



ERCOT Finance & Audit Committee Meeting

7620 Metro Center Drive, Austin, Texas

Met Center, Conference Room 168

July 21, 2009; 8:00am – 10:00am*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order Executive Session	C. Karnei	8:00am
2.		2a. Announcement of proxies	C. Karnei	8:01am
	Decision required	2b. Approval of executive session minutes (Vote) (06/16/09)	C. Karnei	8:02am
	For discussion	2c. Internal Audit status report	B. Wullenjohn	8:03am
	Informative	2d. Mid-Year update on 2009 Internal Audit plan	B. Wullenjohn	8:05am
	Informative	2e. EthicsPoint update	B. Wullenjohn/ N. Capezzuti	8:10am
	For discussion	2f. Quarterly private discussion with Chief Audit Executive	B. Wullenjohn	8:20am
3.	Informative	Contracts, personnel, litigation and security	Various	8:30am
		Recess Executive Session		8:35am
		Convene General Session		
4.	Decision required	Approval of general session minutes (Vote) (06/16/09)	C. Karnei	8:35am
5.	Informative	Preliminary 2010 budget and PPL	M. Petterson	8:36am
6.	For discussion	2009 Operating plan – updated forecast	M. Petterson	8:55am
7.	Informative	Management of potential credit losses under Nodal market structure	C. Yager	9:00am
8.	Informative	Treasury update - Quarterly investment update	C. Yager	9:20am
9.	Informative	Briefing on results of pilot Procurement Card program	M. Walsh	9:30am
10.	For discussion	Discussion of ERCOT 2008 Form 990 Filing	S. Byone	9:35am
11.	Informative	Committee Briefs (Q&A only)	All	9:45am
12.	Informative	Future agenda items	S. Byone	9:50am
		Adjourn ISO meeting	C. Karnei	9:55am

* Background material is enclosed or will be distributed prior to meeting. All times shown in the agenda are approximate.
The next Finance & Audit Committee Meeting will be held Tuesday, August 18, 2009, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 168.

Decision required
For discussion

4. Approval of General Session Minutes Clifton Karnei

- **Approval of General Session Minutes**
 - Vote 6/16/09

Requirements

- Provide sufficient staff for base operations and Nodal Program Implementation
- Provide essential facilities including the Met Center Replacement
- Accommodate software upgrades and hardware refreshes necessitated by delay in the Nodal Program including expansion of the data center
- Accommodate principal and interest payments on the Senior Note and Term Loan

Major Assumptions

- Nodal Program remains on schedule and budget
- Protocol compliance verification is paid for by ERCOT via System Administration Fee
- Capital Spend Funding
 - 60% Debt
 - 40% Equity

System Admin. Fee Billing Determinant Change

- Develop alternate methodology to eliminate revenue variances

Staffing

- Headcount growth – 23 positions
 - Under further review by Management
 - Confirming with Nodal Program reforecast
- Staff compensation market based

Contra Labor for Nodal Program and Base Projects

- Reconcile internal resource utilization to approved project plans

Capital Spending

- In accordance with standard PPL approval processes
- Includes amounts necessary for new/upgraded facilities

5. Preliminary 2010 Budget and PPL

Mike Petterson

Line	(\$ Thousands)	2009 Budget	2010 Preliminary	\$ Variance	% Variance	Line	(\$ Thousands)	2009 Budget	2010 Preliminary	\$ Variance	% Variance
1	ERCOT O&M Expense					35	Project Spending - Revenue Funded	7,100	7,111	11	0.1%
2	Labor & Benefits	\$ 81,620	\$ 94,855	\$ 13,235	16.2%	36	Project Spending - % Revenue Funded	40%	40%		
3	Contra Labor - Base Projects	(4,071)	(2,929)	1,142	-28.1%	37	Project Spending - Debt Funded	10,650	10,666	16	0.1%
4	Contra Labor - Nodal Program	(22,593)	(25,725)	(3,132)	13.9%	38	Project Spending - % Debt Funded	60%	60%		
5	Subtotal - Labor & Benefits	54,956	66,201	11,245	20.5%	39	Subtotal - Project Spending	17,750	17,776	26	0.1%
6	Support Allocations	(4,728)	(2,747)	1,981	-41.9%	40	Facility Spending - Revenue Funded	8,160	12,746	4,586	56.2%
7	Incremental Resource Allocations	(1,297)	(1,066)	230	-17.8%	41	Facility Spending - % Revenue Funded	40%	40%		
8	Facilities Allocations	(1,373)	(1,466)	(93)	6.8%	42	Facility Spending - Debt Funded	12,240	19,119	6,879	56.2%
9	Info Technology Svcs Allocations	-	(246)	(246)	NA	43	Facility Spending - % Debt Funded	60%	60%		
10	Subtotal - Allocations	(7,398)	(5,525)	1,873	-25.3%	44	Subtotal - Facility (Met Center) Spending	20,400	31,866	11,466	56.2%
11	Equipment & Tools	1,156	1,227	71	6.1%	45	Total Project & Facility Spending	38,150	49,642	11,492	30.1%
12	Special Reviews	-	750	750	NA	46	Total ERCOT Spending Authorization	162,064	184,404	22,340	13.8%
13	Outside Services	11,984	10,365	(1,619)	-13.5%						
14	Utility, Maintenance, & Facilities	7,484	8,079	595	8.0%						
15	Hardware & Software License & Maint.	9,628	9,385	(243)	-2.5%						
16	Insurance	2,125	1,877	(249)	-11.7%						
17	Employee Expenses	1,771	1,618	(154)	-8.7%						
18	Property Taxes	1,100	1,478	378	34.3%						
19	NERC Dues	2,141	2,141	0	0.0%						
20	Other Expenses	2,277	2,178	(99)	-4.3%						
21	Subtotal - O&M Expenses	87,225	99,773	12,548	14.4%						
22	Debt Service - Interest	7,580	5,680	(1,900)	-25.1%						
23	Debt Service - Principal	26,137	26,137	-	-						
24	Revenue Funded Capital	7,100	7,111	11	0.1%						
25	Revenue Funded Facility (Met Ctr Replacement)	8,160	12,746	4,586	56.2%						
26	Protocol Services (Texas RE)	872	872	-	-						
27	Market Monitoring	2,100	2,300	200	9.5%						
28	Total Revenue Requirement	139,174	154,619	15,445	11.1%						
29	Less: Other Revenue	5,855	5,304	(551)	-9.4%						
30	Less: Interest Income	100	81	(19)	-19.0%						
31	Revenue Rqmt from System Admin Fee	133,218	149,233	16,015	12.0%						
32	GWh	319,392	315,065	(4,327)	-1.4%						
33	% GWh Growth	2.2%	-1.4%	-3.6%	-160.6%						
34	ERCOT System Administration Fee	\$ 0.4171	\$ 0.4737	\$ 0.0566	13.6%						

5. Preliminary 2010 Budget and PPL: Fee Increase Drivers

Mike Petterson

Driver Description	\$ Variance	Comments
Increased benefit load and merit	6.4	Benefit load increased from 30 percent to 35 percent.
Vacancy savings assumption reduced to zero	4.5	2009 vacancy savings of 8 percent of 739 full-time equivalents reduced to zero.
Additional work requirements (task analysis)	2.3	23 new full-time equivalents working primarily in the Nodal Program, Compliance and facilities.
Subtotal - Labor and benefits increases	13.2	
Operations Center, Taylor and Bastrop Data Centers	4.6	Project spending increased from \$20.4 million in 2009 to \$31.9 million in 2010.
Decreased energy consumption	1.8	2009 budget of 319.4 million GWh reduced to 315.1 million GWh in 2010.
Other direct expenses, net increased	0.3	Primarily Nodal Program support allocations and Independent Market Monitoring support activity.
Subtotal - Cost increases	19.9	
Increased Internal labor charged to projects	(2.0)	\$3.1 million more internal labor engaged in Nodal Program activity and \$1.1 million less internal labor engaged in base operations projects.
Reduced Interest expense	(1.9)	Overall portfolio interest rate of 5%.
Subtotal - Cost reductions	(3.9)	
Total - Net cost increase	16.0	Refer to Line 31 on previous slide

Next Steps

- Seeking feedback from F&A on preliminary budget
- Management developing prioritized list of functions and associated costs for possible budget reductions
- Conducting final reconciliations between Texas RE and the project plans for both the Nodal Program and Base Operations
- F&A Special Committee Meeting to be held on August 17th to review 2010 budget and obtain both F&A and public feedback.
- Management on schedule to recommend final budget at August Board Meeting

5. Preliminary 2010 Budget and PPL: 2010 Budget Development Schedule

Date	2010 Budget Preparation, Review and Approval Task
Monday, Apr. 13	Discuss with Executive Team the 2010 Strategic Plan and Budget
Monday, May 4	Discuss with the Executive Team the 2010 strategic plan, budget schedule and budget assumptions
Tuesday, May 19	Finance and Audit Committee Meeting Discuss and review the 2010 Budget/PPL Status Update
Tuesday, Jun 16	Finance and Audit Committee Meeting Discuss and review the 2010 Budget/PPL Status Update Board of Directors Meeting Discuss and review with the Board the strategic planning and budget assumptions (briefing and request for public comment)
Monday, Jun. 22	Discuss with the Executive Team the 2010 budget schedule and budget assumptions
Wednesday, Jun. 24	Obtain Resource Utilization Requirement for Nodal Program and PMO
Friday, Jun. 26	Prepare and present to Management the 2010 budget schedule, assumptions, and templates
Friday, Jun. 26 - Thursday, Jul. 2	Managers prepare departmental budget requests and review with respective Director/VP
Tuesday, Jun. 30	Present and discuss with PUCT Staff the 2010 budget schedule and assumptions
Thursday, Jul. 2	Managers submit departmental budget requests
Friday, Jul. 3	Calculate and compile DRAFT Categorical Budget (Budget team)
Saturday, Jul. 4	Distribute preliminary budget by VP/Director/Manager
Monday, Jul. 6	Begin testimony preparation
Monday, Jul. 6	Prepare and present consolidated schedules to the Executive Team for review
Tuesday, Jul. 7 - Friday, Jul. 10	Work with Management Team to incorporate adjustments
Monday, Jul. 13	Prepare and present consolidated schedules to the Executive Team for review
Tuesday, Jul. 14	Mail out for July Board & Committee Meetings
Tuesday, Jul. 21	Finance and Audit Committee Prepare and present to the Finance and Audit Committee the Preliminary Budget/PPL (Courtesy copy to all Board members)
Monday, Jul. 22 - Friday, Jul. 31	Work with Management Team to incorporate adjustments
Monday, Aug. 3	Prepare and present consolidated schedules to the Executive Team for review
Friday, Aug. 7	Submit first draft of testimony
Monday, Aug. 10	Mail out for Special Finance and Audit Meeting
Monday, Aug. 17	Finance and Audit Committee Special Meeting and Public Input Meeting Discuss and review the 2010 Budget with the Finance and Audit Committee (Courtesy copy to all Board members)
Tuesday, Aug. 18 - Friday Aug. 28	Incorporate Finance and Audit Committee feedback and make final adjustments Distribute consolidated schedules to PUCT Staff for review
Monday, Sept. 1	Prepare and present consolidated schedules to the Executive Team for FINAL review
Tuesday, Sept. 8	Mail out for Board Meeting
Friday, Sept. 11	Finalize testimony
Tuesday, Sept. 15	Board of Directors Meeting Obtain Finance and Audit Committee recommendation and obtain approval from the ERCOT Board for the 2010 base operating budget and PPL/Vote
Monday, Sept. 14 - Wednesday, Sept. 23	Review and finalize PUCT Fee Filing
Wednesday, Sept. 30	File fee case with PUCT

6. 2009 Operating Plan: Forecast – YTD as of June 30, 2009

Mike Petterson

	YTD Budget	YTD Actuals	Variance Fav(UnFav)	
			\$	%
Revenues				
System Administration Fee	63.9	60.5	(3.4)	-5.3%
Wide-area Network Fees	1.1	1.2	0.0	0.8%
NERC Electric Reliability Organization Fee	1.1	1.1	-	0.0%
Generation Interconnection Study Fees	0.6	0.4	(0.2)	-37.7%
Interest Income	0.1	0.0	(0.0)	-4.7%
Other Revenue	0.1	0.2	0.0	32.2%
Subtotal - Revenues	66.9	63.3	(3.5)	-5.3%
Expenses				
Salary & Benefits	23.7	27.9	(4.1)	-17.4%
Outside Services	7.4	6.0	1.4	18.3%
Hardware/Software Maintenance & Licenses	4.8	4.5	0.3	5.3%
Facility & Equipment Costs	3.1	3.4	(0.3)	-9.7%
Other	4.3	3.4	0.9	21.0%
Base Operating Expenses (<i>excluding depreciation</i>)	43.3	45.2	(1.9)	-4.4%
NERC Electric Reliability Organization Expenses	1.1	1.1	-	0.0%
Texas RE Protocol Services	0.4	0.4	0.1	16.7%
Principal Repayment (<i>12 months spread</i>)	13.1	13.1	-	0.0%
Interest Payments	3.8	2.4	1.4	36.8%
Revenue-Funded Project Expenditures (<i>40%</i>)	7.6	4.1	3.5	45.6%
Subtotal - Expenses	69.3	66.3	3.0	4.4%
Excess/(Deficit) of Revenue Over Expenses	(2.4)	(2.9)	(0.5)	21.5%

Notes:

1. Positive dollar and percent variance numbers are favorable : Negative (bracketed) dollar and percent variances are unfavorable.
2. May and November Principal payments have been amortized over twelve months.
3. Base Operating expenses exclude \$886K of O&M Project expenses included in the Revenue-Funded Project line item.

7. Management of Potential Credit Losses Under Nodal Market Structure – Cheryl Yager

- **Summary**
- **Market Credit Losses in Zonal Protocols**
- **Market Credit Losses in Nodal Protocols**
- **Potential issue with treatment of DAM credit losses in Nodal Protocols**
- **Alternatives being considered by the market – DAM only or broader market**
- **Alternatives being considered by the market (currently in Market Credit Work Group)**
- **ISO Comparison – funding of credit losses**
- **Comparison of credit loss funding alternatives under consideration**
- **Open questions**
- **F&A discussion**
- **Next steps**

7. Management of Potential Credit Losses Under Nodal Market Structure – Summary

- **The following slides provide**
 - Background material of market concerns with current protocols relating to credit administration under Nodal and
 - ERCOT's preliminary analysis of issues to be addressed

7. Management of Potential Credit Losses Under Nodal Market Structure – Zonal Protocols

- **In today's market,**
 - All market activity (other than Transmission Congestion Right (TCRs) activity) is settled through a single billing process
 - TCRs are options and once purchased, do not produce negative value and therefore do not contribute to market credit losses
 - If a TCR purchase price is not paid, then those TCRs are not granted.
- **The market is financially settled over two days. Amounts due TO ERCOT are paid on day one (usually Thursday) and amounts due FROM ERCOT are paid out on day two (usually Friday).**

7. Management of Potential Credit Losses Under Nodal Market Structure – Zonal Protocols

- **When an Invoice payment is not received by ERCOT on day one:**
 - Step 1: Short payment. Those that are due payment from ERCOT on day two are paid less than the full amount owed (on a pro rata basis).
 - These entities effectively “finance” market credit losses in the short term. If interest is received from the defaulting party, these entities receive interest for financing the losses. If interest is not received from the defaulting party, these entities do not receive interest, although after completion of Step 2 below, they are fully repaid for the “principal” portion of the loss.
 - Step 2: Uplift. If the amount due is not subsequently collected from the defaulting entity, the short paid amounts are uplifted to QSEs representing load in the market based on the pro rata portion of that load. Uplift begins approximately 180 days after the default occurs. No more than \$2,500,000 may be uplifted to the market at one time and uplifts occur at least 30 days apart.

7. Management of Potential Credit Losses Under Nodal Market Structure – Nodal Protocols

- **In the Nodal market,**
 - In addition to the Real Time Market (RTM) (which is comparable to the Zonal market activity), there is a Day Ahead Market (DAM) and Congestion Revenue Rights (CRRs)
 - DAM activity is short term (one day ahead) and is subject to credit limits
 - CRR instruments replace Zonal TCR instruments
 - Some CRR instruments (Obligations) can create a liability (and thus credit losses) in the market
 - CRR instruments may eventually be issued for up to two years (at market open only monthly instruments will be sold for the initial six months)
 - Market activity is settled through at least two distinct billing processes
 - RTM activity is settled through one billing process (similar to how Zonal BES is settled today)
 - DAM activity and CRRs are settled in the DAM billing process
- **All Nodal markets are financially settled over two days. Amounts due TO ERCOT are paid on day one and amounts due FROM ERCOT are paid out on day two.**

7. Management of Potential Credit Losses Under Nodal Market Structure – Nodal Protocols

- **For Real Time Market - When an Invoice payment is not received by ERCOT on day one:**
 - Two step process is essentially the same as in the Zonal Market
 - Step 1: Short payment. Those that are due payment from ERCOT on day two are paid less than the full amount owed (on a pro rata basis).
 - These entities effectively “finance” market credit losses in the short term. If interest is received from the defaulting party, these entities receive interest for financing the losses. If interest is not received from the defaulting party, these entities do not receive interest, although after completion of Step 2 below, they are fully repaid for the “principal” portion of the loss.
 - Step 2: Uplift. If the amount due is not subsequently collected from the defaulting entity, the short paid amounts are uplifted to QSEs representing load in the market based on the pro rata portion of that load. Uplift begins approximately 180 days after the default occurs. No more than \$2,500,000 may be uplifted to the market at one time and uplifts occur at least 30 days apart.

7. Management of Potential Credit Losses Under Nodal Market Structure – Nodal Protocols

- **For Day Ahead Market (including CRR settlements) - When an Invoice payment is not received by ERCOT on day one:**
 - Step 1: Short payment. Those that are due payment from ERCOT on day two are paid less than the full amount owed (on a pro rata basis).
 - Step 2: None.
 - ***Step 1 is effectively the allocation of credit loss for DAM activity and CRR settlements***
- **Therefore, credit losses in the DAM are treated differently than credit losses in the RTM.**
- **Since CRR Obligations can be purchased for extended periods of time, credit losses may potentially impact the DAM for an extended period of time**
 - For example, when entities in the PJM market defaulted on instruments similar to CRRs, credit losses occurred over a period of several months.

7. Management of Potential Credit Losses Under Nodal Market Structure – Treatment of DAM Credit Losses in Nodal Protocols

- **In 2008, market participants identified potential issues with treatment of DAM credit losses in the current Nodal Protocols**
 - Since the DAM is a voluntary market, if DAM sellers perceive that there may be credit losses over an extended period of time for which they will be permanently “short paid,” sellers may choose not to sell into the DAM
 - The DAM could “dry up”
 - How would this impact the functioning of the market?
 - The only entities left in the DAM settlement process to bear the losses (if sellers choose not to sell into the DAM) would be CRR account holders settling in the DAM for positive value
 - Would this be sufficient to absorb accumulated credit losses?
 - Therefore, CRR Account Holders and sellers in the DAM bear the primary risk of credit loss for DAM settlements.
- **The primary concern is the lack of a “Step 2” allocation for credit losses for the Nodal DAM market**

7. Management of Potential Credit Losses Under Nodal Market Structure – Alternatives Being Considered by the Market

- **As the market discussed possible solutions for the concerns around the DAM, the discussion broadened to consideration of how all credit losses are treated in Nodal (e.g. including RTM losses)**
 - Discussed the relative benefits of each market bearing their own credit losses (DAM bears DAM losses, RTM bears RTM losses) versus spreading all credit losses over all markets to minimize impact of any given credit loss to any one CP
 - At least some ISOs (see subsequent slide) do not have different mechanisms for each market – all credit losses across all markets are treated the same (for both Step 1 and Step 2)
- **At this time, the solutions proposed on the next slides are being considered for all market credit losses across all proposed Nodal markets (RTM, DAM, CRRs)**
 - Has not been fully vetted or finalized
 - A mechanism hasn't been defined (MWh, \$\$, etc)
 - Solution could still be sized for only DAM, although discussions on Step 2 allocations of credit losses differed depending on which market credit losses were being discussed

7. Management of Potential Credit Losses Under Nodal Market Structure – Alternatives Being Considered by the Market

- **Various mechanisms have and are being considered by the market to address these concerns**
- **While the primary issues with the Nodal credit loss methodology appear to be due to the lack of a “Step 2”, most recent market proposal would change both Step 1 and Step 2**
 - Step 1. Have ERCOT, Inc. finance some portion of market credit losses and/or establish a market pool to finance credit losses
 - ERCOT, Inc. funds credit losses up to \$xx and market is short paid amounts exceeding that level.
OR
 - Establish a market pool to fund credit losses up to \$xx and market is short paid amounts exceeding that level.
OR
 - A market pool funds credit losses up to \$xx, ERCOT, Inc. funds credit losses between \$xx and \$yy and market is short paid above \$yy.
 - Step 2. Sync up RT and DAM loss allocation methodologies and use a methodology (still to be defined) that would allocate all market credit losses over the broader market (not just load)
 - Various combinations of both Step 1 and Step 2 continue to be discussed.

7. Management of Potential Credit Losses Under Nodal Market Structure – ISO Comparison – Funding of Credit Losses

ISO	Shortpay Market?	Step 1: Short Term Financing of Market Losses	Amount	Step 2: Allocation of Losses
NYISO	No	Uses both: 1. Working Capital Reserve (Market Participant Funded) - used first 2. Revolving Credit Facility	\$46 million \$50 million	All MPs share, no matter what markets MPs (i.e. LSEs, Gens, Financial Players/Power Marketers) participant in relative to the market for which the loss was generated
ISO-NE	Yes - only if necessary	Uses both: 1. Late Payment Account / Payment Default Shortfall Fund (Market Participant Funded) 2. Revolving Credit Facility	Formula Driven \$4 million	All MPs share, no matter what markets MPs (i.e. LSEs, Gens, Financial Players/Power Marketers) participant in relative to the market for which the loss was generated
PJM	Yes	Shortpayment: MPs owed funds from PJM are short-paid during the time period of default and refunded once bad debt loss is allocated.		All MPs share, no matter what markets MPs (i.e. LSEs, Gens, Financial Players/Power Marketers) participant in relative to the market for which the loss was generated
MISO	Yes	Shortpayment: MPs owed funds from MISO are short-paid during the time period of default and refunded once bad debt loss is allocated.		All MPs share, no matter what markets MPs (i.e. LSEs, Gens, Financial Players/Power Marketers) participant in relative to the market for which the loss was generated

Source: Adapted from an analysis prepared by K Douglas, consultant, for MCWG, which reflects her review of the various tariffs. This analysis provides an overview only and is not intended to be definitive.

7. Management of Potential Credit Losses Under Nodal Market Structure – Funding Alternatives Under Consideration

	Alternatives for financing market credit losses (Step 1)				
	Alternative 1	Alternative 2	Alternative 3	Alternative 4	Alternative 5
	Continue to short-pay CPs	1) CP Pool 2) short-pay CPs	1) ERCOT, Inc. 2) short-pay CPS	1) short-pay CPs 2) ERCOT, Inc. 3) short-pay CPs	1) CP Pool 2) ERCOT, Inc. 3) short-pay CPs
Benefit to ERCOT, Inc?	None	None	None	None	None
Cost to ERCOT, Inc.? ⁽¹⁾	None	None	Yes	Yes	Yes
Benefit to Counter-Parties (CPs) to have a Market?	Yes	Yes	Yes	Yes	Yes
For CPs, relative match of cost of credit losses to benefits of having a market?	Best	Best	Worst	Next best	Next best
For market, relative protection in "extreme" scenarios	No change	Some improvement	Some improvement	Some improvement	Most improvement
Is funding alternative consistent with treatment by other ISOs?	Yes - at least 2 other ISOs	No (of those reviewed)	No (of those reviewed)	No (of those reviewed)	Yes - at least 2 other ISOs
Can funding alternative be accomplished under existing debt covenants?	Yes	Yes	Under review	Under review	Under review
Potential for funding alternative to negatively impact ERCOT, Inc.'s credit rating?	No	No	Yes	Yes, to a lesser extent	Yes, to a lesser extent

Note 1 - Costs to ERCOT, Inc. include cost to maintain a facility for this purpose and (potentially) higher cost of borrowing for all ERCOT, Inc. debt as a result of additional risk.

7. Management of Potential Credit Losses Under Nodal Market Structure – Comparison of Credit Loss Funding Alternatives

Summary of Alternatives

Alternatives 2-5 anticipate that there is a cap on the amount of credit loss to be financed by a Counter-Party (CP) Pool or by ERCOT, Inc. and that amounts above that are short-paid to the market.

Alternative 2 anticipates the creation of a CP Pool to “pre-funded” a certain level of loss to ensure that funds are available when losses occur.

Alternative 3 anticipates that ERCOT, Inc. will finance “first dollar” losses.

Alternatives 4 and 5 anticipate that the market will finance “first dollar” losses (either pre-funded or as short-pay) and that ERCOT, Inc., through a debt facility, will provide a layer of liquidity for more extreme scenarios.

7. Management of Potential Credit Losses Under Nodal Market Structure – Open Questions

- **Factors affecting ERCOT's ability to obtain (and pricing of) a debt facility for the purpose of funding market credit losses**
 - Strength of financial markets
 - Appetite in the financial markets for this type of facility
 - Confidence that facility will be repaid
 - Credit quality of Counter-Parties that would repay funds drawn under a facility
 - Mechanism approved by PUCT for repaying funds drawn under a facility

7. Management of Potential Credit Losses Under Nodal Market Structure – Cheryl Yager

Next steps?

Informative

Quarterly investment update

Electric Reliability Council of Texas, Inc.
Summary of Investment Results
Second Quarter 2009
(in 000's)

Investment Funds	Balance at June 30	Average Bal for Qtr	Interest 2nd Qtr	Yield 2nd Qtr	% of portfolio at June 30
Federated Fund 068 Treasury Obligations Fund (Note 1)	78,563	51,240	16	0.13%	39.4%
Federated Fund 0125 US Treasury Cash Reserves Fund (Note 1)	43,639	71,365	2	0.01%	21.9%
JP Morgan Chase US Treasury Plus MM Fund (Note 1)	77,079	77,717	30	0.15%	38.7%
Sub-Total	199,281	200,321	48		100%
Other cash net of outstanding checks (Note 2)	(1,656)				
Total cash and cash equivalents (est)	197,625	200,321	48		100%
The Reserve Primary Fund (Note 3)	775	1,158	-		100.0%
Sub-Total Other Current Assets (est)	775	1,158	-		100.0%

Benchmark data (Note 4)

Not Available

Notes

- Note 1: In January 2009, the BOD adopted changes to the Investment Corporate Standard that limit investments to securities of or guaranteed by the U.S. government, which has resulted in ERCOT investing in money market funds that invest solely in Treasury or Treasury-backed securities.
- Note 2: All other cash, net of outstanding checks, held by ERCOT in bank accounts as of June 30, 2009. The balance is negative due to outstanding checks that have not yet been funded.
- Note 3: Investments in The Reserve Primary Fund have been reclassified from Cash and Cash Equivalents to Other Current Assets as of December 31, 2008. The Reserve is liquidating this fund. The investment balance of \$4.7 million is reduced by a loss provision of \$3.9 million for estimated losses based on information provided by The Reserve.
- Note 4: Given current market conditions, all investments are held in money market funds invested in Treasury or Treasury-backed securities. Yields are currently near zero. iMoneyNet.com does not provide benchmark data on Treasury funds. ERCOT will look for another benchmark as markets normalize.
- Note 5: No individual securities held at June 30, 2009.

Statement of Compliance

Upon a review of the investment activity for the 3 month period ended June 30, 2009, 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 fund do not comply with the objectives in the ERCOT Investment Standard for the period from September 16, 2008 to June 30, 2009. 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 Fund.

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 June 30, 2009
(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	1,655	2,948	61,880	12,080	78,563	For detail of fund holdings as of June 30, 2009, please see "Attachment A"
Federated Fund 0125 US Treasury Cash Reserves Fund			39,732	3,907	43,639	For detail of fund holdings as of June 30, 2009, please see "Attachment B"
JP Morgan Chase US Treasury Plus MM Fund	1,727		65,873	9,478	77,079	For detail of fund holdings as of June 30, 2009, please see "Attachment C"
Sub-Total Investments	3,382	2,948	167,485	25,465	199,281	
Other cash net of outstanding checks					(1,656)	
Total Cash and Cash Equivalents (est)	3,382	2,948	167,485	25,465	197,625	
The Reserve Primary Fund	152	54		569	775	For detail of fund holdings as of June 30th, 2009, please see "Attachment D"
Sub-Total Other Curent Assets (est)	152	54	-	569	775	

Backup

Attachments for Quarterly Investment
Update

TREASURY OBLIGATIONS FUND

Federated

WORLD-CLASS INVESTMENT MANAGER[®]

PORTFOLIO AS OF JUNE 30, 2009 CURRENT NET ASSETS – \$ 22,998,736,360

Principal Amount or Shares		Value
REPURCHASE AGREEMENTS--69.0%		
\$ 800,000,000	BNP Paribas Securities Corp., 0.010%, dated 6/30/2009, due 7/1/2009	\$ 800,000,000
1,774,000,000	Banc of America Securities LLC, 0.010%, dated 6/30/2009, due 7/1/2009	1,774,000,000
500,000,000	Barclays Capital, Inc., 0.010%, dated 6/30/2009, due 7/1/2009	500,000,000
100,000,000	CIBC World Markets Corp., 0.010%, dated 6/30/2009, due 7/1/2009	100,000,000
1,798,000,000	Calyon Securities (USA), Inc., 0.020%, dated 6/30/2009, due 7/1/2009	1,798,000,000
500,000,000	Citigroup Global Markets, Inc., 0.010%, dated 6/30/2009, due 7/1/2009	500,000,000
1,250,000,000	Credit Suisse First Boston LLC, 0.020%, dated 6/30/2009, due 7/1/2009	1,250,000,000
1,825,000,000	(1) Credit Suisse First Boston LLC, 0.130%, dated 6/25/2009, due 7/2/2009	1,825,000,000
1,811,000,000	(1) Credit Suisse First Boston LLC, 0.170%, dated 6/22/2009, due 7/1/2009	1,811,000,000
1,000,000,000	Deutsche Bank Securities, Inc., 0.010%, dated 6/30/2009, due 7/1/2009	1,000,000,000
1,374,000,000	Greenwich Capital Markets, Inc., 0.010%, dated 6/30/2009, due 7/1/2009	1,374,000,000
300,000,000	HSBC Securities (USA), Inc., 0.010%, dated 6/30/2009, due 7/1/2009	300,000,000
400,000,000	ING Financial Markets LLC, 0.030%, dated 6/30/2009, due 7/1/2009	400,000,000
84,173,000	J.P. Morgan Securities, Inc., 0.010%, dated 6/30/2009, due 7/1/2009	84,173,000
200,000,000	J.P. Morgan Securities, Inc., 0.010%, dated 6/30/2009, due 7/1/2009	200,000,000
1,150,000,000	Mizuho Securities USA, Inc., 0.010%, dated 6/30/2009, due 7/1/2009	1,150,000,000
500,000,000	Mizuho Securities USA, Inc., 0.020%, dated 6/30/2009, due 7/1/2009	500,000,000
500,000,000	Morgan Stanley & Co., Inc., 0.010%, dated 6/30/2009, due 7/1/2009	500,000,000
	TOTAL REPURCHASE AGREEMENTS	15,866,173,000
U.S. TREASURY--32.7%		
1,058,000,000	(2) United States Treasury Bills, 0.250% - 2.295%, 7/2/2009	1,057,967,871
318,875,000	(2) United States Treasury Bills, 0.290%, 10/8/2009	318,620,697
618,500,000	(2) United States Treasury Bills, 0.300%, 11/27/2009	617,732,029
425,000,000	(2) United States Treasury Bills, 0.420%, 8/13/2009	424,786,792
409,000,000	(2) United States Treasury Bills, 0.440% - 0.453%, 4/1/2010	407,610,849
398,700,000	(2) United States Treasury Bills, 0.450% - 1.000%, 10/22/2009	397,628,336
250,000,000	(2) United States Treasury Bills, 0.545%, 7/1/2010	248,622,360
213,000,000	(2) United States Treasury Bills, 0.665%, 11/19/2009	212,445,224
341,000,000	United States Treasury Notes, 2.000%, 2/28/2010	344,587,004
844,425,000	United States Treasury Notes, 2.125%, 1/31/2010	852,085,486
370,800,000	United States Treasury Notes, 3.125%, 11/30/2009	375,166,556
100,000,000	United States Treasury Notes, 3.375%, 10/15/2009	100,901,000
350,000,000	United States Treasury Notes, 3.375%, 9/15/2009	352,273,667
123,750,000	United States Treasury Notes, 3.625%, 1/15/2010	125,925,676

Principal Amount or Shares		Value
100,000,000	United States Treasury Notes, 3.625%, 10/31/2009	101,111,979
50,000,000	United States Treasury Notes, 4.000%, 4/15/2010	51,348,908
237,500,000	United States Treasury Notes, 4.000%, 8/31/2009	238,531,625
62,000,000	United States Treasury Notes, 4.625%, 7/31/2009	62,220,402
490,000,000	United States Treasury Notes, 4.750% - 6.500%, 2/15/2010	504,192,443
723,800,000	United States Treasury Notes, 4.875%, 8/15/2009	727,787,496
TOTAL U.S. TREASURY		7,521,546,400
TOTAL INVESTMENTS		\$ 23,387,719,400

- (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 (\$22,998,736,360) at the close of business on June 30, 2009, 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 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
6/09

68-TOF

US Treasury Cash Reserves

Federated

WORLD-CLASS INVESTMENT MANAGER[®]

PORTFOLIO AS OF JULY 02, 2009
CURRENT NET ASSETS — \$24,872,118,676

Principal
Amount
or Shares

Value

U.S. TREASURY — 99.8%

\$ 2,250,000,000	(1)United States Treasury Bills, 0.075% - 0.220%, 7/9/2009	\$ 2,249,982,749
6,275,920,000	(1)United States Treasury Bills, 0.135% - 1.050%, 7/30/2009	6,275,170,504
1,620,000,000	(1)United States Treasury Bills, 0.145% - 0.200%, 7/16/2009	1,619,932,528
2,935,000,000	(1)United States Treasury Bills, 0.150% - 0.170%, 7/23/2009	2,934,770,406
1,320,000,000	(1)United States Treasury Bills, 0.160% - 0.330%, 8/6/2009	1,319,788,167
758,700,000	(1)United States Treasury Bill, 0.180%, 8/20/2009	758,529,292
2,247,390,000	(1)United States Treasury Bills, 0.185% - 0.205%, 10/1/2009	2,246,340,140
927,000,000	(1)United States Treasury Bills, 0.220% - 0.235%, 10/22/2009	926,357,430
501,000,000	(1)United States Treasury Bills, 0.235% - 0.240%, 10/29/2009	500,622,129
542,900,000	(1)United States Treasury Bills, 0.250% - 0.305%, 11/12/2009	542,357,896
450,000,000	(1)United States Treasury Bill, 0.285%, 11/19/2009	449,515,500
450,000,000	(1)United States Treasury Bill, 0.310%, 9/10/2009	449,744,250
76,487,000	United States Treasury Bond, 12.500%, 8/15/2009	77,515,942
300,000,000	United States Treasury Note, 2.125%, 1/31/2010	303,037,876
40,000,000	United States Treasury Note, 3.125%, 11/30/2009	40,454,045
150,000,000	United States Treasury Note, 3.375%, 9/15/2009	150,922,716
1,525,000,000	United States Treasury Notes, 3.500% - 4.875%, 8/15/2009	1,531,429,567
525,000,000	United States Treasury Note, 3.625%, 10/31/2009	530,628,045
614,000,000	United States Treasury Note, 3.625%, 7/15/2009	614,530,300
493,000,000	United States Treasury Note, 4.000%, 8/31/2009	495,787,898

180,000,000	United States Treasury Note, 4.625%, 11/15/2009	182,759,804
629,948,000	United States Treasury Note, 4.625%, 7/31/2009	631,851,835
TOTAL U.S. TREASURY		24,832,029,019
TOTAL INVESTMENTS		\$24,832,029,019

(1) Discount rate at time of purchase.

Note: The categories of investments are shown as a percentage of net assets (\$24,872,118,676) at the close of business on July 2, 2009, and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes.

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.

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For more complete information on the fund, visit 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.

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JPM U.S. Treasury Plus MM Fund - 148020

Security ID	Instrument Name	Coupon	Effective Maturity Date	Moody's Quality	S&P Quality	Instrument Type	Par	Currency	% of fund	Group % of Fund
US912795U765	CASH MGMT BILL	0.00	2010-06-10	P-1	A-1+	Treasury Bills	400,000,000.00	USD	1.7	2.5%
US912795UL30	CASH MGMT BILL	0.00	2010-04-01	P-1	A-1+	Treasury Bills	200,000,000.00	USD	0.8	
0B0A11MR	BANK OF AMERICA REPO	0.1900	2009-07-07	P-1	A-1	Repo	277,990,000.00	USD	1.2	43.2%
0B0A10LL	BARCLAYS CAPITAL REPO	0.2000	2009-07-07	P-1	A-1+	Repo	1,250,000,000.00	USD	5.3	
0C5F08VT	CREDIT SUISSE F REPO	0.2000	2009-07-07	P-1	A-1	Repo	2,000,000,000.00	USD	8.5	
0DBS11JZ	DEUTSCHE BANK S REPO	0.1900	2009-07-07	P-1	A-1+	Repo	900,000,000.00	USD	3.8	
0DBS11JX	DEUTSCHE BANK S REPO	0.1900	2009-07-07	P-1	A-1+	Repo	294,384,000.00	USD	1.2	
0G0L1RQ	GOLDMAN SACHS & REPO	0.1200	2009-07-07	P-1	A-1	Repo	209,284,000.00	USD	0.9	
0HS008RC	HSBC SECURITIES REPO	0.1800	2009-07-07	P-1	A-1+	Repo	4,000,000,000.00	USD	17.0	
0RS01TFA	RBS SECURITIES REPO	0.2000	2009-07-07	P-1	A-1	Repo	750,000,000.00	USD	3.2	
0UBS14RJ	UBS WARBURG LLC REPO	0.1900	2009-07-07	P-1	A-1	Repo	500,000,000.00	USD	2.1	
US912795M996	TREASURY BILL	0.00	2009-07-09	P-1	A-1+	Treasury Bills	2,753,000,000.00	USD	11.7	48.9%
US912795N234	TREASURY BILL	0.00	2009-07-16	P-1	A-1+	Treasury Bills	1,200,000,000.00	USD	5.1	
US912795N648	TREASURY BILL	0.00	2009-06-13	P-1	A-1+	Treasury Bills	1,050,000,000.00	USD	4.5	
US912795S449	TREASURY BILL	0.00	2009-10-22	P-1	A-1+	Treasury Bills	950,000,000.00	USD	4.0	
US912795P544	TREASURY BILL	0.00	2009-10-01	P-1	A-1+	Treasury Bills	825,000,000.00	USD	3.5	
US912795N317	TREASURY BILL	0.00	2009-07-23	P-1	A-1+	Treasury Bills	570,000,000.00	USD	2.4	
US912795Q955	TREASURY BILL	0.00	2009-07-30	P-1	A-1+	Treasury Bills	500,000,000.00	USD	2.1	
US912795P965	TREASURY BILL	0.00	2009-10-29	P-1	A-1+	Treasury Bills	440,000,000.00	USD	1.9	
US912795N564	TREASURY BILL	0.00	2009-08-06	P-1	A-1+	Treasury Bills	350,000,000.00	USD	1.5	
US912795S996	TREASURY BILL	0.00	2009-12-17	P-1	A-1+	Treasury Bills	345,000,000.00	USD	1.5	
US912795R789	TREASURY BILL	0.00	2010-01-07	P-1	A-1+	Treasury Bills	325,000,000.00	USD	1.4	
US912795S514	TREASURY BILL	0.00	2009-11-19	P-1	A-1+	Treasury Bills	300,000,000.00	USD	1.3	
US912795U411	TREASURY BILL	0.00	2010-05-06	P-1	A-1+	Treasury Bills	300,000,000.00	USD	1.3	
US912795S282	TREASURY BILL	0.00	2009-08-27	P-1	A-1+	Treasury Bills	270,000,000.00	USD	1.1	
US912795S385	TREASURY BILL	0.00	2009-09-24	P-1	A-1+	Treasury Bills	250,000,000.00	USD	1.1	
US912795P627	TREASURY BILL	0.00	2009-10-08	P-1	A-1+	Treasury Bills	250,000,000.00	USD	1.1	
US912795U585	TREASURY BILL	0.00	2010-06-03	P-1	A-1+	Treasury Bills	225,000,000.00	USD	1.0	
US912795P213	TREASURY BILL	0.00	2009-09-10	P-1	A-1+	Treasury Bills	200,000,000.00	USD	0.8	
US912795Q203	TREASURY BILL	0.00	2009-11-05	P-1	A-1+	Treasury Bills	200,000,000.00	USD	0.8	
US912795Q534	TREASURY BILL	0.00	2009-11-27	P-1	A-1+	Treasury Bills	200,000,000.00	USD	0.8	
US912795N986	TREASURY BILL	0.00	2009-09-03	P-1	A-1+	Treasury Bills	85,000,000.00	USD	0.4	
US912795P395	TREASURY BILL	0.00	2009-09-17	P-1	A-1+	Treasury Bills	50,000,000.00	USD	0.2	
US912795R524	TREASURY BILL	0.00	2009-12-24	P-1	A-1+	Treasury Bills	4,935,000.00	USD	0.0	
US912795T866	TREASURY SEC.	0.00	2010-03-11	P-1	A-1+	Treasury Bills	2,984,000.00	USD	0.0	
US912795T866	TREASURY SEC.	0.00	2010-03-11	P-1	A-1+	Treasury Bills	100,000,000.00	USD	0.4	
US912828GY00	US TREASURY N/B	4.63	2009-07-31	Aaa	AAA	Treasury Notes	825,000,000.00	USD	3.6	6.7%
US912828JC52	US TREASURY N/B	2.88	2010-08-30	Aaa	AAA	Treasury Notes	300,000,000.00	USD	1.3	
US912828HB97	US TREASURY N/B	3.13	2009-08-31	Aaa	AAA	Treasury Notes	250,000,000.00	USD	1.1	
US912828HJ24	US TREASURY N/B	3.13	2009-11-30	Aaa	AAA	Treasury Notes	100,000,000.00	USD	0.4	
US912828HL79	US TREASURY N/B	3.25	2009-12-31	Aaa	AAA	Treasury Notes	75,000,000.00	USD	0.3	
USD	USD DOLLAR	0.00	2009-07-06			Cash	-324,539,480.65	USD	-1.4	-1.4%
										100.0%

Schedule of Investments

(June 30, 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>
Federal Home Loan Bank				
FEDERAL HOME LN BK CONS DSC NT	07/01/2009	0.0100	28,770,000	0.54%
Total Federal Home Loan Bank			28,770,000	0.54%
Floating Rate Note				
ASB FINANCE LTD.	08/25/2009	1.0712	500,000,000	9.36%
BARCLAYS BANK PLC	09/16/2009	1.0744	200,000,000	3.75%
DEUTSCHE BANK AG NY	10/21/2009	0.8388	208,000,000	3.90%
GENERAL ELEC CAP CORP	09/24/2009	0.3550	200,000,000	3.75%
HSBC USA INC	10/15/2009	1.5588	275,000,000	5.15%
LEHMAN BROS HLDGS INC	03/20/2009	0.0000	250,000,000	4.68%
LEHMAN BRTHRS HLDG INC	10/29/2008	3.7100	185,000,000	3.46%
LEHMAN BRTHRS HLDG INC	10/27/2008	3.2900	200,000,000	3.75%
LEHMAN BRTHRS HLDG INC	10/10/2008	3.0000	150,000,000	2.81%
LLOYDS TSB GROUP PLC	08/07/2009	1.2862	183,000,000	3.43%
NATIONAL AUSTRALIA BK LTD	10/06/2009	0.8594	60,000,000	1.12%
NORDEA BK EXTENDIBLE SHORT	09/24/2009	1.4494	114,000,000	2.14%
ROYAL BK SCOTLAND PLC	10/09/2009	1.0294	390,000,000	7.30%
Total Floating Rate Note			2,915,000,000	54.59%
Repurchase Agreement				
MORGAN STANLEY TRI PARTY REPO	09/15/2009	0.6500	1,300,000,000	24.35%
Total Repurchase Agreement			1,300,000,000	24.35%
Time Deposit				
CALYON	07/01/2009	0.2400	365,000,000	6.84%
KBC BANK	07/01/2009	0.0700	365,000,000	6.84%
SUNTRUST BANK	07/01/2009	0.2400	365,000,000	6.84%
Total Time Deposit			1,095,000,000	20.51%
Investment Total			5,338,770,000	99.99%
Cash Held at Custodian Bank (as of 06/29/2009)*			764,328	0.01%
Portfolio Total			5,339,534,328	100.00%
Average Weighted Maturity				22 Days

*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.

Cash does not include receivables for securities sold until the trade settles.

*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 unlawful under the securities or other applicable laws of such jurisdiction.

Resrv Partners, Inc., Distributor. Member FINRA. 06/09

9. Briefing on Results of Pilot Procurement Card Program – Meg Walsh

- **Update on Procurement Card Program**
- **ERCOT Procurement Card Program Benefits/Details**
- **Additional Procurement Card Opportunities for ERCOT**

9. Briefing on Results of Pilot Procurement Card Program – Program Details

- **High level and itemized reports are accessible any time by P-card administrator**
- **P-card spend since 1/1/09 is \$29,255. Facilities is the largest P-card user with a year to date spend of \$17,747**
- **Largest P-card purchase was the HVAC compressor at \$4,000.(Emergency requirement)**
- **85 P-card transactions were completed by 6 card holders**
- **Average P-card transaction amount is \$344**
- **ERCOT P-card Handbook has been made available to P-card users**
- **P-card training has been completed for all P-card users**
- **P-card business controls: 1) Daily reconciliation by P-card Admin of transactions. 2) P-card Admin reconciliation of bank card transactions 3) Sign off by managers of P-card activity prior to payment by accounts payable**
- **Internal Audit completed P-card review as of 6-29-09.**

Benefits of the P-card program.

- **Create an efficient way for a select population of ERCOT employees to purchase high volume/small dollar items. 10 cards currently in use.**
- **Create a mechanism for emergency purchases.**
- **Decrease the per transaction cost of high volume/small dollar items. Transaction cost of the P-card is \$12.60 per transaction verses \$36.80 per transaction using a check. Source Aberdeen Group 2007.**
- **Rebate program for ERCOT based on Total Spend.**

9. Briefing on Results of Pilot Procurement Card Program – Additional Opportunities for ERCOT

- **Travel Procurement Card – Benefits:** 1) Daily real time tracking 2) Allows for spend analysis by Procurement 3) Simplifies/consolidates ERCOT related travel 4) Adds monies to rebate program.
- **Accounting Procurement Card:** 1) Accounts payables would pay certain/specified invoices using the P-card. 2) Payment volumes goes toward ERCOT rebate program.

- **Update on status of 2008 Form 990 Filing**

Q&A only

ERCOT Market Credit Status

as of 5/31/2009

as of 6/30/2009

Exposure in the ERCOT Market (owed to ERCOT)

OSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

OSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

Total Exposure

Other QSEs in the ERCOT Market (ERCOT owes)

OSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

OSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

Total

Total

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
11	28,322,796	12%	168,543,689	U
56	142,451,177	63%	280,089,047	S
18	56,046,883	25%	421,221,871	S
85	226,820,856	100%		
5	(5,186,485)	-16%	45,347,047	U
58	(19,513,137)	-59%	14,913,444	S
9	(8,269,636)	-25%	95,702,000	S
72	(32,969,258)	-100%		

157

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
8	27,503,404	9%	144,006,121	U
50	163,396,480	61%	335,624,003	S
15	76,653,368	29%	378,512,171	S
73	267,553,252	100%		
8	(9,180,427)	-24%	69,884,615	U
63	(22,306,210)	-58%	24,018,233	S
11	(7,227,897)	-19%	141,411,700	S
82	(38,714,534)	-100%		

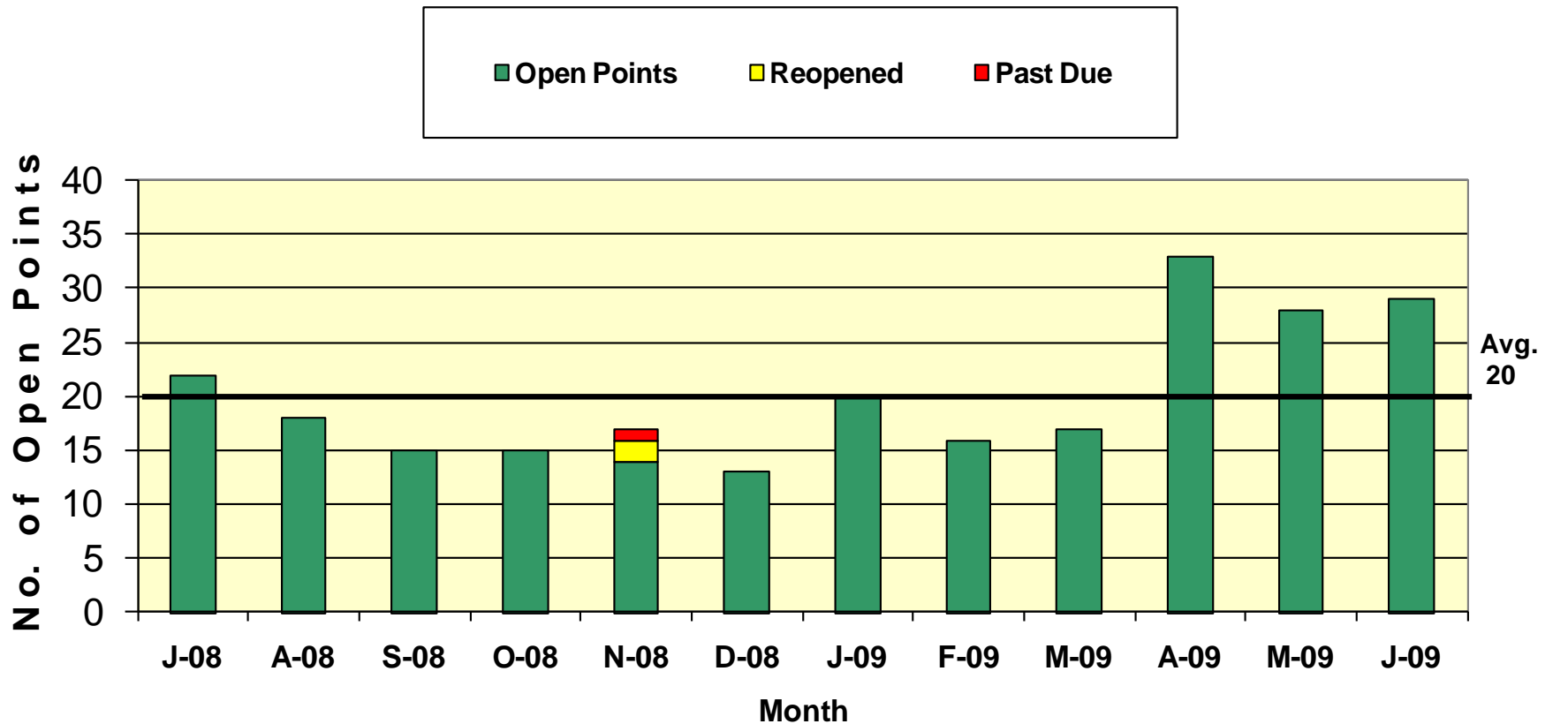
155

U: For QSEs that meet ERCOT's Creditworthiness Standards, amount of unsecured credit granted.

S: For QSEs that do not meet ERCOT's Creditworthiness Standards, amount of Security posted.

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

Cheryl Moseley



													Totals
Audits Completed	3	2	4	1	3	5	1	1	6	2	3	3	34
Points Added	11	2	0	0	4	11	12	9	24	27	6	16	122
Points Completed	0	6	3	0	2	15	5	13	23	11	11	15	104

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

Audits Completed

(last 3 months)

Internal Audits

- Q1 2009 Fraud Auditing
- Change Control/Release Management
- Business Continuity Plan
- System Operator Compliance with Operating Procedures
- IT System Availability & Performance
- Procurement Card Process (Special Request Targeted Review)

External Audits

- 2008 Financial Audit (PwC)
- Nodal Program Review – Infrastructure & Integration Readiness (Report #10; Utilicast)

Open Audits

Internal Audits

- Long-Term Technology Strategy
- Enterprise Risk Management
- Procurement & Contract Administration
- Financial Reporting & Close
- Cash & Investments
- Q2 2009 Fraud Auditing
- Enterprise Resource Management

External Audits

- 2009 SAS70 Audit (PricewaterhouseCoopers)

Planned Audits

(next 3 months)

Internal Audits

- Payroll Employee Onboarding, Transfer, Offboarding and Termination Processes
- Human Capital Metrics/ Benchmarks
- Protocol 1.4 Required Audit – Independence Verification
- Q3 2009 Fraud Auditing
- Nodal Program Contract Management (Special Request)

External Audits

- Nodal Program Review – Schedule & Milestone Performance (Report #11; Auditor-TBD)
- Nodal Program Billings – ABB (Opportune LLP; Targeted Review; Internal Audit to Provide Support)

**Consultation/
Analysis Reports
Completed**

(last 3 months)

External Assessments

**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 July 1, 2009)

 Strategic	 Operational Excellence	 Market Facilitation	 Grid Reliability	 Reporting	 Legal and Regulatory Compliance
 Strategy Development Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.	 Performance Monitoring Clearly defined and actively monitored performance metrics linked to mission and goals. Performance status communicated and corrective action taken.	 Customer Choice Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.	 Grid Operations Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.	 Review Practices Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.	 Legal & Legislative Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.
		PUCT has finalized POLR rule and Expedited switch. We are initiating projects to implement changes as needed.			
 Mission and Goals Corporate objectives and performance standards are understood and followed.	 Business Practices Business planning, processes and management standards are effective and efficient.	 Nodal Implementation Project Nodal Implementation on budget on schedule, and within defined scope.	 Planning Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.	 Disclosure Reporting and other disclosures to intended parties is timely, accurate and effective.	 Internal Control Compliance Internal Control Compliance, processes and management standards are effective and efficient.
New Strategic Plan needs to be integrated into the latest business planning cycle. ERCOT has hired a Manager, Strategic Planning & Organization Development, who will assist in the development of the business plan and integration of the budgets, strategic plan and risk assessment tools with the ERCOT Key Performance Indicators.		Program "YELLOW" based on risks for meeting expectations of market participants and for dealing with late delivery of working CMM software. Work is in process for mitigating those risks. There may be completeness issues in data from the market regarding transmission element data and attributes; plans are in progress for mitigating that risk. Staffing for key positions of the project is now complete. Management Action Plans have been developed for recommendations from external audits and internally detected risks and issues. Key risks include data center capacity; potential conflict over personnel and testing environments needed at the same time by Nodal and Zonal projects. Actions for mitigating those risks are in progress, according to plan.	System Planning department staffing has reorganized/improved and a plan is in place to increase staff to meet stakeholder desire for more "study horsepower". A list of studies desired by ERCOT and ERCOT Stakeholders has been prepared and reviewed by stakeholders and deemed complete at this time. A plan is in place to conduct these studies.		ERCOT is developing processes to institutionalize the ongoing training on current policies and procedures for all ERCOT staff and contract workers.
 Reputation Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.	 Workforce  Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.	 Counterparty Credit Maintain credit risk exposure for overall market within acceptable limits.	 Bulk System Resources Market Participants construct and make available adequate bulk electric grid resources.	 Communication Internal & external communications are timely and effective.	 Industry Standards Business practices provide stakeholders with required assurances of quality.
Increased publicity associated with the delay of the Nodal market and the associated cost increases, new fee filings for the nodal surcharge and System Administration fee.	The rolling 12-month voluntary turnover has dropped to 4.3%. Many key contractor positions have been retained and have either joined ERCOT to fill key leadership positions within the Nodal project. ERCOT readiness continues to be an on-going issue and will be a top priority for the new project manager of ERCOT & Market Readiness. Continued strong demand for subject matter experts needed for Nodal project, on-going base projects and operations. As of the end of June ERCOT was looking to fill 10 positions. ERCOT also froze 12 positions to assist with the revenue shortfall in the ERCOT budget for 2009.	A Credit Risk Standard was approved by the Board in May. We plan to report potential credit exposure from the credit loss model to F&A committee in August. The market experienced price spikes in June; ERCOT is monitoring market activity closely as a result.			Compliance activities and staff have been centralized under the management of the Chief Compliance Officer. Preparation of compliance documentation is underway for the 2009 NERC reliability audit. Have completed internal Ownership matrix for Zonal and Nodal Protocols and met with all ERCOT staff owners to review their responsibilities.
 Fiscal Management ISO design requires competent, prudent and cost effective provision of services.	 Technology Infrastructure Information systems, supporting facilities and data are effectively managed and are reliable.	 Administration, Settlement & Billing Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.	 Operational Responsibility Market participant conduct their operations in a manner which facilitates consistent grid reliability.	 Adequacy and Integrity Robust processes exist to support management assertions embodied within financial reports.	 Regulatory Filings Evidence, testimony and other supporting materials are compelling and successful.
2009 electric load is trending below budget resulting in reduced revenues while labor devoted to the Nodal program (and to a lesser extent, Zonal projects) is trending below budget. Cost containment measures have been implemented.	Systems remain stable in all areas. The TCC1 data center expansion is planned for completion September 2009. Enough capacity for Nodal go-live and for the start of advanced metering will be available with the completion of the TCC1 expansion. The south side data center plan calls for full production operations by February 2011 and the new TCC3 facility to be ready by May 2011.		Response of generators and LaaRs to grid operation events improving. Enhanced enforcement of NERC standards and ERCOT Protocols and Operating Guides exist through the ERO / TRE and IMM which will provide additional incentive for improved performance. Increased wind generation present additional operational challenges that a study indicated can be met. A joint ERCOT Staff and TAC Renewable Technologies Task Force is developing a Texas Renewable Implementation Plan (TRIP) defining steps needed to reliably integrate wind and non-wind generation.		

Year to Date Projects Over \$1 Million

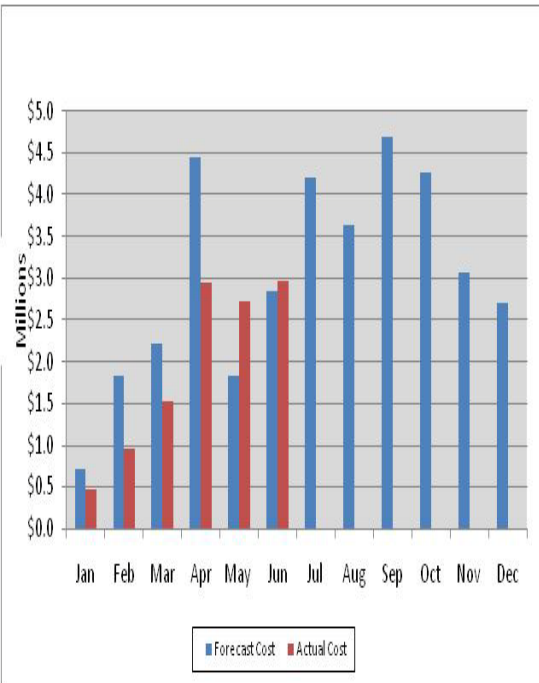
(CART) Project Number and Description	Total Budget	Total Committed	Metrics	
(Duration) Phase (Sponsor)	Scheduled Completion		Current Schedule	Current Budget
(CO) PR-60075_01: Identity Access Management <i>Schedule stoplight due to time taken to re-schedule around Nodal 168 hour test.</i>	\$2.66M	\$2.52M		
<i>(2006-2009) Currently in Execution (B. Kahn)</i>	<i>Expected Completion 4th Qtr 2009</i>			
(CO) PR-80001_01: MET Center Disposition	\$70M	\$3.54M		
<i>(2008 - 2011) Currently in Execution (B. Kahn)</i>	<i>Expected Completion 1st Qtr 2011</i>			
(IO) PR-90004_01: Data Storage	\$1.76M	\$.888M		
<i>(2009-2009) Currently in Execution (David Forfia)</i>	<i>Expected Completion 4th Qtr 2009</i>			
(MO/RO) PR-80027_01: Advanced Metering MKT Changes for PUCT	\$1.54M	\$.793M		
<i>(2009-2009) Currently in Execution (T. Doggett)</i>	<i>Expected Completion 4th Qtr 2009</i>			
(MO/RO) PR-50088_01: Data Research and Reporting	\$3.56M	\$1.00M		
<i>(2006-2011) Planning (T. Doggett)</i>	<i>Expected Completion 3rd Qtr 2011</i>			
(CO) PR-80047_01: TCC1 Data Center Expansion	\$6.20M	\$2.64M		
<i>(2009-2009) Currently in Execution (B. Kahn)</i>	<i>Expected Completion 4th Qtr 2009</i>			

11. Committee Brief: PMO David Troxtell

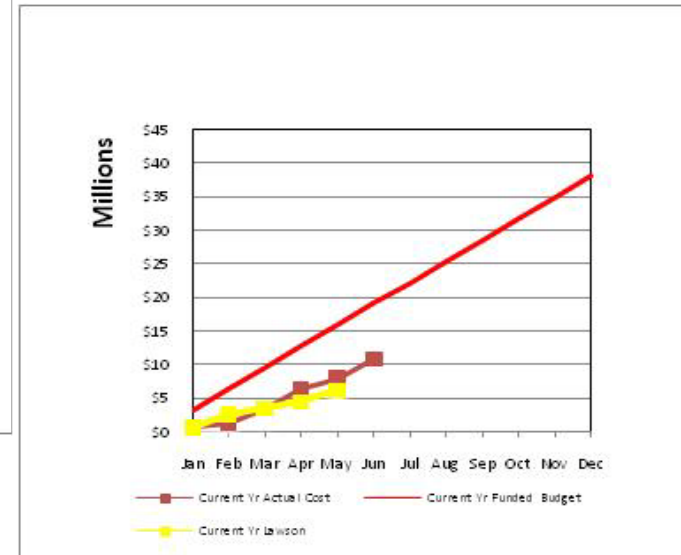
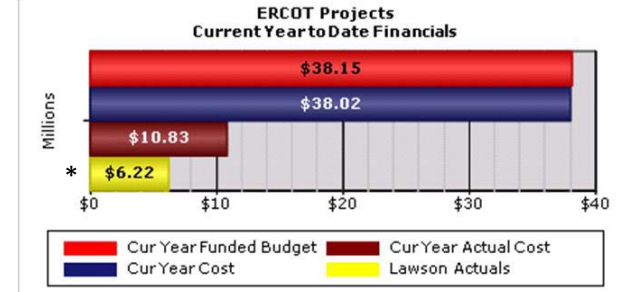
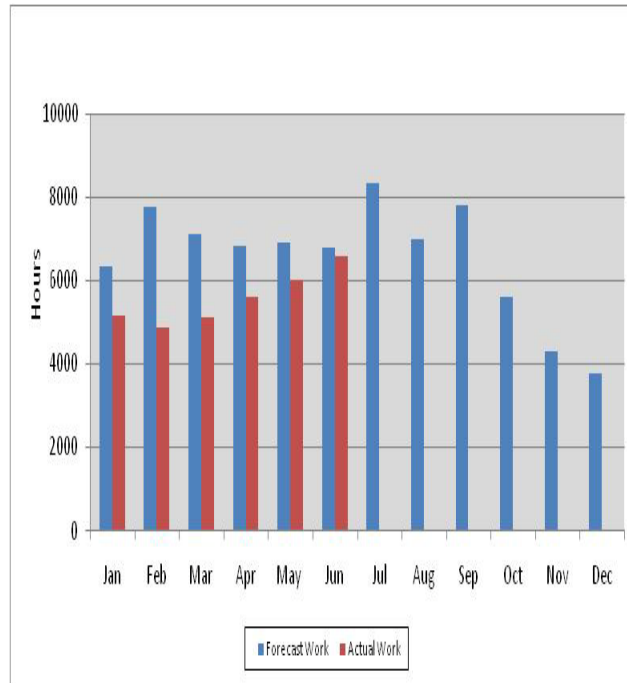
ERCOT Enterprise Projects Summary Report

ERCOT		Overall Projects Report					Reporting Period: 7/7/2009		
Projects in Ercot's Portfolio							Portfolio Performance		
Deferred	Concept	On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget	
2	1	1	1	4	24	7			
		Closed	8	Total Active		36			
		Cancelled	3	Projects Not Started		4	**Current Year Funded Budget:		\$38,150,000

ERCOT Projects
Current Year - Cost



ERCOT Projects
Current Year - Work



** The Current Year Funded Budget \$38,150,000 includes \$20.0M budget for the MET Center Disposition project and \$6.20M budget for the TCC1 Taylor Data Center Expansion project.

*Lawson Actual as of May 2009

Future Agenda Items – August 2009

- **Standing Internal Audit agenda items**
- **ERM update**
- **Credit update**
- **Review of external auditors request for proposal**
- **Recommend 2010 base operating budget**
- **Standing Investment update**
- **Committee briefs**
- **Future agenda items**

F&A 2009 Yearly Schedule

Quarter 1

- ✓ •Elect officers and confirm financial qualifications
- ✓ •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)
- N/A •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
- Review scope of annual financial audit
- Review of external auditor quality control procedures and independence

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