



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 206
August 18, 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.		2a. Announcement of proxies	C. Karnei	7:31am
	Decision required	2b. Approval of executive session minutes (Vote) (07/21/09)	C. Karnei	7:32am
	For discussion	2c. Internal Audit status report	B. Wullenjohn	7:33am
	Informative	2d. Internal Audit 2009 goals update	B. Wullenjohn	7:35am
	Informative	2e. Update on timeline for 2010 Internal Audit plan	B. Wullenjohn	7:45am
	Informative	2f. IIA Guidance – The Audit Committee: Internal Audit oversight	B. Wullenjohn	7:50am
	Informative	2g. EthicsPoint update	B. Wullenjohn	7:55am
	For discussion	2h. Summary of external auditors response to RFP	M. Petterson	8:00am
3.	Informative	Contracts, personnel, litigation and security	Various	8:20am
		Recess Executive Session		8:25am
		Convene General Session		
4.	Decision required	Approval of general session minutes (Vote) (07/21/09)	C. Karnei	8:25am
5.	Decision required	Review guidelines for and approval of engagement of external auditors for other services (Vote)	M. Petterson	8:26am
6.	For discussion	PricewaterhouseCoopers audit update	S. Barry	8:30am
7.	For discussion	Credit briefing – potential future exposure	R. Baker / C. Yager	8:45am
8.	For discussion	Recommend 2010 base operating budget	B. Kahn / M. Petterson	9:15am
9.	Decision required	Standing investment update (Vote)	C. Yager	9:30am
10.	Informative	Committee Briefs (Q&A only)	All	9:40am
11.	Informative	Future agenda items	S. Byone	9:45am
		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, September 15, 2009, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 206.*

Decision required
For discussion

4. Approval of General Session Minutes Clifton Karnei

- **Approval of General Session Minutes**
 - Vote 7/21/09

DRAFT ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
MINUTES OF THE FINANCE & AUDIT COMMITTEE – GENERAL SESSION
7620 Metro Center Drive – Austin, Texas 78744
July 21, 2009

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 **8:00 a.m.** The Committee met in Executive Session from **8:00 a.m. to 8:30 a.m.**, at which time it recessed to General Session.

General Session Attendance

Committee Members:

Ballard, Don	Office of Public Utility Counsel	Residential Consumer	Present (via telephone)
Cox, Brad	Tenaska Power Services	Independent Power Marketer	Present
Espinosa, Miguel (Vice Chair)	Unaffiliated Board Member	Unaffiliated Board Member	Present
Gent, Michehl	Unaffiliated Board Member	Unaffiliated Board Member	Present
Jenkins, Charles	Oncor Electric Delivery Company	Investor Owned Utility	Present
Karnei, Clifton (Chair)	Brazos Electric Cooperative	Cooperative	Present
Thomas, Robert	Green Mountain Energy Company	Independent Retail Electric Provider	Present
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Not Present

Other Board Members and Segment Alternates:

Bartley, Steve	CPS Energy	Municipal	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT Staff and Guests:

Baker, Randy	ERCOT – Director, Credit Risk Management
Brenton, Jim	ERCOT – Director, Cyber Standards
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Deskins, Andy	Wachovia
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doolin, Estrellita	ERCOT – Assistant General Counsel
Goff, Eric	Reliant Energy
Grable, Mike	ERCOT – Vice President and General Counsel
Kahn, Bob	ERCOT – President and Chief Executive Officer
Karnei, Cassie	Daughter of Clifton Karnei
Lester, Suzanne	ERCOT – Executive Assistant, Finance
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Morgan, Richard	ERCOT – Vice President and Chief Information Officer
Petterson, Mike	ERCOT – Controller
Stauffer, Tarra	ERCOT – Legal Assistant
Walsh, Meg	ERCOT – Manager, Procurement
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of Prior Meeting General Session Minutes

Miguel Espinosa moved to approve the minutes for the General Session of the Finance & Audit Committee (Committee) meeting held on June 16, 2009. Charles Jenkins seconded the motion. The motion passed by voice vote with no abstentions.

Preliminary 2010 Budget

Mike Petterson provided an overview of the preliminary 2010 Budget, and then directed the Committee to the materials provided to them prior to the meeting. Mr. Petterson outlined funding requirements and reviewed assumptions underlying the preliminary 2010 budget. He discussed staffing issues including headcount growth, market-based compensation, and ERCOT staff time invested in the Nodal Program and base projects. Mr. Petterson also informed the Committee that the project priority list incorporated in the preliminary 2010 budget was developed with market participant input and approval.

Mr. Petterson reminded the Committee that the 2010 Budget would be presented at the Special F&A Meeting/Public Input Meeting scheduled for August 17, 2009, and that the ERCOT Board of Directors would be asked to approve the 2010 Budget at the September 15, 2009 Board meeting.

Bob Kahn added that staffing recommendations for budget reductions would be vetted by the Human Resources & Governance Committee and shared at the August Finance and Audit Committee Meeting. Mr. Gent expressed concern about cuts negatively affecting reliability. Mr. Kahn confirmed that he would not approve any budget cuts that would negatively affect reliability.

With reference to the list of fee increase drivers included in the materials, Mr. Karnei inquired into the variance attributed to zero vacancy savings. Steve Byone explained that while an assumption of 8 percent was used for vacancies for the 2009 budget, an assumption of 3-4 percent might be more appropriate for the 2010 budget. Moreover, Mr. Byone clarified that the reduced percentage for vacancies was due to a lower turnover rate and the ability to fill vacancies quickly. He also noted that some critical positions were back-filled with contract workers.

Mr. Petterson directed the Committee to the budget line item for Special Review (schedule line 12) and explained that the figure is an estimate for funding the Sunset Review in which ERCOT will participate. Mr. Kahn added that management had a call in to the Sunset Commission seeking clarification regarding anticipated expenses for the review.

Mr. Gent asked about the budget line item for NERC Dues (schedule line 19) noting that the amount in the ERCOT budget remained flat from 2009 to 2010 even though NERC had announced that they expect to increase dues by 40 percent. Mr. Gent also asked if the budget included an estimate of potential penalties and fines that may be imposed by NERC in connection with their compliance audits of ERCOT. Mr. Kahn explained that he did not believe it was appropriate for the organization to budget for compliance-related penalties and fines.

Mr. Byone highlighted the budget line item Debt Service – Interest (schedule line 22) and mentioned that the cost reduction shown was a result of lower assumed interest rates.

Mr. Gent referred to the budget line item Other Revenue (schedule line 29) and asked about the reduced forecast. Mr. Petterson noted that Other Revenue included amounts received from generation interconnection studies, ERCOT membership dues and wide-area network administration fees among other smaller items.

Mr. Gent asked what benefits make up the payroll benefits calculation, to which Mr. Petterson responded that the payroll benefits calculation included payroll taxes, retirement plan contributions, health insurance benefits, and other similar items. He also noted that the benefit load, used to develop the preliminary 2010 budget was 35 percent.

Mr. Petterson then summarized the Committee's "next steps", as outlined in the Committee materials.

2009 Operating Plan – Updated Forecast

Mr. Petterson directed the Committee to a schedule that summarized ERCOT's year-to-date financial performance. He reminded the Committee that management took the situation seriously, recognized the need to respond immediately and had developed and started implementing a plan to eliminate the unfavorable financial variance by the end of 2009.

Management of Potential Credit Losses under Nodal Market Structure

Cheryl Yager provided an update on the management of potential credit losses under the Nodal market structure. She summarized relevant Nodal Protocols, noted that the focus issue was credit losses in the Nodal Day Ahead Market, and reviewed proposed solutions being considered by the market. She commented that the Committee was being briefed on the issue because one proposal being discussed required ERCOT, Inc. to provide short-term financing for certain credit losses.

Ms. Yager directed the Committee to their materials and led a discussion on the pros and cons of several alternatives to finance credit losses in the short term, including issues with ERCOT, Inc. providing a facility. Included in the discussion was a review of how other ISOs fund credit losses. Mr. Byone commented that moving forward with an alternative that required ERCOT, Inc. to fund certain credit losses could have an effect on the corporation's credit rating. Ms. Yager added that because of the need to have a payment recovery mechanism, PUCT buy-in on the alternative selected was important.

Treasury Update – Quarterly Investment Update

Ms. Yager provided the Committee with the Quarterly Investment Update and directed Committee members to the materials provided to them prior to the meeting, including the Summary of Investment Results for Second Quarter 2009. She noted that investments continue to be spread between two fund families and informed the Committee that staff was in the process of opening additional fund accounts. Mr. Espinosa voiced his strong advisement that ERCOT move quickly to open additional fund accounts. Mr. Byone noted that many desirable funds were closed for much of the first part of the year and agreed to push harder towards opening new accounts. Mr. Karnei noted that existing investments were in money market funds that hold Treasury or Treasury-backed securities.

Briefing on Results of Pilot Procurement Card Program

Mr. Byone introduced Meg Walsh, Procurement Manager, who provided the Committee with details on the pilot Procurement Card (P-Card) Program. Ms. Walsh began by explaining that the first phase of the pilot program was made up of a select number of users who purchase high volume, small dollar items. Ms. Walsh added that Internal Audit completed an audit of the program processes and business controls on June 29, 2009 and that the next phase would be for travel expenses. She thereafter gave an overview of the benefits of using the P-Card for travel purposes. Ms. Walsh explained that eventually the P-Card would be used in settlement of Payables, whereby payment volumes will go towards a rebate program for ERCOT based on total spend. Ms. Walsh reassured the Committee that finance management continuously

assesses this pilot program, and improvements are correspondingly implemented. Finally, Ms. Walsh provided examples of improvements that have been implemented since the start of the pilot program (e.g., upfront management approval for spends, and simplified paperwork and shorter cycle times).

Discussion of ERCOT 2008 Form 990 Filing

Mr. Byone informed the Committee that ERCOT was progressing with filing the IRS Form 990 and that the full Board would be briefed on the process by outside counsel during Executive Session. Mr. Espinosa inquired into the role of ERCOT's outside counsel regarding the matter. Mike Grable responded that due to the numerous gray areas associated with ERCOT's potential conversion from 501(c)(4) to 501(c)(3) tax-exempt organizational status, outside counsel was necessary to assist with the filing.

Committee Briefs

Materials were 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)

Mr. Byone stated that the PMO materials would be reduced in the future to include only a one-page report as requested by the Committee. Mr. Karnei noted that the Workforce item in the Risk Management Event Profile Matrix showed a reduced risk level.

Future Agenda Items

The following items were identified as future agenda items:

1. Standing Internal Audit agenda items
2. ERM update
3. Credit update
4. Review of external auditors request for proposal
5. Recommend 2010 base operating budget
6. Standing Investment update
7. Committee briefs
8. Future agenda items

Adjournment

Clifton Karnei adjourned the meeting at approximately 9:45 a.m.

Juliana Morehead
Associate Corporate Counsel

Decision required

PricewaterhouseCoopers Memo attached as separate document



MEMORANDUM

To: Finance & Audit Committee
From: Mike Petterson
Date: August 7, 2009
Re: Approval of engagement of external auditors for other services

Objective

1. Alert members of the Finance and Audit Committee in writing that in September 2009, ERCOT would like to renew its subscription to Comperio, a comprehensive, web-based accounting database provided by PricewaterhouseCoopers, ERCOT's independent audit firm, costing approximately \$2,000 per year.
2. Obtain preapproval from the Committee to renew the annual subscription.

Background

1. In early 2006, the Finance and Audit Committee amended its charter (see current Charter attached) to include language consistent with the requirements established in Section 202 of Sarbanes-Oxley.
2. That Section of the law calls for preapproval from the Finance and Audit Committee for engagement of external auditors for "other services".
3. Accounting databases, such as Comperio, constitute "other services" offered by external auditors.

ERCOT Management Letter attached as separate document

- **Summary Results**
- **Background**
- **High-level Configuration**
- **Base Case & Current Case**
- **Summary of Most Common Outcomes – Base Case**
- **Comparisons – Base Case**
- **What Has Changed – FYE 2008**
- **Extreme Events – Base Case**
- **Current Case Simulations**
- **Comments & Notables**
- **Model Resources**
- **Next Steps**

While the impact of various model factors changed...

Base case residual credit risk remains comparable to the level identified in the initial Oliver Wyman model

- Market factors have reduced risk
- QSE factors have increased risk
- Net effect – overall risk slightly down

Current case residual credit risk increased when compared to the level identified in the initial Oliver Wyman model

- Excess collateral held (collateral in excess of that required by Protocols) has decreased, resulting in increased residual risk

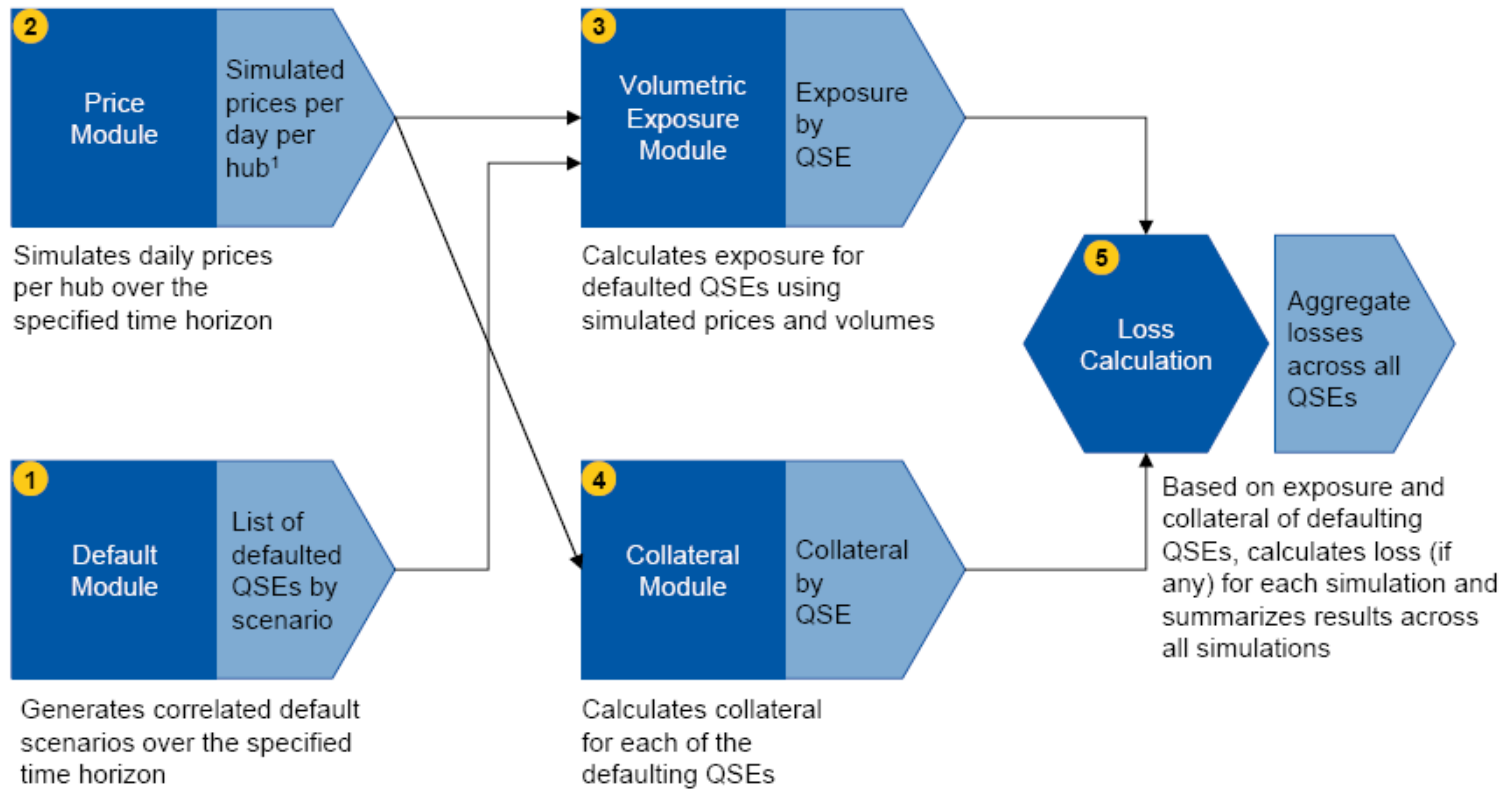
- **The Board of Directors approved the Market Credit Risk Standard in May 2009, requiring ERCOT to report on credit risk in the market.**
 - This presentation is a summary of the results of the Potential Credit Risk Model based on the financial statement information provided by QSEs as of December 31, 2008.
 - Information is compared to the results presented by Oliver Wyman in February 2008
- **The Potential Credit Risk Model uses Monte Carlo simulation to simulate potential credit losses across all ERCOT QSEs, while taking into account key risk factors such as:**
 - Default probabilities of QSEs (which reflect credit quality)
 - Exposure parameters (such as outstanding liability & potential for volume escalation upon default)
 - Market prices and price volatility
 - Collateral (as required by ERCOT Protocols)
 - Relationships between these factors

- **The model is not a predictor of the future as it does not represent what will happen, but provides insight into what may happen along with the probability of various outcomes.**
- **The model incorporates a number of key risk factors, however it isn't capable of encompassing every factor and scenario.**

7. Credit Briefing – Potential Future Exposure: Background

Randy Baker / Cheryl Yager

The model consists of four modules: Default, Price, Volumetric and Collateral, which represent the key credit risk factors in the ERCOT Market.



The model will be run thousands of times in order to estimate a credit loss distribution – this schematic represents one simulation

1. Hub refers to a zone, settlement point, location or market

- **Two cases are represented –**

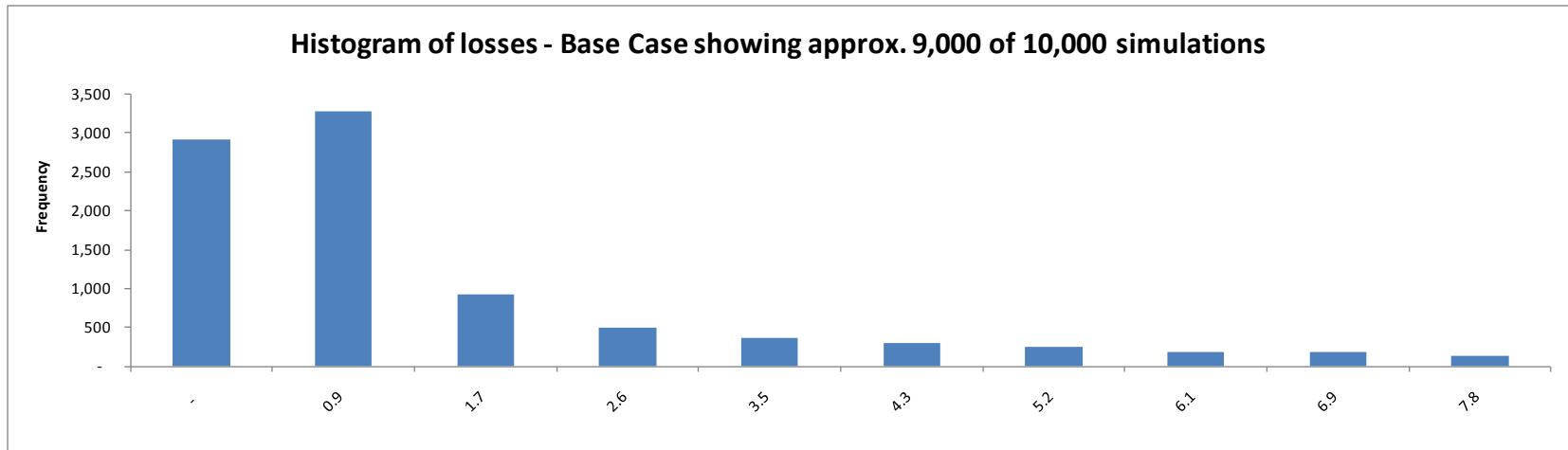
Base Case

- Does not include current collateral held by ERCOT
- Fundamental assumption for this case deems collateral balances to be at least consistent with current protocols until a default occurs
- Unless otherwise indicated, this case is represented in all slides since it represents what ERCOT can enforce per existing Protocols

Current Case

- Uses current levels and forms of collateral for each QSE held by ERCOT at Time₀ at a minimum (Beginning of simulated period)
- Assumes some degree of overcollateralization will be maintained until a default occurs, i.e. the resulting loss distribution is lower

7. Credit Briefing – Potential Future Exposure: Summary of Most Common Outcomes – Base Case

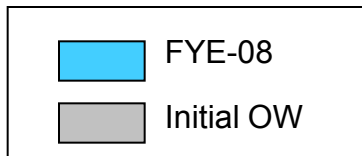
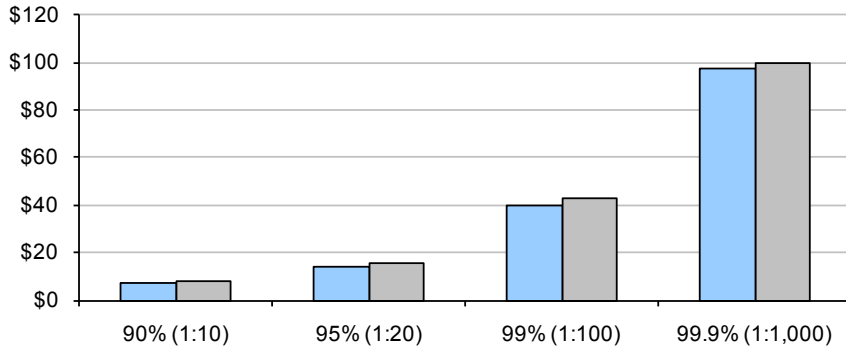


- Histogram above shows the number of simulations with credit losses less than or equal to \$7.8 million dollars
- Losses of equal to or less than \$900,000 are the most common results
 - Over 29% (2,921) of simulations had no losses, either from no defaults or defaults with adequate collateral
 - Over 70% of simulations resulted in losses of less than or equal to \$1.7 million
 - Results assume that market conditions and QSE credit ratings continue to be relatively unchanged over the next twelve months
- The average loss (expected value) across all simulations is approximately \$3 million
 - Most simulations result in losses well below the average
 - The “Average” does not represent “the most common outcome”, but the long-run average across all outcomes (the Expected Loss)
- Typical characteristic of this simulation - **heavily skewed to the right, showing extreme losses to be very rare**
- Recent results are comparable to those presented by Oliver Wyman in February 2008

7. Credit Briefing – Potential Future Exposure: Comparisons – Base Case

Simulations using Initial OW data and FYE-08 Financials

Potential Credit Loss - Base Case (\$Millions)



Horizon (in days)
Simulations

Total defaults
Simulations with defaults
Simulations without defaults
Default simulations with zero loss
Total simulations with zero loss

(\$Millions)

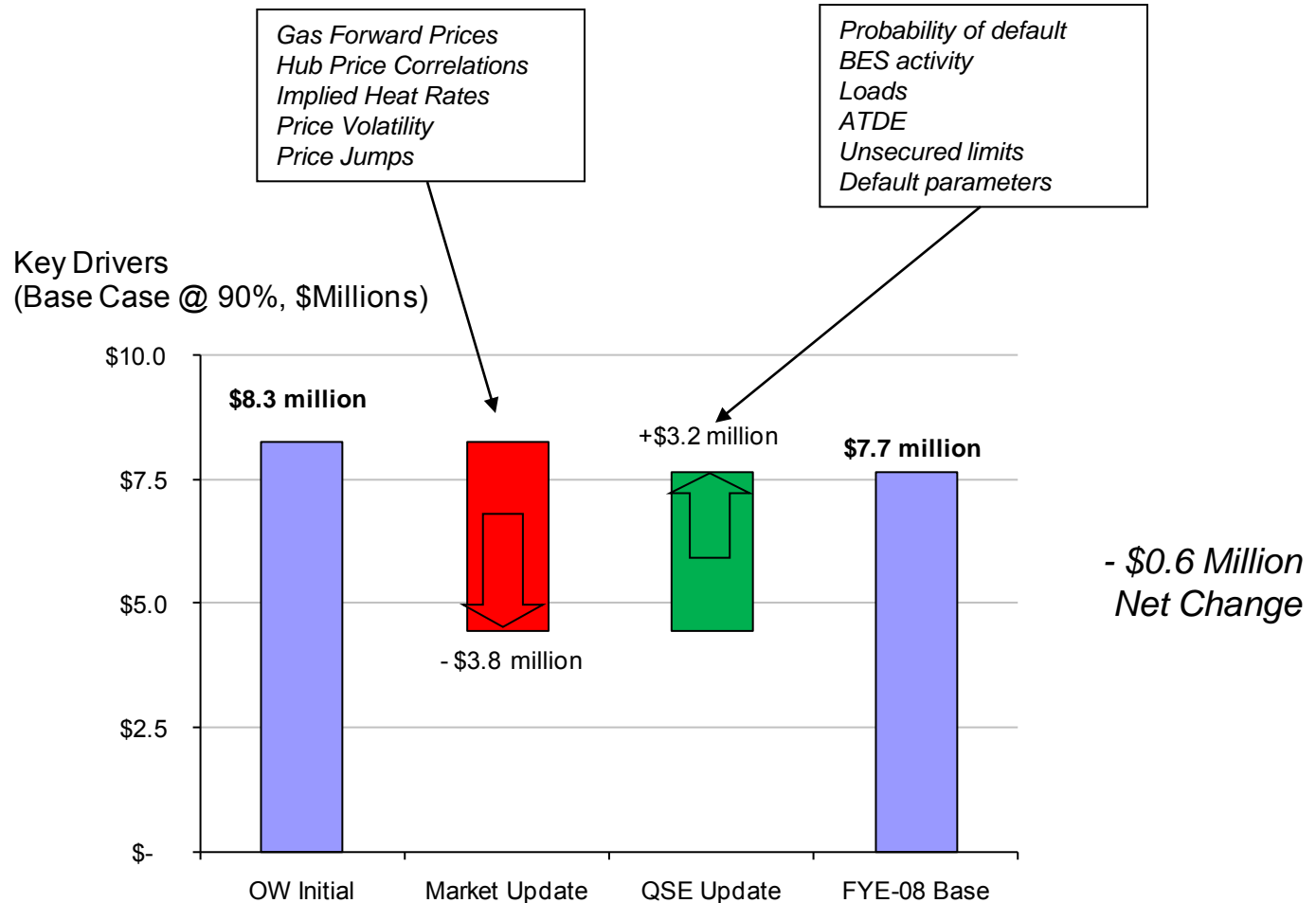
Expected Loss
Median (1:2)

90% (1:10)
95% (1:20)
99% (1:100)
99.9% (1:1,000)
Max (1:10,000)

	FYE-08 Financials	Initial OW
	Base Case	Base Case
Horizon (in days)	365	365
Simulations	10,000	10,000
Total defaults	44,884	46,229
Simulations with defaults	9,538	9,536
Simulations without defaults	462	464
Default simulations with zero loss	2,459	2,670
Total simulations with zero loss	2,921	3,134
Expected Loss	\$3.0	\$3.0
Median (1:2)	\$0.3	\$0.2
90% (1:10)	\$7.7	\$8.3
95% (1:20)	\$14.3	\$15.8
99% (1:100)	\$39.7	\$42.6
99.9% (1:1,000)	\$97.4	\$99.8
Max (1:10,000)	\$173.6	\$213.0

7. Credit Briefing – Potential Future Exposure: What Has Changed – FYE 2008

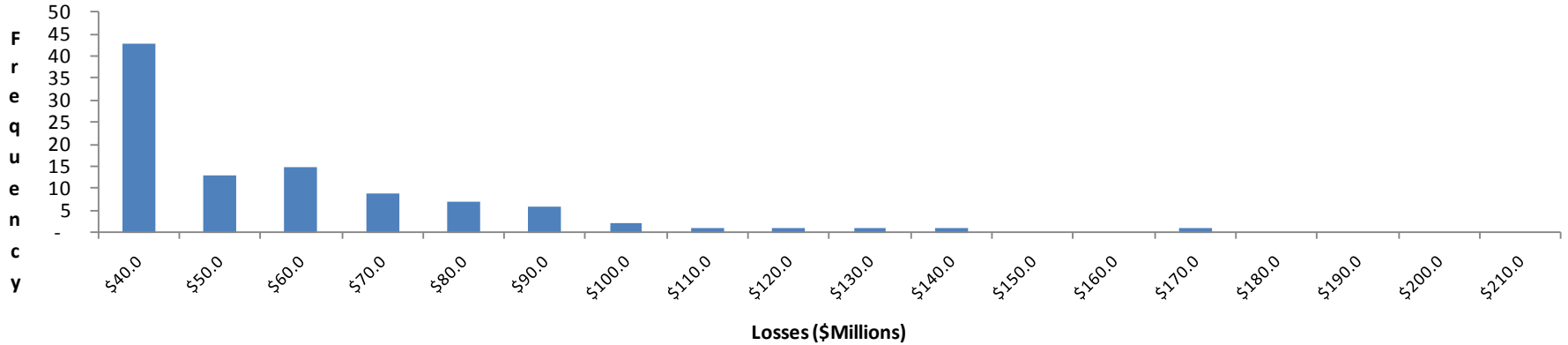
(US\$ Millions, 90% confidence)



7. Credit Briefing – Potential Future Exposure: Extreme Events – Base Case

Base Case – Top 1%

High Loss Simulations (Tail)



- Histogram above shows the top 1% loss simulations (Tail risk, a.k.a. “Extreme Events”)
- Precisely 1% (100) of the simulations resulted in losses in excess of \$39.7 million
- This is down slightly from the initial Oliver Wyman run of the model (\$42.6 million)

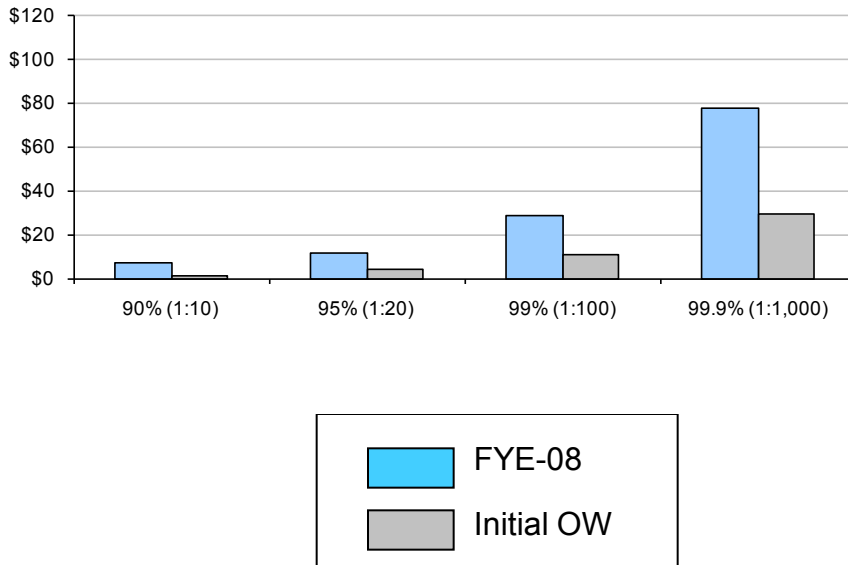
7. Credit Briefing – Potential Future Exposure: Current Case Simulations

- **Uses current levels and forms of collateral by QSE, at a minimum, held by ERCOT at Time₀**
- **ERCOT uses Group Logic to determine QSE Probability of Default (“PD”)**
 - This approach applies a combination of the QSE’s PD and the Parent’s PD, resulting in a PD between the QSE’s and Parent’s PD based on the strength of the relationship between the QSE and the Parent
 - Implies some level of support from a parent regardless of whether a guarantee is in place or not
 - This approach assumes that a QSE default occurs separately from a parent default and that a guarantee has value as collateral
- **Credit Working Group (CWG) requested to see a different approach applied to the Current Case (Guarantor PD approach)**
 - Recognize the acceptance of a guarantee as granting unsecured credit rather than as collateral
 - Set QSE’s PD equal to the Parent’s PD when a parent guarantee is in place for a strategic subsidiary (and use Group Logic when no guarantee is in place or when guarantee is for a nonstrategic subsidiary)
 - This approach assumes that a QSE will only default when the guarantor defaults

7. Credit Briefing – Potential Future Exposure: Current Case Simulations – Current Case Using Group Logic

Simulations using Initial OW data and FYE-08 Financials

Potential Credit Loss - Current Case (\$Millions)



	FYE-08 Financials	Initial OW
	Current Case	Current Case
Horizon (in days)	365	365
Simulations	10,000	10,000
Total defaults	45,078	46,548
Simulations with defaults	9,530	9,537
Simulations without defaults	470	463
Default simulations with zero loss	2,979	3,950
Total simulations with zero loss	3,449	4,413
(\$Millions)		
Expected Loss	\$2.5	\$0.7
Median (1:2)	\$0.2	\$0.03
90% (1:10)	\$6.8	\$1.4
95% (1:20)	\$11.9	\$4.0
99% (1:100)	\$28.6	\$10.9
99.9% (1:1,000)	\$77.9	\$29.8
Max (1:10,000)	\$172.7	\$156.0

7. Credit Briefing – Potential Future Exposure: Explanation of Differences – Current Case

- **Current case exposure has increased because security posted by Market Participants has decreased overall**
 - *Particularly by lower-rated counterparties*
 - *ERCOT retains collateral required by Protocols*

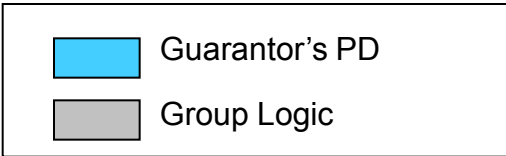
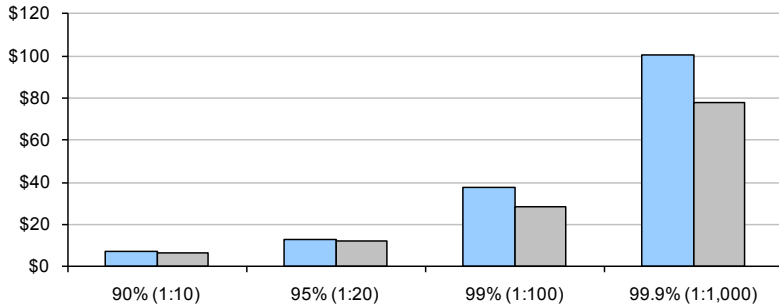
Changes in Collateral Held (QSEs common to both runs)

By Implied Credit Rating	Collateral Held (\$Millions)						
	FYE08 Report		Initial OW Report		Total Change		
	Guarantee	L/C	Guarantee	L/C	Guarantee	L/C	Total
AAA+	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
AA+ to A-	\$ -	\$ -	\$ 40	\$ -	\$ (40)	\$ -	\$ (40)
BBB+ to BBB-	\$ 121	\$ 59	\$ 78	\$ 140	\$ 43	\$ (81)	\$ (38)
BB+ to B-	\$ 144	\$ 77	\$ 93	\$ 76	\$ 51	\$ 1	\$ 52
CCC+	\$ 6	\$ 31	\$ 57	\$ 15	\$ (51)	\$ 16	\$ (35)
Total	<u>\$ 271</u>	<u>\$ 167</u>	<u>\$ 268</u>	<u>\$ 231</u>	<u>\$ 3</u>	<u>\$ (64)</u>	<u>\$ (61)</u>

7. Credit Briefing – Potential Future Exposure: Current Case Using Guarantor's PD

Simulations using FYE-08 Financials

Potential Credit Loss - Current Case (\$Millions)



Horizon (in days)
Simulations

Total defaults
Simulations with defaults
Simulations without defaults
Default simulations with zero loss
Total simulations with zero loss

(\$Millions)

Expected Loss
Median (1:2)

90% (1:10)
95% (1:20)
99% (1:100)
99.9% (1:1,000)
Max (1:10,000)

Guarantor's PD	Group Logic
Current Case	Current Case
365	365
10,000	10,000
41,391	45,078
9,503	9,530
497	470
2,628	2,979
3,125	3,449
Expected Loss	Expected Loss
\$2.7	\$2.5
Median (1:2)	Median (1:2)
\$0.2	\$0.2
90% (1:10)	90% (1:10)
\$7.1	\$6.8
95% (1:20)	95% (1:20)
\$12.9	\$11.9
99% (1:100)	99% (1:100)
\$37.4	\$28.6
99.9% (1:1,000)	99.9% (1:1,000)
\$100.6	\$77.9
Max (1:10,000)	Max (1:10,000)
\$204.4	\$172.7

7. Credit Briefing – Potential Future Exposure: Explanation of Differences – Group Logic vs. Guarantor PD Approach

- **The difference in losses is not remarkable between these two approaches when comparing confidence levels of 95% or less.**
- **However, at confidence levels above 95%, the Guarantor PD Approach indicates significantly higher losses.**
 - Using the Guarantor's PD, which is usually lower, indicates a reduced risk of default for the QSE; however, when there is a default, losses may be higher due to the unsecured credit granted to the QSE

- **Negative Prices in West Zone**
 - Negative prices interfere with calculations of price zone correlations and mean reversion factors
 - Upon discussion with OW, a flat \$20 price is substituted for negative prices
 - Impact on simulation results may understate risk but is negligible
- **Price Correlations**
 - Originally considered holding correlations constant; however, we believe that current trends in weaker price correlations should be used
 - Price correlations are calculated using historical prices of the most recent 12 months

- **Resources for Potential Credit Risk Model**
 - Staffing
 - Director of Credit Risk Management
 - Backfill resource currently used in Nodal effort with contractor (search underway)
- **Frequency of running the Model**
 - ERCOT currently examining options for running the model more frequently, i.e. monthly
 - Data management issues require resolution

- **Model updates in the coming months –**
 - Q1 Financials Sept. / Oct. 2009
 - Q2 Financials Oct. / Nov. 2009
 - Q3 Financials Dec. 2009

8. Recommend 2010 Base Operating Budget Bob Kahn / Mike Petterson

For discussion

9. Standing Investment Update: Discussion Topics

Cheryl Yager

- **Summary investment balances – August 10, 2009**
- **Background**
- **Alternatives for investment management**
- **Next steps**

9. Standing Investment Update: Balances - August 10, 2009

Cheryl Yager

ERCOT Summary of Investments as of August 10, 2009 (in 000's)

<u>Investment Account</u>	<u>Chase</u> <i>Treasury and Repo</i>	<u>Federated 068</u> <i>Treasury and Repo</i>	<u>Federated 0125</u> <i>Treasury only</i>	<u>Evergreen 497</u> <i>Treasury and Repo</i>	<u>AIM</u> <i>(see Note)</i>	<u>Subtotal</u>
Operating	\$ 4,313	\$ 1,158	\$ -	\$ -	\$ -	\$ 5,471
TRE	-	3,071	-	-	-	3,071
Market - settlements	7,526	4,336	3,907	1,300	-	17,069
Market - deposits	50,083	34,761	24,732	45,000	-	154,576
Total	\$ 61,922	\$ 43,326	\$ 28,639	\$ 46,300	\$ -	\$ 180,187
Distribution - August 10, 2009	34%	24%	16%	26%	0%	100%
		40%				
Approx dist - August 31, 2009	20 - 30%	20 - 30%		20 - 30%	20 - 30%	100%

Note: ERCOT has completed applications to open accounts at AIM. These accounts are expected to be fully funded by the end of August.

- **In 1Q 2009, F&A Committee began a review of investment practices that resulted in changes to the Investment Corporate Standard that significantly strengthened ERCOT's practices**
 - **Improves credit quality of investment**
 - Limits investment options to those that are “obligations of or guaranteed by the US government”
 - Establishes internal monthly review of instruments held in money market funds
 - Provides the Board with a list of securities held in funds
 - **Protects liquidity**
 - Requires diversification to at least 2 fund families
 - *Moves toward limits of amounts held per fund*
 - *With many Treasury funds closed at that time, ERCOT could not establish a “hard cap” on the dollar amounts invested per fund*
 - **Defines who bears risk of loss on investments of collateral**

- **Since more funds are accepting new investment and given previous member concerns regarding concentrations, ERCOT staff seeks to revisit the alternatives discussed at the beginning of the year**
 - A summary of possible investment approaches is provided on the next page to aid in the discussion (taken from January 2009 discussion materials)

9. Standing Investment Update: Alternatives for 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	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	TBD	No
Option 3	Maintain investments in multiple bank accounts at multiple banks. No return and costs approximately 10 basis	Yes	TBD	Less	Yes	TBD	In 2009, theoretically, no
Option 4	Other						

- ERCOT can work with any of the options listed
- Committee direction on investment approach?

**Decision on investment direction
from F&A Committee**

Q&A only

ERCOT Market Credit Status

as of 6/30/2009

as of 7/31/2009

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		# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
Exposure in the ERCOT Market (owed to ERCOT)										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	8	27,503,404	9%	144,006,121	U	9	32,897,909	11%	157,353,168	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	50	163,396,480	61%	335,624,003	S	46	157,876,513	55%	362,616,251	S
Guarantee Agreements	15	76,653,368	29%	378,512,171	S	18	97,543,581	34%	426,871,871	S
Total Exposure	73	267,553,252	100%			73	288,318,003	100%		
Other QSEs in the ERCOT Market (ERCOT owes)										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	8	(9,180,427)	-24%	69,884,615	U	7	(3,217,436)	-10%	56,537,568	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	63	(22,306,210)	-58%	24,018,233	S	67	(24,653,344)	-72%	23,358,990	S
Guarantee Agreements	11	(7,227,897)	-19%	141,411,700	S	9	(6,222,395)	-18%	93,052,000	S
Total	82	(38,714,534)	-100%			83	(34,093,175)	-100%		

Total

155

156

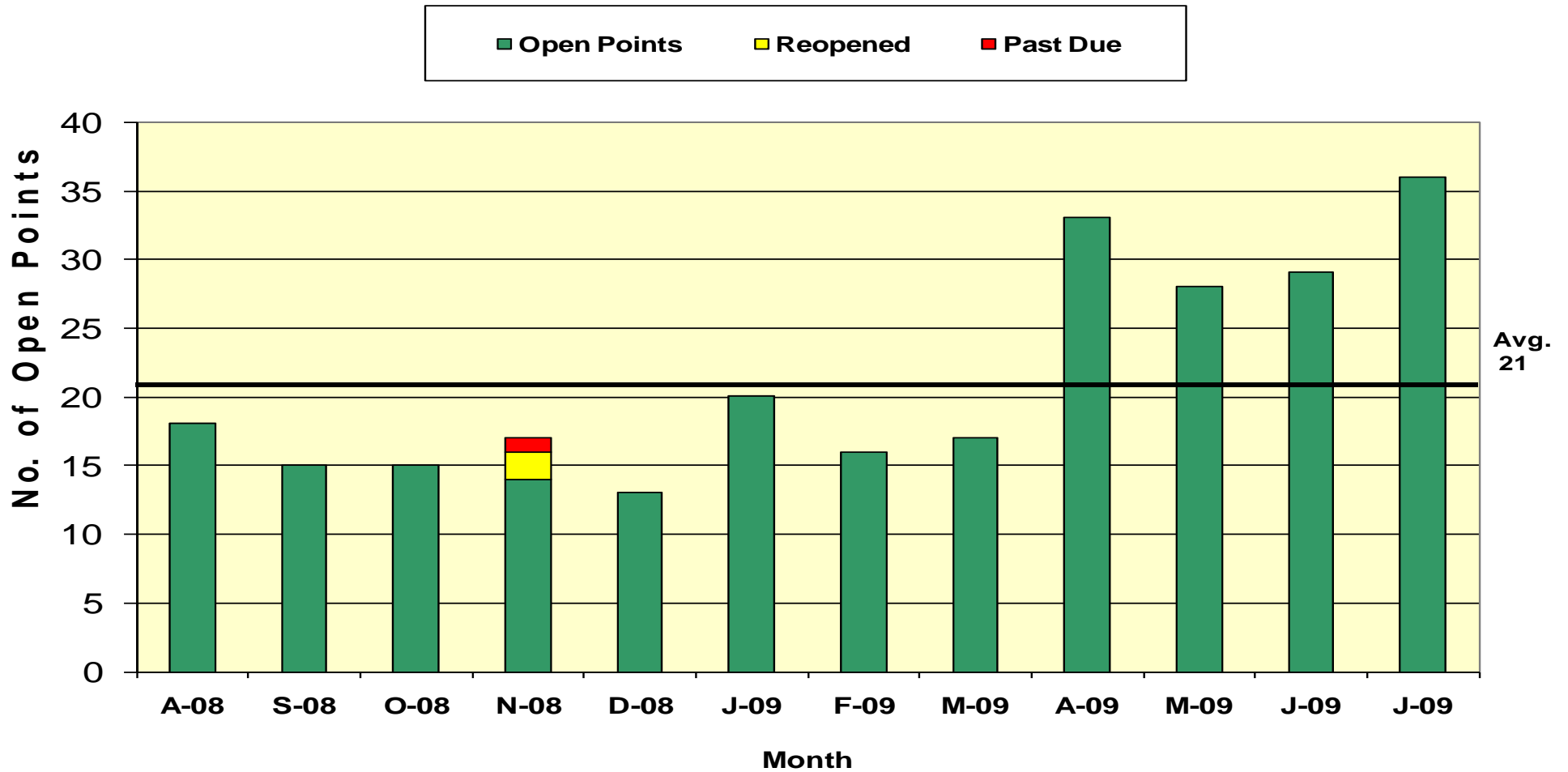
U: For QSEs that meet ERCOT's Creditworthiness Standards, amount of unsecured credit granted.

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

Note 1: Guarantee Agreements provided to meet a QSE's collateral requirements by entities that meet ERCOT's Creditworthiness Standards. Guarantee Agreements provided to meet financial statement requirements by entities that do not meet ERCOT's Creditworthiness Standards are not included on this schedule.

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

Cheryl Moseley



Avg.
21

Totals

Audits Completed	2	4	1	3	5	1	1	6	2	3	3	3	34
Points Added	2	0	0	4	11	12	9	24	27	6	16	11	122
Points Completed	6	3	0	2	15	5	13	23	11	11	15	4	108

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

10. Committee Brief: Audit Cheryl Moseley

Audits Completed

(last 3 months)

Internal Audits

- Q1 2009 Fraud Auditing
- Business Continuity Plan
- System Operator Compliance with Operating Procedures
- IT System Availability & Performance
- Procurement Card Process (Special Request Targeted Review)
- Procurement & Contract Administration
- Enterprise Risk Management

External Audits

- 2008 Financial Audit (PwC)

Open Audits

Internal Audits

- Long-Term Technology Strategy
- Financial Reporting & Close
- Cash & Investments
- Q2 2009 Fraud Auditing
- Protocol 1.4 Required Audit – Independence Verification

External Audits

- 2009 SAS70 Audit (PricewaterhouseCoopers)
- Nodal Program Billings – ABB (Opportune LLP; Targeted Review; Internal Audit to Provide Support)

Planned Audits

(next 3 months)

Internal Audits

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

External Audits

- Nodal Program Review – Schedule & Milestone Performance (Report #11; Auditor-TBD) (May be cancelled)

10. Committee Brief: Audit Cheryl Moseley

**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 August 1, 2009)**

Strategic	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Legal and Regulatory Compliance
<p> Strategy Development</p> <p><i>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</i></p>	<p> Performance Monitoring</p> <p><i>Clearly defined and actively monitored performance metrics linked to mission and goals. Performance status communicated and corrective action taken.</i></p>	<p> Customer Choice</p> <p><i>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</i></p>	<p> Grid Operations</p> <p><i>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.</i></p>	<p> Review Practices</p> <p><i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</i></p>	<p> Legal & Legislative</p> <p><i>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</i></p>
		<p>PUCT has finalized POLR rule and Expedited switch. We are initiating projects to implement changes as needed.</p>			
<p> Mission and Goals</p> <p><i>Corporate objectives and performance standards are understood and followed.</i></p>	<p> Business Practices</p> <p><i>Business planning, processes and management standards are effective and efficient.</i></p>	<p> Nodal Implementation Project</p> <p><i>Nodal Implementation on budget on schedule, and within defined scope.</i></p>	<p> Planning</p> <p><i>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</i></p>	<p> Disclosure</p> <p><i>Reporting and other disclosures to intended parties is timely, accurate and effective.</i></p>	<p> Internal Control Compliance</p> <p><i>Internal Control Compliance, processes and management standards are effective and efficient.</i></p>
<p>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.</p>		<p>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.</p> <p>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.</p>	<p>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.</p>		<p>ERCOT is developing processes to institutionalize the ongoing training on current policies and procedures for all ERCOT staff and contract workers.</p>
<p> Reputation</p> <p><i>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</i></p>	<p> Workforce</p> <p><i>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</i></p>	<p> Counterparty Credit</p> <p><i>Maintain credit risk exposure for overall market within acceptable limits.</i></p>	<p> Bulk System Resources</p> <p><i>Market Participants construct and make available adequate bulk electric grid resources.</i></p>	<p> Communication</p> <p><i>Internal & external communications are timely and effective.</i></p>	<p> Industry Standards </p> <p><i>Business practices provide stakeholders with required assurances of quality.</i></p>
<p>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.</p>	<p>The rolling 12-month voluntary turnover has dropped to 4.3%. ERCOT readiness continues to be an on-going issue. Continued strong demand for subject matter experts needed for Nodal project, on-going base projects and operations. <i>As of the end of July ERCOT was seeking to fill 10 positions. ERCOT also froze 12 positions to assist with the revenue shortfall in the ERCOT budget for 2009. There is a constant review of staffing levels and skills required to manage the new Nodal market.</i></p>	<p>A Credit Risk Standard was approved by the Board in May. <i>Results of the potential credit exposure model for YE 2008 were reviewed with the CWG and MCWG in early August and will also be reported to the F&A committee in August. The market experienced price spikes in June; ERCOT is monitoring market activity closely through the summer.</i></p>			<p><i>Preparation for October NERC audit, plus annual audits going forward will create competition for subject matter expert resources for the foreseeable future (ie., Nodal, Nodal Phase 2, Advanced Metering, etc.) Broad scope of NERC audits and lack of precedent makes preparation difficult and time-consuming.</i></p>
<p> Fiscal Management</p> <p><i>ISO design requires competent, prudent and cost effective provision of services.</i></p>	<p> Technology Infrastructure</p> <p><i>Information systems, supporting facilities and data are effectively managed and are reliable.</i></p>	<p> Administration, Settlement & Billing</p> <p><i>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</i></p>	<p> Operational Responsibility</p> <p><i>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</i></p>	<p> Adequacy and Integrity</p> <p><i>Robust processes exist to support management assertions embodied within financial reports.</i></p>	<p> Regulatory Filings</p> <p><i>Evidence, testimony and other supporting materials are compelling and successful.</i></p>
<p>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.</p>	<p>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.</p>		<p>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.</p>		

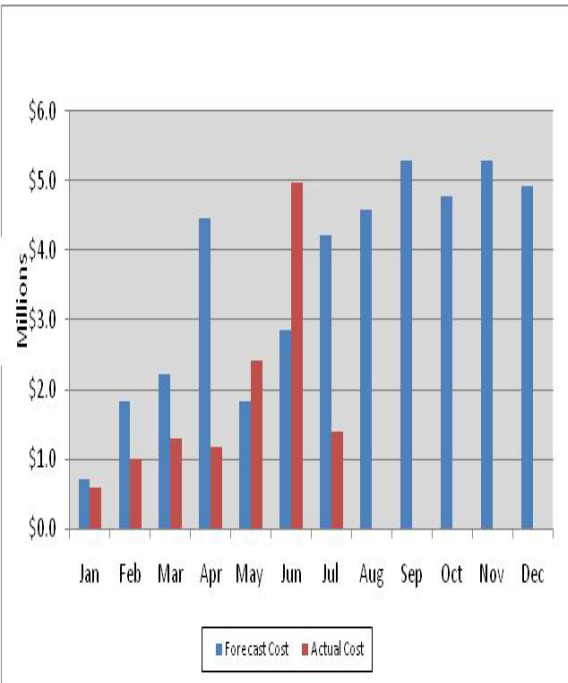
Legend: Elevated Risk Level Reduced Risk Level

(New Risk Categories / Descriptions Indicated in Green)

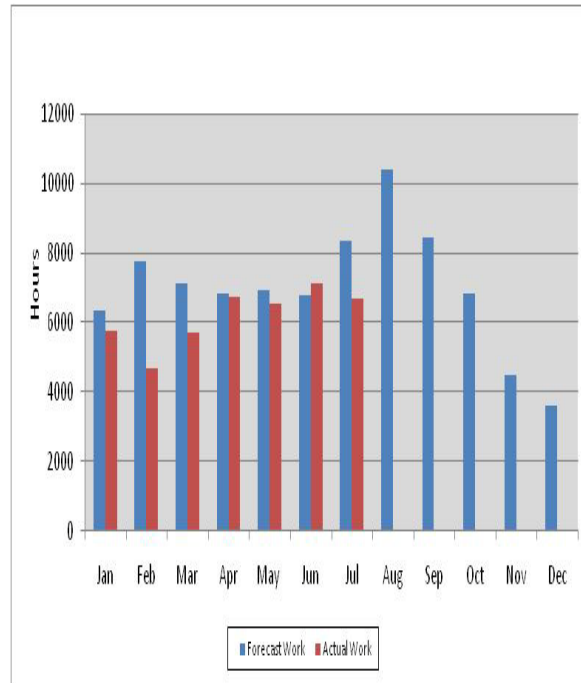
ERCOT Enterprise Projects Summary Report

ERCOT		Overall Projects Report					Reporting Period: 8/7/2009	
Projects in Ercot's Portfolio							Portfolio Performance	
Deferred	Concept	On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget
4	1	1	1	4	25	5		
		Closed	10	Total Active		36		
		Cancelled	3	Projects Not Started		1	** Current Year Funded Budget: \$38,150,000	

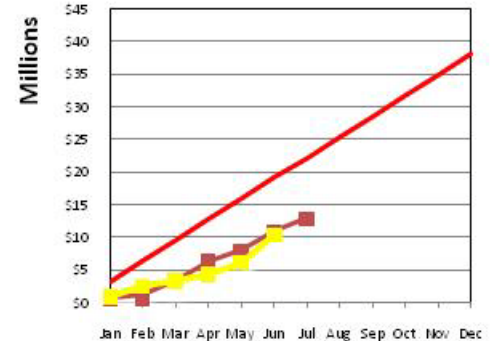
ERCOT Projects
Current Year - Cost



ERCOT Projects
Current Year - Work



ERCOT Projects
Current Year to Date Financials



** 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 June 2009

Future Agenda Items – September 2009

- **Standing Internal Audit agenda items**
- **Selection and recommendation of independent auditor (Financial and SAS70)**
- **Review F&A charter**
- **Review and assessment of compliance and internal control systems**
- **Update of 2009 financial forecast**
- **Possible special meeting for external auditor review**
- **Recommend 2010 base operating budget**
- **Standing Investment update**
- **Committee briefs**
- **Future agenda items**

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