OBLMW\ o, h, (j,k)})$$

$$\mathbf{FMMOBL\ o} = [(\mathbf{W1 * ACP\ h, (j, k) + W2 * TOBLV\ h, (j, k) + W3 * FDOBLV\ h, (j,k) + W4 * PMOBLV\ h, (j, k)}) * \mathbf{OBLMW\ o, h, (j, k)}]$$

The above variables are defined as follows:

- **FCEOBL o** - *Future Credit Exposure for PTP Obligations*—Counter-Party FCE for all PTP Obligations held by the Counter-Party as owner o of record at ERCOT for all Operating Days that have not yet occurred and for CRRs that have not settled.
- **ACPEOBL o** - *Auction Clearing Price Exposure for all PTP Obligations* held by the Counter-party as owner o of record at ERCOT for all Operating Days that have not yet occurred and for CRRs that have not settled.

- **ACPE - Auction Clearing Price Exposure for PTP Obligations with the source  $j$  and the sink  $k$  for hour  $h$** —Exposure level calculated as follows:
  - if the PTP Obligation Auction Clearing Price is greater than \$15 per MW, then 150 divided by the PTP Obligation Auction Clearing Price;
  - if the PTP Obligation Auction Clearing Price is between \$0 and \$15 per MW, then \$10 per MW;
  - and if the PTP Obligation Auction Clearing Price is negative, then \$10 per MW, plus the absolute value of the PTP Obligation Auction Price per MW.
- **FMMOBL  $o$  - Forward Mark-to-Market for PTP Obligations**—Estimate of the forward mark-to-market value of PTP Obligations held by the Counter-Party as owner  $o$  of record at ERCOT for all Operating Days that have not yet occurred and for CRRs that have not settled.

## 12. Review and Recommendation on Updated Standard Form Guarantee Agreements (Vote) – Chad Seely

### 1) Waiver of Substantive Defenses

- Credit Work Group (CWG) Approved Guarantee: Guarantors retain substantive defenses, including defenses to payment of the guaranteed Obligations that may carry from Market Participant to Guarantor.
  - This would include any claim for setoff or any defenses, which Market Participant could assert on the Obligations after a default has occurred.
- ERCOT Proposal: Include affirmative provisions back in the Guarantee that waive substantive defenses against ERCOT so that Guarantors pay upon demand.
  - Current ERCOT Board-approved version of MP Guarantee Agreement has waiver of substantive defenses.

### 2) Demand and Receipt of Funds

- CWG-Approved Guarantee: Guarantors shall pay “promptly the amount due on the Obligations to ERCOT.” No specified number of days indicated in Guarantee.
- ERCOT Proposal: Include provisions that specify number of days (i.e., Business Days) in which Guarantor shall pay immediately following the issuance of written demand by ERCOT.
  - In 02.08.08 draft version, ERCOT proposed one (1) Business Day but would consider two (2) Business Days in order to accommodate Guarantors’ internal business processes.

### 3) Termination Provision

- CWG-Approved Guarantee: Guarantor may terminate the Guarantee “at any time by a written notification of termination”, which “such termination shall be effective thirty (30) days after the receipt by ERCOT of such notification of termination.”
- ERCOT Proposal: Include provisions that allow termination by mutual written agreement of ERCOT and Guarantor or unilaterally by Guarantor giving to ERCOT at least sixty (60) days prior written notice of election to terminate Guarantee.

### 4) Expanded Representations on Financial Condition

- CWG-Approved Guarantee: Guarantor represents to general representations and covenants (i.e., the binding nature of the Guarantee, the absence of any violation of charter documents for execution of the Guarantee, Guarantor is duly organized and validly existing, etc.).
- ERCOT Proposal: Include provisions that Guarantor represents all financial statements and information furnished to ERCOT by Market Participant on behalf of Guarantor do accurately present the condition (financial or otherwise) of Guarantor as of their dates and the results of Guarantor’s operations for the periods therein specified.
  - Also include provisions that Guarantor represents it is familiar with, and has independently reviewed books and records regarding, the financial condition of Market Participant.

## 12. Review and Recommendation on Updated Standard Form Guarantee Agreements (Vote) – Chad Seely

**Note:** ERCOT still believes the below listed issues are important to the overall scope of the MP Guarantee Agreement but is willing to accept the language in the CWG-approved Guarantee on these issues.

### 5) Scope of Guaranteed Obligations

- CWG-Approved Guarantee: “Obligations” are essentially defined as “any and all indebtedness, liabilities and sums of money now or hereafter due or owing to ERCOT pursuant to, or arising under, the Agreement, the ERCOT Protocols or any of the ERCOT market and operating guides, including . . . .”

### 6) Express Affirmations of Ownership or Benefit

- CWG-Approved Guarantee: “The value of the consideration and benefit received and to be received by Guarantor . . . is reasonably worth at least as much as the liability and obligation of Guarantor hereunder, and the extension of credit to Participant pursuant to the Agreement has or may reasonably be expected to benefit the Guarantor directly or indirectly.”

### 7) Assignment

- CWG-Approved Guarantee: Guarantor is allowed to assign and delegate all of the Guarantor’s rights and obligations “to a partnership, corporation, trust or other organization in whatever form that succeeds to all or substantially all of the Guarantor’s assets and business . . . .”

- **Next Steps**

- Obtain direction from Finance & Audit Committee on above listed issues.
- Work with Credit Work Group (CWG) and any related CWG subgroup to finalize MP Guarantee Agreement for ERCOT Board approval.

**Q&A only**

## ERCOT Market Credit Status

as of 11/30/2008

as of 12/31/2008

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

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
14	42,569,941	11%	205,467,211	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	49	223,466,617	56%	473,342,630 S
Guarantee Agreements	15	136,243,708	33%	461,308,482 S
<b>Total Exposure</b>	<b>78</b>	<b>402,280,266</b>	<b>100%</b>	

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
10	22,167,284	6%	134,470,540	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	52	218,393,310	63%	403,647,251 S
Guarantee Agreements	16	109,105,906	31%	410,308,482 S
<b>Total Exposure</b>	<b>78</b>	<b>349,666,500</b>	<b>100%</b>	

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

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

3	(51,363)	0%	12,000,000	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	62	(20,253,434)	-59%	21,610,680 S
Guarantee Agreements	7	(13,964,451)	-41%	156,700,000 S
<b>Total</b>	<b>72</b>	<b>(34,269,248)</b>	<b>-100%</b>	

7	(2,163,637)	-3%	51,889,502	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	60	(60,328,252)	-73%	93,973,607 S
Guarantee Agreements	7	(19,642,939)	-24%	174,700,000 S
<b>Total</b>	<b>74</b>	<b>(82,134,828)</b>	<b>-100%</b>	

Total

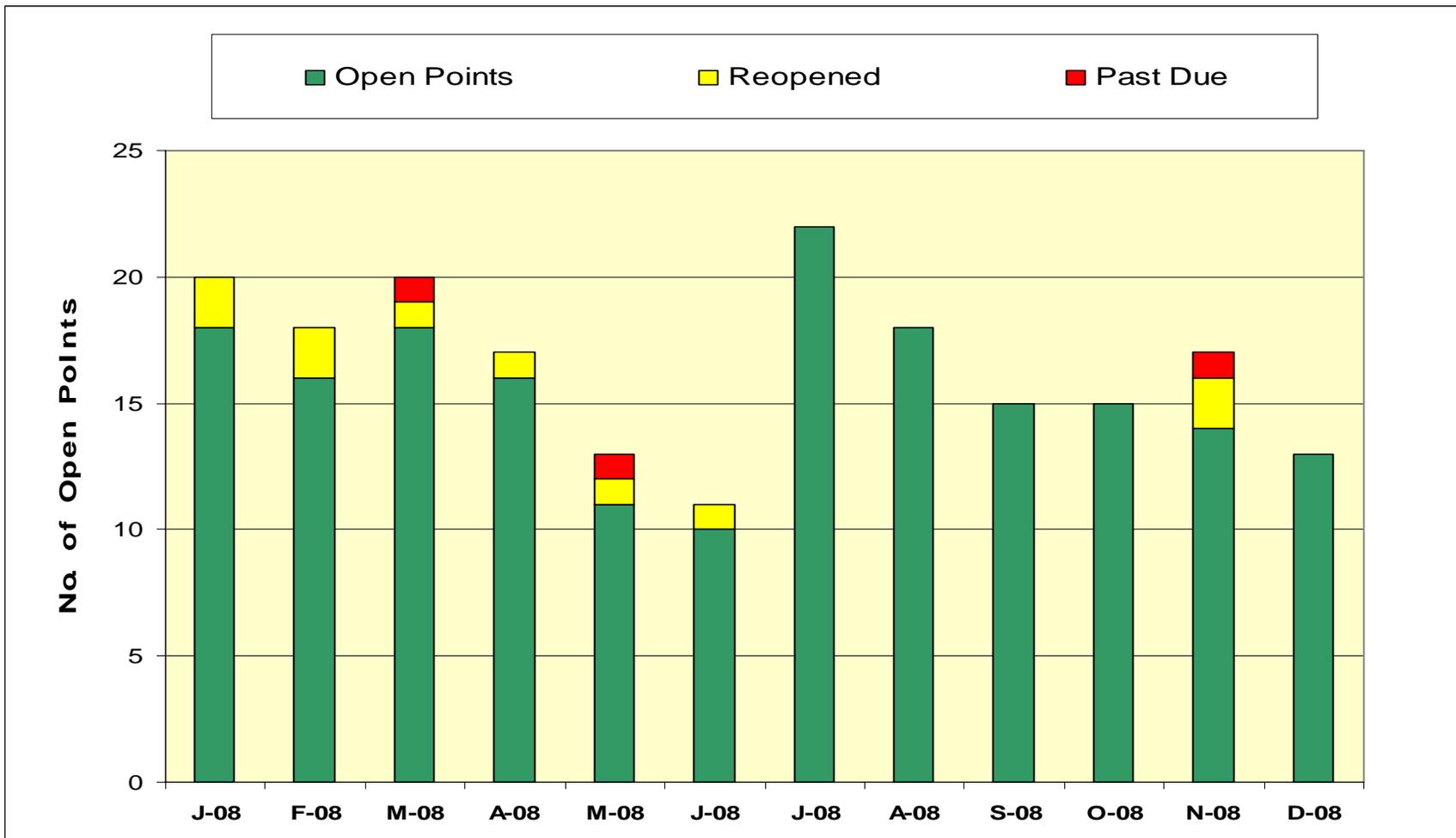
150

152

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

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

## Cheryl Moseley



Audits Completed	0	2	3	3	3	3	3	2	4	1	3	2
Points Added	0	5	11	3	0	6	11	2	0	0	4	11
Points Completed	8	7	9	6	4	8	0	6	3	0	2	15

All open audit points projected to be complete by December 31, 2009.

## Audits Completed

(last 3 months)

### Internal Audits

- Retrospective Assessment of IBM's Independent Reviews of Nodal Program Controls (Special Request)
- Cash & Investments
- Q3 2008 Fraud Auditing Program
- Operational Procedure Compliance
- Protocol 1.4 Ethics Compliance
- Vendor-Performed Background Checks & Drug Screens for Contractors
- Annual Employee Ethics Compliance Audit

### External Audits\*

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

## Open Audits

### Internal Audits

- PC Remediation Plan (Special Request- Part 2 of 2)
- NERC CIP Standards – Auditable Compliance (Special request – Part 2 of 2)

### External Audits\*

- 2008 Financial Audit (PricewaterhouseCoopers)
- Nodal Program Review – Integration (Report #9; Utilicast, LLC)

## Planned Audits

(next 3 months)

### Internal Audits

- FY 2008 Fraud Auditing Program
- 2008 Year End Accruals Review (Special Request)
- Protocol 14.2 REC Program
- ERCOT's Long-Term Technology Strategy
- Protocol 1.4 Confidentiality Compliance
- Change Control/Release Management
- Credit Process Compliance

### External Audits\*

**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

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.  
RISK MANAGEMENT EVENT PROFILE MATRIX (as of January 1st, 2009)**

Strategic	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Legal and Regulatory Compliance
<b>Strategy Development</b> Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.	<b>Performance Monitoring</b> Clearly defined and actively monitored performance metrics linked to mission and goals. Performance status communicated and corrective action taken.	<b>Customer Choice</b> Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.	<b>Grid Operations</b> Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.	<b>Review Practices</b> Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.	<b>Legal &amp; Legislative</b> Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.
<b>Mission and Goals</b> Corporate objectives and performance standards are understood and followed.	<b>Business Practices</b> Business planning, processes and management standards are effective and efficient.	<b>Nodal Implementation Project</b> Nodal Implementation on budget on schedule, and within defined scope.	<b>Planning</b> ↓ Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.	<b>Disclosure</b> ↓ Reporting and other disclosures to intended parties is timely, accurate and effective.	<b>Internal Control Compliance</b> Internal Control Compliance, processes and management standards are effective and efficient.
New Strategic Plan needs to be integrated into the latest business planning cycle.	Revisions to Business Continuity, Emergency Response, Disaster Recovery and Pandemic Preparedness plans were completed, approved and tested in 2008. Spotlight is set to Yellow Green because the testing of commercial and corporate application DR/plans was limited to table top exercises. Market Ops BC/DR testing has been pushed back from Q2'09 to early 2010 in order to minimize impact on the Nodal project and Advanced Metering project.  Annual review, training & testing for 2009 to begin in January. PUC Emergency Operations plan attestation to be issued by May 1st, 2009.	Program is "RED" based on the old schedule and budget. A preliminary budget and schedule have been released and discussions with the market are underway. Program reviews are underway by UtiliCast. The cost benefit analysis from CRA has been completed. The Independent Market Monitor liaison to the PUCT continues to attend key nodal meetings and has a firm grasp of the program objectives.  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, which was achieved.  Software integration and integration testing is one of the critical risk areas of the program. Nodal leadership is working with Utilicast on proposed risk mitigation plans.	The Long Term System Assessment (L TSA) was completed and filed with the PUCT on schedule. System Planning department staffing has reorganized/improved and a plan is in place to meet stakeholder desire for more "study horsepower".	The Board has created a new committee to provide additional nodal oversight, UtiliCast has been hired to provide independent assessments of the nodal project's schedule and budget, and weekly nodal program status reports are now available on the ERCOT web site.	ERCOT is developing a process to ensure changes to policies/procedures are periodically communicated to all ERCOT staff and contract workers.
<b>Reputation</b> Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.	<b>Workforce</b> Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.	<b>Counterparty Credit</b> Maintain credit risk exposure for overall market within acceptable limits.	<b>Bulk System Resources</b> Market Participants construct and make available adequate bulk electric grid resources.	<b>Communication</b> Internal & external communications are timely and effective.	<b>Industry Standards</b> Business practices provide stakeholders with required assurances of quality.
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 credit defaults during 2008 have the potential to negatively impact ERCOT's reputation.	Turnover rate has continued to improve and we are currently under 10% for voluntary turnover. Contractor agreements have been modified for key individuals to continue work through February. The short terms of some of these contracts and the discussions about the future of nodal, has raised some concerns among employees and contractors; however, once the cost benefit analysis is reviewed by the PUC and a final determination is made regarding the future of the Nodal project, this should reduce the concern of the employees/contractors. Training continues to be reviewed to meet the needs of Nodal. ERCOT has approximately 40 open positions.	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 February/March.			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 will report on Feb 1.  The 2008 SAS 70 Audit of ERCOT, released in December, was unqualified and had no exceptions.
<b>Fiscal Management</b> ISO design requires competent, prudent and cost effective provision of services.	<b>Technology Infrastructure</b> Information systems, supporting facilities and data are effectively managed and are reliable.	<b>Administration, Settlement &amp; Billing</b> Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.	<b>Operational Responsibility</b> Market participant conduct their operations in a manner which facilitates consistent grid reliability.	<b>Adequacy and Integrity</b> Robust processes exist to support management assertions embodied within financial reports.	<b>Regulatory Filings</b> Evidence, testimony and other supporting materials are compelling and successful.
ERCOT is reviewing 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.	Systems remain stable in all areas. Retail systems reliability was 99.46%, slightly under the SLA of 99.9%. However, 2008 was the best 12-month reliability metric since the implementation of the Retail market. Normal operation growth patterns are increasing the demands on data center capacity and options to add capacity are limited until new facilities are built. New data center expansions are planned with additional capacity to begin coming on line in late 2009.		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.		

# 13. Committee Brief – PMO David Troxtell

## Year to Date Project Activity by Division

	Phase	Not Started	Initiation	Planning	Execution	Closing	Closed	Totals Excluding Non-Active	Cancelled	On Hold	Deferred	Totals by CART	Go-Live* (To Date)	Projected Go-Live (by Y.E.)
<b>CART</b>	Corporate Operations	6	0	7	11	3	17	44	9	0	4	57	12	12
	IT Operations	0	0	0	4	1	14	19	1	0	0	20	12	14
	Market/Retail Operations	0	0	3	3	4	8	18	1	1	13	33	10	10
	System Operations	0	0	1	1	1	4	7	0	0	0	7	4	4
	<b>Totals by Phase</b>	6	0	11	19	9	43	88	11	1	17	117	38	40
	<b>Total Non-Active</b>								29					

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

\* Projects Gone Live in December 2008

(SO) PR-50070\_02 Phase II NDCRC (Net Dependable Capability & Reactive Capability)

(MORO) PR-80028\_01 Small Renewables/Distributed Generation

(IO) PR-70054\_02 Blade Refresh

(IO) PR-099909 Minor Capital

# 13. 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			1							1	
	Market				1		1			1	3	
	ERCOT	6		6	9	4	11		8	16	60	
Unexpected Carry Over From 2007											30	
	PUCT										0	
	Market				1		1				2	
	ERCOT			1	3	2	20	1	1		28	
New Projects Added (Since PPL Approval in October 2007)											23	
	PUCT										0	
	Market					1					1	
	ERCOT			3	5	2	10		2		22	
2008 PPL Totals to Date											117	
	PUCT	0	0	1	0	0	0	0	0	0	1	
	Market	0	0	0	2	1	2	0	0	1	6	
	ERCOT	6	0	10	17	8	41	1	11	16	110	
Totals by Project Phase		6	0	11	19	9	43	1	11	17	117	

## Year to Date Projects Over \$1 Million

<b>(CART) Project Number and Description</b>	<b>Total Budget</b>	<b>Total Committed</b>	<b>Metrics</b>	
<b>(Duration) Phase (Sponsor)</b>	<b>Scheduled Completion</b>		<b>Schedule</b>	<b>Budget</b>
<b>(CO) PR-60075_01: Identity Access Management</b> <i>Schedule stoplight red due to time taken to re-schedule around Nodal 168 hour test.</i>	<b>\$2.46M</b>	<b>\$2.41M</b>		
<i>(2006-2009) Currently in Execution (B. Kahn)</i>	<i>Expected Completion 1<sup>st</sup> Qtr 2009</i>			
<b>(CO) PR-80001_01: (2 sub-projects, PR-80001_02 &amp; PR-80001_03 ) MET Center Facility Analysis Deployment Phase 2</b>	<b>\$70M</b>	<b>\$1.2M</b>		
<i>(2008 - 2011) PR-80001_01, PR-80001_02 &amp; PR-80001_03 currently in Planning (B. Kahn)</i>	<i>Expected Completion 4<sup>th</sup> Qtr 2011</i>			
<b>(MO/RO) PR-70007_01: MarkeTrak Enhancements</b>	<b>\$1.62M</b>	<b>\$1.54M</b>		
<i>(2007-2009) Currently in Execution (T. Doggett)</i>	<i>Expected Completion 1<sup>st</sup> Qtr 2009</i>			
<b>(IO) PR-70054_01: (1 sub-project, PR-70054_02) Blade Refresh Deployment Phase 2</b> <i>Total committed is reduced because not all the equipment was installed due to power constraints at the MET.</i>	<b>\$2.50M</b>	<b>\$2.03M</b>		
<i>(2007-2008) PR-70054_01 Currently in Closed &amp; PR-70054_02 Currently in Execution, (R. Hinsley)</i>	<i>Expected Completion 4<sup>th</sup> Qtr 2008</i>			

# 13. 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	\$ 450,500	\$ 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	207,600	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	236,900	105,765	131,135	55%	ERCOT labor less than forecasted and consulting fees and contractor costs were 40% less than forecasted. Additionally, should not have included contingency of 10% on the contracted amounts for contractor services and equipment.
60082_01	Dynamic Rating Data to TSP	2007	108,700	50,786	57,914	53%	60082_01 was an unusual project. It took much longer than planned to complete, but it also required much less work than expected. The project turned out to be more of a configuration item than a software development project.
70006_01	ERCOT.com Outage Notification	2007	118,400	57,612	60,788	51%	Scope split to deliver the remaining work in 70006_02.
70055_01	Additional Production SAN Capacity	2008	1,750,000	903,708	846,292	48%	There were significant cost savings regarding hardware due to price negotiations.
70006_02	ERCOT.com Outage Notification Phase II	2008	418,500	219,260	199,240	48%	The original plan called for two contract resources to complete the effort. The project was completed 45 days early with only one contract resource.
70026_01	Virtual Tape Backup	2007	1,350,000	768,534	581,466	43%	The \$581,466 variance for the 70026 project was due to price negotiations of hardware. All pricing was negotiated for lower costs than originally expected.
60097	Desk Side Standardization	2007	760,900	522,884	238,016	31%	Used internal resources more than anticipated (thus reducing the number of hours worked by contracted resources) for the desk-side systems replacement effort and Altiris redesign effort. Software purchased for hardware-independent imaging reduced the number of internal labor hours required for creating standards.
70037_01	OC-3 Microwave Replacement	2007	326,000	229,359	96,641	30%	Change Control 2, processed on December 17th 2007, decreased the project budget from 350,000 to 250,000 which left a budget variance of 8.9%. No re-baseline was requested.
80023_01	Firewall Replacement	2008	180,000	127,825	52,175	29%	Hardware costs were lower than originally estimated due to price negotiations and vendor selection.
60013_01	Enhanced Digital Certificate Program	2008	228,100	168,258	59,842	26%	The reason for the variance on the 60013_01 project was due to credits received from VeriSign in the amount of \$28,229. There was also \$20,135 for servers and operating systems that was not spent due to Nodal purchasing them for the MPIM project.
70054_01	Blade Refresh	2008	2,500,000	1,980,449	519,551	21%	This subproject was closed and 70054_02 was opened to save monthly debt financing charges. The remaining budget for 2008 (275,240) is being rolled into 70054_02.
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	286,000	229,827	56,173	20%	Tasks over estimated by 10% and 10% contingency.
70053_01	Video Teleconferencing	2008	131,800	106,747	25,053	19%	Actuals is reduced due to a true-up with Accounting for project closure
70048_01	MV90xi System Upgrade	2008	89,200	73,452	15,748	18%	IT hardware cost reductions due to volume discount purchases.
70012_01	Secure Remote Access	2008	403,000	337,169	65,831	16%	Slight reduction in scope based on problems experienced during rollout with drive mapping, memory utilization on intranet controllers, and issues with VMware.
60055_01	Enterprise Service Management	2008	1,612,800	1,357,464	255,336	16%	Savings through sales tax exemptions, maintenance charges booked to pre-pay accounts. Labor costs lower than budgeted.
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.

# 13. Committee Brief – PMO David Troxtell

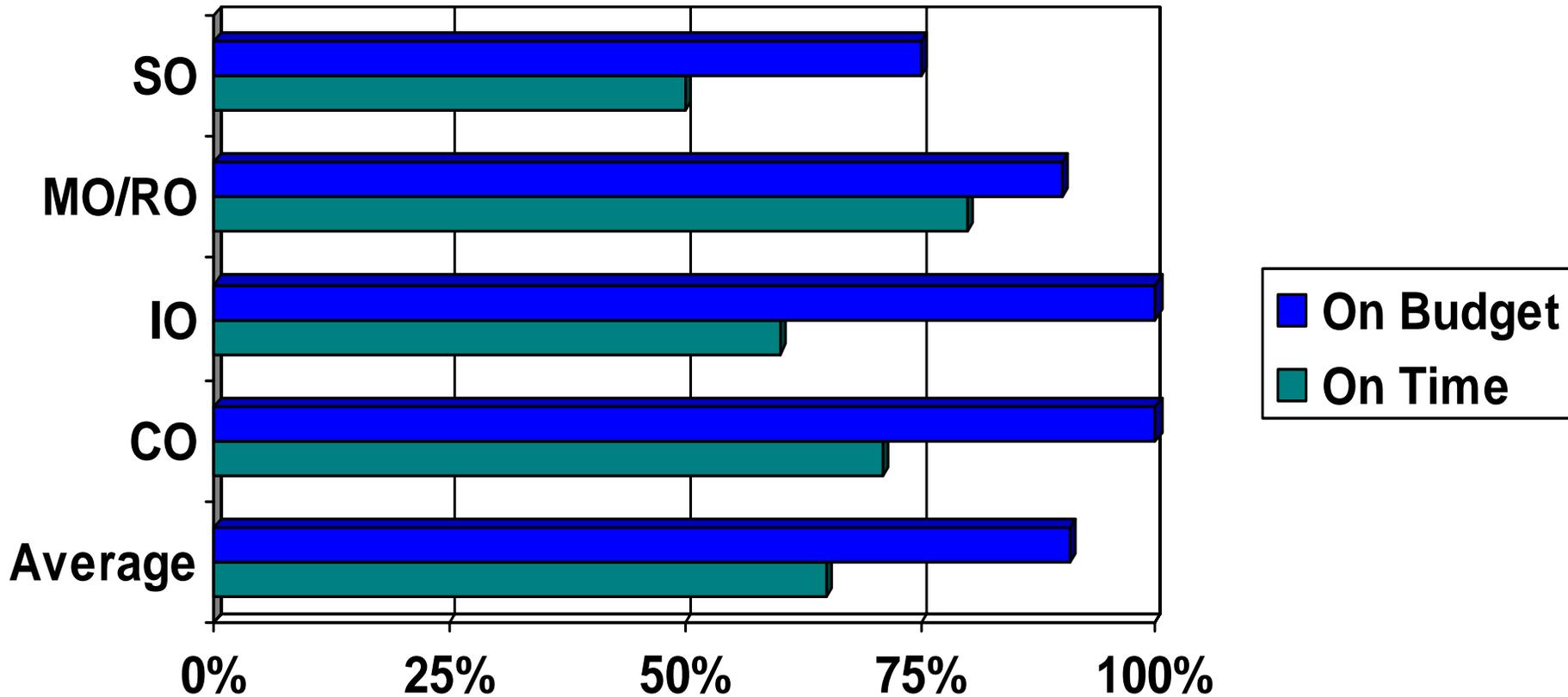
## Baseline Budget vs. Actuals for Projects Closed in Lawson for 2008

Project	Description	Year Implemented	Baseline Budget	Actuals	\$ Variance Fav/(Unfav)	% Variance Fav/(Unfav)	Explanation
80024_01	Network Switch Refresh	2008	459,952	431,515	28,437	6%	
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	1,719,366	230,634	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%	
80037_01	Starter Phasor Monitoring System (SPMS)	2008	49,700	48,057	1,643	3%	
70051_01	Exempt Non Exempt	2008	89,800	86,967	2,833	3%	
60008_01	Terms & Conditions Requirem (not limited to Texas Set)	2008	493,169	448,248	44,921	9%	
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)%	
70047_01	Corporate Application Environment True up	2008	220,500	227,883	(7,383)	(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
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.
50015_03	Lawson Process Flow Efficiency	2008	132,200	208,050	(75,850)	(57)%	Original resources were replaced with contract resources that were at a higher rate as they brought specific Lawson experience.
<b>Count = 46</b>			<b>\$ 24,402,621</b>	<b>\$ 20,532,533</b>	<b>\$ 3,870,088</b>	<b>16%</b>	

### 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 December

- **PR-50070\_02 Phase II NDCRC (Net Dependable Capability & Reactive Capability)**
  - **Scope:** Automation of the unit test data submittal process to minimize human error while decreasing the lag time for updates to the ERCOT EMMS system. Provide a Web based Graphical User Interface for QSE's and System Operators to submit Real Power, Reactive Power and Unannounced Seasonal Test data replacing paper forms.
  - **Deliverables:**
    - Reverse Look-up & Custom Filter
    - Bulk Submission & Reactive Test Screen Modifications
    - Batch Load Process Modifications & Unannounced Detail screen enhancement
    - Cancel Test functionality & Summary Page Enhancements
  - **Timeline:** September 2008 – December 2008

## Go Live Projects for December

- **PR-80028\_01 Small Renewables/Distributed Generation**

- **Scope:**

- Settle distributed renewable generation on Non-IDR ESIIDs less than 50kW in compliance with HB 3693 and PRR756.

- **Deliverables:**

- Modifications to ERCOT retail transaction and wholesale settlement systems to allow settlement of less than 50kW renewable generation – for NIDR transactions only.
- Modifications to ERCOT data extracts and web services to accommodate generation data.
- Updates to respective market guides.

- **Timeline:** April 2008 – December 2008

## Go Live Projects for December

- **PR-70054\_02 Blade Refresh**

- **Scope:** Replace Blade servers and corresponding chassis that have reached end of life and support.
- **Deliverables:** Migrate PROD environment servers in Taylor. Purchase 750 PlateSpin Universal Edition licenses for future server upgrades or replacements.
- **Timeline:** August 2008 – December 2008

## Projects Completed in December

- **PR-09908 – 2008 Minor Capital**

- **Scope:** Purchase of non-project specific items such as printers, computers, software, furniture, etc. that are usually in excess of \$1,000 and are considered assets to the company.
- **Deliverables:**
  - Miscellaneous desks, chairs, monitors, software, licenses, switches, power supplies, copiers, printers and other items as needed throughout the year.
  - Purchased 4 Alpha Servers for Grid Operations support and additional F5 Load Balancers to increase production reliability and performance.
- **Timeline:** January 2008 – December 2008

## Large Project Update

- **PR-80047\_01 TCC1 Data Center Expansion**
  - **Scope:** Expand the current 3,000 square feet (sf) data center to the adjoining 2,000 sf of raised floor.
  - **Deliverables:** Build out existing 2,000 sf of raised floor to meet current Data Center demands. Includes a minimum of 72 watts per square foot in a Tier III environment, allowing a total of approximately 5,000 sf of TCC1 Data Center Space. Data Center is to be ready for occupancy no later than 10/01/09.
  - **Timeline:** January 2009 – November 2009
  - **Board Request:** Approval of project expected to exceed 1MM.

# ERCOT Enterprise Projects Summary Report

**ERCOT Overall Projects Report**

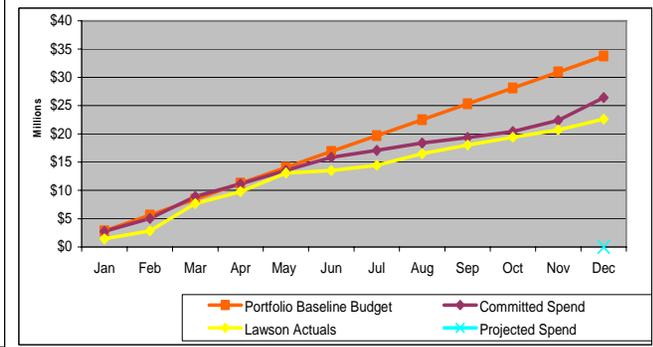
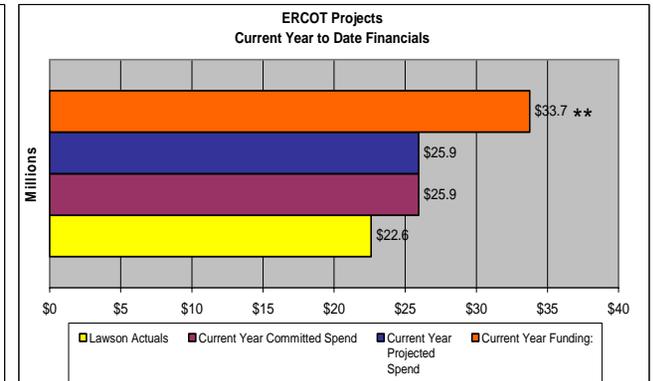
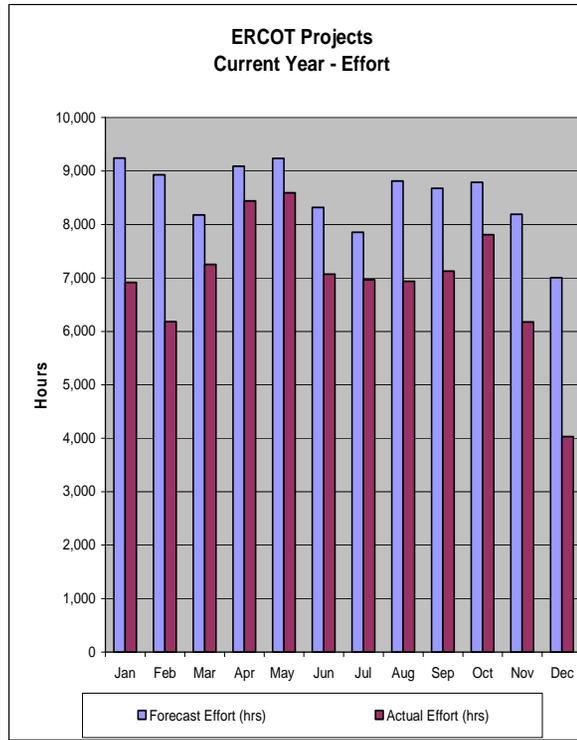
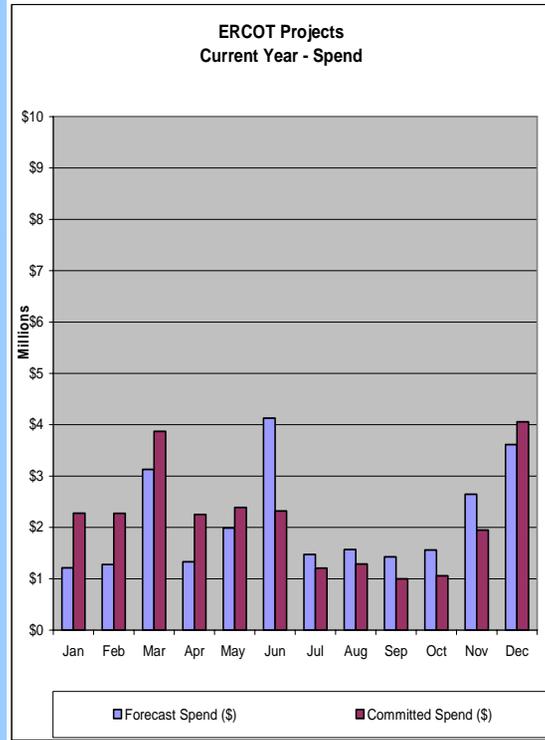
**Reporting Period:**

**12/31/2008**

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	0	11	20	9	Y	G	Y
Ron Hinsley	Steve Byone	Closed	43	Total Active		40			
**		Cancelled	11	Projects Not Started:		6	**Current Year Funding:		\$33,746,880

Portfolio Performance Summary



Notes

**Note:**  
Lawson Actuals for December are not included in this report  
**Project/Status Count/Budget Variance:**  
CO:(4 Deferred); MORO:(13 Deferred); SO-DPO:(1 NODAL in Execution).  
\*\* Includes \$6.2M added budget authority for MET Center Disposition project for 2008, of which \$1.2M was spent. Original Capital project budget was \$27.5M of which \$24.7 was spent - about 90% utilization.



## **Future Agenda Items – February 2009**

- **Review and approval of updated investment policy (Vote)**
- **Review of ERCOT credit risk standard**
- **Update on status of Financial Audit**
- **Review and approval of the standard form guarantee agreements**
- **Review of credit statistics**
- **Committee briefs**
- **Future agenda items**

## 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