Date: March 10, 2009
To: ERCOT Board of Directors
From: Bob Kahn, ERCOT President and Chief Executive Officer, and Mike Cleary
Subject: Process for Evaluating Requests to Commit Nodal Discretionary Reserve Funds

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: March 17, 2009
Agenda Item No.: 7a

Issue:
Whether to adopt a process to establish stringent oversight of staff requests to commit Nodal discretionary reserve funds as described in Exhibit A.

Background/History:
At its Open Meeting on February 26, 2009, the Public Utility Commission of Texas (Commission) directed ERCOT to provide a written plan for spending any discretionary reserve funds related to the Nodal Program. The Commission has encouraged Board oversight of the spending of Nodal Program discretionary reserve funds as a method to safeguard Nodal Program budget overruns and ensure prudent fiscal management of the Nodal Program.

Key Factors Influencing Issue:
ERCOT is subject to the oversight of the Commission and must respond to the direction of the Commission prior to the Nodal fee-filing deadline of March 31, 2009.

Alternatives:
There are two alternatives:

1. Accept the proposed process as recommended for inclusion in the March 31, 2009 fee package; or
2. Modify the proposed process for inclusion in the March 31, 2009 fee package.

Conclusion/Recommendation:
ERCOT staff respectfully recommends that the Board approve and adopt the proposed process for requests to commit Nodal discretionary reserve funds as described in Exhibit A.

ERCOT

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

WHEREAS, the Public Utility Commission of Texas (Commission) directed ERCOT to provide a written plan for spending any discretionary reserve funds related to the Nodal Program at the Commission's Open Meeting on February 26, 2009;

WHEREAS, after due consideration of alternatives, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable and in ERCOT's best interest to approve and adopt the proposed process for requests to commit Nodal discretionary reserve funds as described in Exhibit A.

THEREFORE, BE IT RESOLVED, the Board hereby approves and adopts the proposed process for requests to commit Nodal discretionary reserve funds as described in Exhibit A.

CORPORATE SECRETARY'S CERTIFICATE

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its March 17, 2009 meeting, the ERCOT Board passed a motion approving the above Resolution by unanimous voice vote with no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of March, 2009.

Michael G. Grable
Corporate Secretary

Exhibit A

Process for Board Oversight of Discretionary Funds

- The Board shall retain complete authority to oversee the authorization, disbursement, and accounting of Discretionary Funds.

- To the extent that the overall Nodal Program "estimate to complete" is less than the budget, the Board shall control the extent to which such underspend shall be reallocated to the Discretionary Funds category such that the funds may not be spent without further, specific Board approval.

- Any ERCOT Staff request for permission to commit Discretionary Funds shall comply with this process. Any such request will contain:

    - Due diligence on the need for the increased spend. This should include consideration of areas such as:

        1. Justification for the budget increase;
        2. Whether the change is necessary or whether it can be deferred to a later release;
        3. Assessment of different solution options considered; and
        4. The criteria used in the solution selection.

    - Explanation as to why this increase in spend has occurred including:

        1. Materialization of a known risk and why risk mitigation failed;
        2. NPRR change control request; and
        3. Whether there have been any issues with project management.

    - Requirements definition for program changes and estimated cost.

    - Assumptions and risks relating to proposed program changes.

    - Work schedule and resource plan relating to the proposed changes.

    - Impact assessment to overall integrated schedule.

    - Lessons learned and any corrective actions to improve budget planning, controls and management.

- Before any discretionary funds are authorized to be spent, the request must be approved by:

    - The CTO;
    - The CEO;
    - The Board of Directors including such committee recommendations or actions as the Board shall request.