



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 206
September 15, 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) (08/18/09)	C. Karnei	7:32am
	For discussion	2c. Internal Audit status report	B. Wullenjohn	7:33am
	Informative	2d. Update on timeline for 2010 Internal Audit plan	B. Wullenjohn	7:35am
	Informative	2e. EthicsPoint update	B. Wullenjohn	7:40am
	For discussion	2f. Security of control room workstations	A. Delenela	7:50am
3.	Decision required	Selection and recommendation of independent auditor (Financial and SAS 70)	M. Petterson	8:00am
4.	Informative	Contracts, personnel, litigation and security	Various	8:30am
		Recess Executive Session		8:40am
		Convene General Session		
5.	Decision required	Approval of general session minutes (Vote) (08/18/09) (08/17/09)	C. Karnei	8:40am
6.	Decision required	Vote on items from executive session (Vote)	C. Karnei	8:41am
7.	Decision required	Review results of and vote on acceptance of 2008 401(k) audit report (Vote)	L. Porter	8:42am
8.	Decision required	Recommend 2010 base operating budget (Vote)	S. Byone	8:50am
9.	Informative	Update of 2009 financial forecast	M. Petterson	9:20am
10.	Informative	Standing investment update (time permitting)	C. Yager	9:30am
11.	Informative	Committee Briefs (Q&A only)	All	9:40am
12.	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, October 20, 2009, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 206.*

Decision required
For discussion

5. Approval of General Session Minutes Clifton Karnei

- **Approval of General Session Minutes**
 - Vote 8/18/09, 08/17/09

DRAFT ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
MINUTES OF THE FINANCE & AUDIT COMMITTEE (Room 206) – GENERAL SESSION

7620 Metro Center Drive – Austin, Texas 78744
 August 18, 2009

Pursuant to notice duly given, the Finance & Audit Committee (“Committee”) of the Electric Reliability Council of Texas, Inc. (“ERCOT”) convened on the above-referenced date. Clifton Karnei confirmed that a quorum was present and called the meeting to order at approximately **7:35 a.m.** The Committee met in Executive Session from **7:35 a.m.** to **8:40 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
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 Company	Investor Owned Utility	Not Present
Karnei, Clifton (Chair)	Brazos Electric Cooperative	Cooperative	Present
Thomas, Robert	Green Mountain Energy	Independent Retail Electric Provider	Not Present
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Bartley, Steve	CPS Energy	Municipal	Present
Brown, Deryl	Hudson Energy Services	Independent REP	Present
Crowder, Calvin	AEP Service Corporation	Investor Owned Utility	Present
Smitherman, Barry	Public Utility Commission	Chairman	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Adler, Amy	ERCOT – Supervisor, Internal Audit
Anderson, Troy	ERCOT – Manager, Program Administration
Baker, Randy	ERCOT – Director, Credit Risk Management
Barrow, Les	CPS Energy
Barry, Sean	PriceWaterhouseCoopers
Brenton, Jim	ERCOT – Director, Cyber Standards
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Cleary, Mike	ERCOT – Senior Vice President and Chief Technology Officer
Day, Betty	ERCOT – Director, Markets

Delenela, Ann	ERCOT – Director, Corporate Security
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doggett, Trip	ERCOT – Senior Vice President and Chief Operating Officer
Donohoo, Ken	Oncor Electric Company
Drost, Wendell	AREVA
Forfia, David	ERCOT – Director, IT Infrastructure
Gillmore, Gina	ERCOT – Senior Financial Analyst
Goff, Eric	Constellation New Energy
Hancock, Misti	ERCOT – Manager, Budget and Financial Analysis
Headrick, Bridget	Public Utility Commission of Texas
Howard, Richard	ERCOT – Director, IT Operations
Kahn, Bob	ERCOT – President and Chief Executive Officer
Kleckner, Tom	ERCOT – Nodal Communications Strategist
Lester, Suzanne	ERCOT – Executive Assistant, Finance
Magness, Bill	Casey, Gentz & Magness
Manning, Chuck	ERCOT – Vice President and Chief Compliance Officer
Morehead, Juliana	ERCOT – Associate Legal Counsel
Morgan, Richard	ERCOT – Vice President and Chief Information Technology Officer
Nield, James	ERCOT – Manager, Treasury
Petterson, Mike	ERCOT – Controller
Rocap, Nisha	PricewaterhouseCoopers
Saathoff, Kent	ERCOT – Vice President, System Planning and Grid Operations
Stauffer, Tarra	ERCOT – Legal Assistant
Steadman, Laura	ERCOT – Procurement Specialist III
Troxtehl, David	ERCOT – Director, PMO
Walsh, Meg	ERCOT – Manager, Procurement
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT - Treasurer

Approval of Prior Meeting General Session Minutes

Michehl Gent moved to approve the minutes for the General Session of the Committee meeting held on July 21, 2009. Calvin Crowder (Segment Alternate) seconded the motion. The motion passed by voice vote with no abstentions.

Approval of Engagement of External Auditor for Non-audit Services

Clifton Karnei stated that discussion regarding the engagement of external auditor/s was a reporting item only.

Mike Petterson informed the Committee that as required by the Committee’s Charter, ERCOT staff must seek preapproval for non-audit services provided by ERCOT’s independent, external auditor.

Mr. Petterson indicated he sought approval to renew subscriptions to an accounting literature database, Comperio, sold by PricewaterhouseCoopers – ERCOT’s current external auditor. Information in the database is essential for accounting staff to keep abreast of authoritative accounting literature and to carry out their job responsibilities. Mr. Petterson added that ERCOT has subscribed to Comperio for the last four years and the annual cost has been around \$2000 per year. Mr. Karnei attempted to elicit comments, questions, and concerns by the other members of the Committee, but none were made and no objections to the renewal of the subscription to the database service was raised.

PricewaterhouseCoopers SAS-70 Audit Update

Sean Barry and Nisha Rocap of PWC presented an update concerning their SAS-70 audit of ERCOT and directed the Committee to the Management Letter contained in the materials disseminated to the Committee prior to the meeting. Ms. Rocap reminded the Committee that as communicated at the April 22, 2009 Committee meeting, PWC did not identify any deficiencies in their SAS-70 audit of ERCOT. She then gave an overview of the SAS-70 process explaining that it is an examination of internal controls for market-based systems that are primarily used by auditors and market participants (specifically, SEC registrants). Ms. Rocap discussed the audit period of October 1, 2008 through September 30, 2009, stating that the Report was an interim report and PWC had completed half of the fieldwork with no findings of significant changes in scope. She added that Phase 1 included all controls tested at interim, and Phase 2 included all controls tested over the year. Ms. Rocap said the audit was on time and within the budget. Ms. Rocap summed up her overview by stating that she was merely presenting the Committee with interim findings, and reiterated that the audit project is on, and within budget, but for two exceptions, both of which Trip Doggett would explain in further detail.

Trip Doggett then took over stating that he would give the Committee a high-level overview of the two exceptions identified by Ms. Rocap.

Exception 1: Mr. Doggett stated that annual Pre-assigned Congestion Rights (“PCR”) allocation approvals included calculations to be approved by department managers. Due to reorganization however, Mr. Doggett stated that ERCOT lacks a functioning manager, but that findings up to present do not indicate impact upon the market or on settlements to undertake such approvals. He further said that ERCOT recalculated the pre-assigned revenue rights and received accurate results. Furthermore, he informed the Committee that ERCOT is implementing remedial actions to ensure proper functioning of the annual PCR allocation approvals. He assured the Committee that he and his division take this issue very seriously and as such, the staff has been briefed on the issue to ensure a culture of compliance.

Exception 2: Mr. Doggett added that there had been some issues with levels of security for exiting employees as applied to revoking access to ERCOT facilities (physical and technical). He noted that high-level access is timely removed, but that ERCOT has had issues involving adequate revocation of low-level access to databases. However, Mr. Doggett reassured the Committee that the security issue had been identified, and protocols were being created to ensure long-term fix by implementing automated detection processes. Moreover, he said that no impact to the market or settlements has occurred, yet ERCOT is diligently monitoring the situation until such automated processes are implemented.

Bob Kahn asked about the term “exception” and the difference between qualified exceptions and not qualified exceptions. Mr. Barry noted that when exceptions are identified, they are reported. He added that the identification of exceptions was a transparent process and important to readers. Mr. Kahn asked whether it was common to have no exceptions in an audit. Mr. Barry responded that having no exceptions is relatively uncommon. Mr. Barry then provided the timing for completion of the audit, and noted that Phase 2 should be completed in September/October 2009, with a final report and call to follow providing information to Market Participants.

Credit Briefing: Potential Future Exposure

Cheryl Yager introduced Randy Baker, the new Director, Credit Risk Management, and informed the Committee that Mr. Baker had prepared information on potential future exposure. Randy Baker directed the Committee to materials provided to them prior to the meeting, and gave an overview of the contents contained therein. Mr. Baker focused on Potential Credit Risk Model updates and noted that overall, the base case residual credit risk remained comparable to the level identified in the initial Oliver Wyman model (i.e., market factors have reduced risk, QSE factors have increased risk, and the net effect was that overall risk was slightly down). Mr. Baker added that current case residual credit risk increased when compared to the level identified in the Oliver Wyman model, specifically that excess collateral held has decreased, resulting in increased residual credit risk.

Mr. Baker continued his discussion by reminding the Committee that information on market credit risk is being provided as required by the Market Credit Risk Standard approved by the Board of Directors in May 2009. He added that his presentation was based on financial statement information provided by Qualified Scheduling Entities (“QSEs”) as of December 31, 2008. In addition, Mr. Baker informed the Committee that the Potential Credit Risk Model (“Model”) uses a Monte Carlo Simulation for potential credit losses across all ERCOT QSEs, while taking into account several risk factors such as default probabilities, exposure parameters, market price and price volatility, collateral, and the relationships between the factors. He said the Model is not a predictor of the future because it is not capable of encompassing every factor or scenario, but that it provides insight into what may happen along with the probability of various outcomes.

Mr. Baker then directed the Committee to a schematic of the Model and talked about the four modules contained within the Model (i.e., Default, Price, Volumetric, and Collateral), which are the key credit risk factors in the ERCOT market. He then went into more detail on base case, and current case, highlighting that: (a) collateral levels associated with base case is at least consistent with current protocols, but does not include current collateral held by ERCOT; and (b) current case uses current levels and forms of collateral for each QSE held by ERCOT at the beginning of a simulated period – i.e., it is a starting point that is based upon collateral at this point in time, and assumes that collateral over the simulation period does not fall below those levels even if exposure goes down.

Mr. Baker then presented the Histogram of Losses for the base case (page 16 of the Meeting materials) for 9,000 of 10,000 (or 90%) of the simulations done. The Histogram highlighted that 90% of these simulations generated credit losses of less than or equal to \$7.8 million. Mr. Baker further explained that over 29% of the simulations had no losses, and over 70% resulted in losses of less than or equal to \$1.7 million.

Mr. Karnei asked whether the \$1.7 million was the net loss. Mr. Baker confirmed that the figure was the net loss after collateral was considered.

Albeit a rarity, Mr. Karnei asked if these events could occur in tandem with an extreme event (e.g., spiking gas prices, hurricane, etc) and further inquired into the method of accounting for such extreme events. Mr. Baker responded that although the Model does not directly consider specific disaster scenarios, the Model does provide for distribution of losses resulting from an extreme event affecting the marketplace and noted that he would discuss those later in the presentation.

Barry Smitherman asked how the Model could account for great disparity in the size of some market participants (e.g., where one market participant has credit difficulty and migration is

required). Mr. Baker responded that, for each QSE (including the large QSEs), the Model links: (1) the volume of load/generation for that QSE; and (2) the default probability of the QSE.

Mr. Smitherman asked for more explanation concerning how default probabilities were determined. Mr. Baker responded that if a rating from a major credit rating agency is available, it is used in the analysis. Where an entity is not rated, Mr. Baker added that the Credit Scoring Model (a component of the overall Model) is used, which relies primarily on financial statement data and other criteria.

Mr. Smitherman inquired about the practicality of migrating customers to alternate providers in the event a large Retail Electric Provider (“REP”) goes out of business. He further asked Mr. Baker if a scenario such as this was captured in his analysis. Mr. Baker replied that the Model uses some base assumptions about escalation of volume, the balancing of the market, and the time required to migrate customers

Mr. Smitherman asked who designed the Model. Ms. Yager noted that the Model was developed by ERCOT and Oliver Wyman, and was vetted by the credit work group. She also clarified that, for simplicity, the Model treats load serving entities (LSEs) as either large or small. In default scenarios, the Model assumes small LSEs will Mass Transition their customers using the timeline used in the market. The Model does not assume that large LSEs will do a Mass Transition but will rather find another way to resolve their default (e.g. bankruptcy, etc).

Mr. Karnei noted that when a QSE files for bankruptcy, collateral held at the time of the bankruptcy would apply to its pre-petition exposure amounts owed to ERCOT. However, he continued, that entity would have to post additional collateral for its post-petition exposure and stay current on those payment responsibilities. Ms. Yager agreed with Mr. Karnei and noted that stress tests could be run on the Model using more extreme assumptions if needed.

Mr. Smitherman added that in the spring of 2003, he recalled the market absorbing around \$15 million in losses. Ms. Yager responded that in that particular instance, the entity ultimately liquidated under Chapter 7 and transitioned its customers. Mr. Smitherman noted that it might be advisable to have a bankruptcy attorney confirm the reasonableness of ERCOT’s assumptions used in the Model. Mr. Karnei asked Ms. Yager to research this idea and return to the Committee with the information.

Mr. Cox asked whether ERCOT staff had a plan to handle one of the aforementioned scenarios. Ms. Yager replied that ERCOT’s Settlement Department has a plan, developed with the market, which could be provided to the Committee at a future meeting, if desired. Mr. Kahn mentioned that he challenged Betty Day’s group to see how many customers ERCOT could provide services to in the event of a large Mass Transition. At present, Mr. Kahn noted that ERCOT is able to process 150,000 customers per day. Discussion followed regarding the issue of the market’s ability to absorb the 150,000 figure and Ms. Day confirmed that market participants had noted that they would be able to absorb this level of transition. In summation, Mr. Karnei noted that although there would be a high probability of some level of default, the true issue was the number and figure over a year, to which Mr. Baker concurred.

Mr. Baker went on to review changes since the 2008 fiscal year end. He discussed tail risks (i.e., extreme events) tied to the base case and highlighted factors and drivers of the Model citing a slightly decreased risk on the base case. Mr. Baker added that as new QSEs with low credit quality enter the market or as existing QSEs credit quality deteriorates, credit risk increases.

Mr. Baker then outlined current case simulations using Guarantor's PD and Group Logic approaches. Although the difference in losses was not significant between the approaches, when comparing confidence levels of 95% or less, with confidence levels above 95%, the Guarantor PD approach indicated significantly higher potential losses.

Mr. Karnei inquired into the comparison of expected losses and commented that he did not consider the difference between the expected loss numbers large. Mr. Baker responded that expected losses did not vary significantly. Mr. Baker concluded by briefly talking about a change made to the Model to adapt for negative prices in the West zone (only a slight effect), price correlations (updated as market prices change with each period), and Model resource research and undertakings. He also noted that ERCOT was examining options for running the Model more frequently. Mr. Karnei expressed appreciation for Mr. Baker's report and explanations.

Discussion of Recommended 2010 Base Operating Budget

Mr. Karnei noted the Special Committee Meeting on the prior day for review of the 2010 budget options. Mr. Karnei added that the Committee discussed the budget options at length in Executive Session, and mentioned that he had conducted an initial poll of Committee members for insight into what budget option the Committee might recommend to the Board. He stated that the Committee had questions that required staff clarification before the Committee could finalize its recommendation. However, Mr. Karnei pointed out, the consensus during the Executive Session suggested that the Committee would likely recommend the 2010 Management Recommendation budget scenario (as defined in the materials disseminated to the Committee) to the Board in September 2009. He added that additional information and details regarding the three budget options would be provided the following day at the August Board of Directors meeting.

Standing Investment Update

Cheryl Yager directed the Committee to materials provided to them prior to the meeting. Ms. Yager began by stating that she was updating the Committee on investments in response to concerns expressed by Committee members. She informed the Committee that ERCOT has added Evergreen and AIM as investment accounts (two accounts with each fund family). She said ERCOT is still testing the transaction system with AIM. She added that there is currently approximately \$180 million in investable funds; however, planning for investable funds in the zonal market should consider investable funds of up to around \$400 million since ERCOT held around \$360 million in investable funds at December 31, 2008. Ms. Yager mentioned that she would provide the Committee with a Nodal related investment update in the near future. Mr. Cox expressed the importance of addressing investment strategy. Ms. Yager explained that ensuring ERCOT had timely access to funds to maintain liquidity was a priority for ERCOT staff. She directed the Committee to the materials that provided analyses of different options, noting that the Committee had considered the same information earlier in the year, but had not made a decision given the financial market constraints at that time. Now that investment options were opening up, she asked for further guidance from the Committee on investment strategy.

Mr. Karnei said that previously Mr. Cox asked about outsourcing options to alleviate the possible administrative burden of an increased number of funds, to which Mr. Cox replied that he was satisfied with the current investment situation, but wanted to continue to diversify without being exposed to outside conflicts or internal burdens. Steve Byone addressed the Committee and asked for further feedback on the number of funds and specific fund targets to be considered.

The issue of further diversification was initiated by Mr. Cox. Ms. Yager noted that with Money Market funds as the primary investment vehicle, having something like four funds provided a level of liquidity diversification and was manageable with existing staff. She added that staff would be glad to implement whatever strategy the Committee desired, but noted that further diversification, expansion of investment options or more complex structures would require additional staff to manage. Discussion of percentage and dollar caps on funds was discussed.

The issue of yield was introduced by Mr. Smitherman. Mr. Smitherman suggested the Committee consider the outlook for Treasury and Treasury-backed investments, and further explore options such as state and tax-exempt bonds or legitimate triple A securities. He added that the Committee should ask itself if there a reasonable balance of credit risk, liquidity and return. He further asked the Committee if it wanted to continue focusing on maximum liquidity and maximum security.

Mr. Karnei referred to a time when the Committee looked at highly rated prime funds with a yield focus that allowed movement between funds and adjustment of risk. He noted that when ERCOT had problems with its investments at The Reserve and given the overall market credit situation over the past year, the pendulum swung towards the decision to go with only Treasury or Treasury-backed securities. Mr. Karnei added that the Committee should think about the balance currently being maintained between safety, liquidity, and return. Thereafter, Mr. Karnei asked Ms. Yager to bring this issue back for future discussion.

Mr. Espinosa expressed agreement with Mr. Smitherman's comments regarding challenges, and asked Ms. Yager to provide the Committee with a range of available vehicle rates and yields to allow the Committee to evaluate investment possibilities. He further stated that it was his belief that ERCOT needed a dollar cap on each fund, and would like to be presented with information regarding such at the next Committee meeting. Mr. Ballard then stated that he wanted ERCOT to continue to invest market participant deposits in Treasury and Treasury-backed securities, unless market participants are willing to absorb the risks associated therewith.

Michehl Gent inquired into the data regarding future and additional investments as contained in the Summary of Investments as of August 10, 2009, and recommended a soft cap of some kind. He added that he liked the distribution contained therein. Ms. Yager concluded the discussion by noting that she would bring back additional information at a future meeting.

Committee Briefs

Materials distributed prior to the Committee meeting focused on the following areas:

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

Future Agenda Items

The following items were identified as future agenda items:

1. Standing Internal Audit agenda items

2. Short list recommendation of independent auditors (Financial Audit and SAS-70 Audit)
3. Review of the F&A Committee Charter
4. Review and assessment of compliance and internal control systems
5. Update of the 2009 financial forecast
6. Possibility of a Special Meeting for external auditor review
7. Recommending a 2010 Base Operating Budget
8. Standing Investment update
9. Committee briefs
10. Future agenda items

Mr. Smitherman asked Mr. Karnei if he would be communicating a 2010 budget recommendation at the General Session Board Meeting, and Mr. Karnei reiterated that he would be informing the Board that further clarification regarding the budget options was needed, but the consensus was such that the Committee would likely recommend the 2010 Management Recommendation budget option at the September 2009 meeting.

Adjournment

Clifton Karnei adjourned the meeting at approximately 10:00 a.m.

Juliana Morehead
Associate Corporate Counsel

**DRAFT ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
MINUTES OF THE FINANCE & AUDIT COMMITTEE – SPECIAL MEETING**

2010 Budget Review and Public Comment
7620 Metro Center Drive (Room 206) – Austin, Texas 78744
August 17, 2009

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. (“ERCOT”) convened on the above-referenced date. Clifton Karnei confirmed that a quorum was present and called the meeting to order at approximately **2:08 p.m.**

Special Meeting Attendance

Committee Members:

Ballard, Don	Office of Public Utility Counsel	Residential Consumer	Present
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	Not Present
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative	Present
Thomas, Robert	Green Mountain Energy Company	Independent Retail Electric Provider	Not Present
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Armentrout, Mark	Unaffiliated Board Member	Unaffiliated Board Member	Present
Bartley, Steve	CPS Energy	Municipal	Present
Brown, Deryl	Hudson Energy Services	Independent Retail Electric Provider	Present
Dalton, Andrew	Valero Energy Corp.	Industrial Consumer	Present
Helton, Bob	International Power America	Independent Generator	Present
Newton, Jan	Unaffiliated Board Member	Unaffiliated Board Member	Present
Patton, A.D.	Unaffiliated Board Member	Unaffiliated Board Member	Present
Ryall, Jean	Constellation Energy	Independent Power Marketer	Present
Smitherman, Barry	Public Utility Commission of Texas	PUC Chairman	<i>Via telephone</i>
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT Staff and Guests:

Anderson, Troy	ERCOT – Manager, Program Administration
Barry, Sean	PricewaterhouseCoopers
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Capezzuti, Nancy	ERCOT – Vice President and Chief Administrative Officer
Cleary, Mike	ERCOT – Senior Vice President and Chief Technology Officer
Day, Betty	ERCOT – Director, Markets
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doggett, Trip	ERCOT – Senior Vice President and Chief Operating Officer
Donohoo, Ken	Oncor Electric Delivery Company
Dreyfus, Mark	Austin Energy
Gillmore, Gina	ERCOT – Senior Financial Analyst
Goff, Eric	Constellation New Energy
Grable, Mike	ERCOT – Vice President and General Counsel
Hancock, Misti	ERCOT – Manager, Budget and Financial Analysis
Headrick, Bridget	Public Utility Commission
Kahn, Bob	ERCOT – President and Chief Executive Officer
Kleckner, Tom	ERCOT – Nodal Communications Strategist
Lester, Suzanne	ERCOT – Executive Assistant, Finance
Manning, Chuck	ERCOT – Vice President and Chief Compliance Officer
McClendon, Shannon	Law Offices of Shannon McClendon
Morais, Matt	ERCOT – Assistant General Counsel
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Morgan, Richard	ERCOT – Vice President and Chief Information Technology Officer
Ogelman, Kenan	CPS Energy
Petterson, Mike	ERCOT – Controller
Roark, Dottie	ERCOT – Manager, Corporate Communications
Saathoff, Kent	ERCOT – Vice President, System Planning and Grid Operations
Seibert, Dave	ERCOT – Senior Legal Specialist
Stauffer, Tarra	ERCOT – Legal Assistant
TroxteLL, David	ERCOT – Director, PMO
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT - Treasurer

Overview of 2010 Budget

Bob Kahn provided the Finance and Audit Committee (“Committee”) with an overview of the proposed 2010 budget and requested that the Committee view the materials provided to them prior to meeting. Mr. Kahn spoke of the difficult economic times and ensured the Committee that he is committed to work to keep the fee as flat as possible, while maintaining reliability. He informed the Committee that the proposed 2010 budget and its three options would be presented during this meeting, and subsequent approval of a 2010 budget should be expected in September 2009. Mr. Kahn informed the Committee that he considered the following impacts, benefits, and challenges in preparing the 2010 budget:

- (1) Maintaining reliability;
- (2) Maintaining a robust retail market;
- (3) Progressing towards a Nodal market;
- (4) Implementing advance metering;
- (5) Planning efforts relating to the integration of renewables into the grid;

- (6) Complying with NERC requirements; and
- (7) Keeping up with smart technology.

Mr. Kahn highlighted the Competitive Renewable Energy Zone study (“CREZ study”), and mentioned that Texas has one of the most successful deregulated markets in the world. He then addressed the “need” challenges that ERCOT faces in 2010, such as (a) the ability to manage advance metering data for up to six million customers, (b) employing adequately skilled staff to ensure compliance with NERC requirements (which are expected to exceed 34,000 hours of preparation) and (c) planning around renewable energy (i.e., the “horsepower issue”) and the impact on the electric grid.

The 2009 approved budget was referenced as it relates to controlling costs, the January 2009 approved flat fee, decreased headcount, and reduction of training, development, and business expenses. Mr. Kahn reminded the Committee that the March 2009 revenue shortfall steps were designed to reduce expenses. Furthermore, Mr. Kahn informed the Committee that ERCOT had undertaken the following tasks to cut costs: (a) renegotiating hardware and software licenses; (b) reducing debt and the costs associated therewith; (c) undergoing a hiring freeze; (d) delaying or eliminating capital projects and reducing other expenses equaling \$5.7M in cuts; and (e) continuing to watch and evaluate expenses on a monthly basis. He informed the Committee that the aforementioned tasks taken by ERCOT were just starting points for preparation of the 2010 budget.

Mr. Kahn directed the Committee to meeting handouts enumerating the three 2010 budget options for consideration:

- (1) 2010 Management Recommendation - eliminates 23 positions relative to the preliminary budget and unchanged core and non-core services
- (2) 2010 Moderate Service Reduction - eliminates 31 additional positions, unchanged core service levels and degradation or elimination of some non-core services
- (3) 2010 Flat Revenue Requirement - eliminates 48 additional positions and degradation or elimination of some core and non-core services

The remainder of Mr. Kahn’s presentation focused on two projects impacting the 2010 budget by \$7.6M, ERCOT’s five-year forecast, and task analyses of the proposed 2010 budget.

Mr. Kahn enumerated the necessity for expenditures in Data Center equipment and completion of the MET Center project. ERCOT has been near capacity with its Data Center equipment since 2003, Mr. Kahn said. He went on to explain that such equipment should be replaced every five years due to changes in technology and the decrease in reliability of the equipment with age. The issue of physical security at the MET Center was then addressed, followed by Mr. Kahn informing the Committee that a significant “scrub” was made to the Zonal projects, which allows only critical Zonal projects to move forward.

In addressing ERCOT’s five-year forecast, Mr. Kahn accentuated the need for defect resolution and for critical enhancements. Mr. Kahn also briefly mentioned the need for a parking deck. He then discussed the implications of Nodal Go-live and the 2011 budget review process. Mr. Kahn informed the Committee that ERCOT undertook a Deep Dive Task Analysis, which resulted in some functions being combined and gaining some efficiencies, but that ERCOT needed to do more. Therefore, he said, in preparation for 2011 and Nodal Go-live, ERCOT

needed to start with a clean slate while focusing on statutory and PUC mandates, such as the REC program and funding the market monitor, consideration of the challenges facing ERCOT relating to renewables and the "smart grid", and to carefully review the associated costs. Mr. Kahn also recommended the reduction in Board of Directors and Committee meetings, the question and answer session prior to board meetings and the elimination of the annual Board Retreat to cut down on costs.

In closing, Mr. Kahn assured the Committee that he and ERCOT take the state of the economy very seriously, and will diligently work to keep a flat fee, but in order to meet the challenge ERCOT needs adequate resources to carry out the reliability functions of ERCOT.

Review by Spending Category and Five-Year Forecast

Mike Petterson reviewed the 2010 budget by spending category and discussed the five-year forecast. He began by restating ERCOT's obligation to carry out reliability of its services to the state of Texas in an efficient and effective manner. Mr. Petterson outlined large critical areas affecting the 2010 budget including, Nodal implementation, protocol compliance, and the maintenance of a 60/40 debt equity ratio for capital spend funding.

Mr. Petterson continued the discussion by focusing on cost recovery methodology for the System Administration Fee billing determinate change. He fielded questions regarding staffing and outlined headcount growth, salary administration, benefit and tax load, reward, recognition, and vacancy savings. Mr. Petterson went on to speak about contractor labor for Nodal, base projects, and employee expenses and allocations. He concluded this discussion by drawing attention to outside services, hardware and software support, interest expense, capital spending (as outlined in Project Priority List materials), and smaller categories such as weather subscriptions, sponsored meeting space, recruiters, printing, and postage.

Thereafter, Mr. Petterson reviewed the three budget options presented in the 2010 budget. In response to the first option (2010 Management Recommendation), Mr. Smitherman asked if the elimination of 23 positions would be a net reduction since the addition of 23 new positions had been discussed earlier in the year. Mr. Smitherman inquired as to whether ERCOT feels it can now work without said 23 positions. Mr. Kahn responded to Mr. Smitherman's inquiry by stating that he viewed the addition/reduction analogy as more of a rebalancing of force. Mr. Smitherman voiced his concern that if the figures were netted out, the numbers would not be cumulative. Messrs. Kahn and Petterson agreed that the information was ill defined in the budget analysis as presented, and promised to correct the data.

Mr. Smitherman then inquired as to the degradation and/or elimination of core services in the 2010 Flat Revenue Requirement option, and asked about the types of services that would fall into these cuts. Mr. Smitherman commented that by definition, "core services" are such that should not be degraded and/or eliminated, and therefore the 2010 Flat Revenue Requirement option should not be an option. Mr. Kahn replied that the 2010 Flat Revenue Requirement option is not recommended.

Mr. Petterson moved his discussion towards the 2010 Budget and Financial Forecast by highlighting the following line items: (1) Operating Expense; (15) Revenue Funded Capital in the 2010 Proposed Budget; and (23) Debt Services Principal.

Michehl Gent asked whether the market monitor line item was in the legislative realm. It is Mr. Petterson's understanding that it was by contract. Mr. Petterson continued by leading a lengthy

discussion concerning revenue necessities. Clifton Karnei asked if the \$2.4 million in variance for 23 new full-time employees working on Nodal compliance and facilities as posed under “Additional Work Requirements (Task Analysis)” were related to the 23 positions listed as eliminated under the 2010 Management Recommendation option. Mr. Karnei added that if 23 positions were added, there would have to be a decrease somewhere to stay at the 739-person headcount. Mr. Petterson responded that there was a deduct line item for the percentage of time spent on projects and only the net was reflected in the budget materials. He said ERCOT is looking at areas of other revenue sources. Mr. Petterson concluded by pointing out that the total net cost increase listed in the materials as \$10.1M is up by \$2.5M from 2009.

Miguel Espinosa expressed concern regarding the confusion of the elimination of 23 employees under the 2101 Management Recommendation option. Mr. Petterson reassured Mr. Espinosa that the corrected data would provide the Committee with a more adequate description of the options, and would be disseminated to them at a later date.

Michehl Gent requested more details regarding the percentage of employee medical benefits.

Dr. Patton inquired into mandated costs by outside parties such as webcasts and POLR. Mr. Petterson responded that most said costs are captured under “Outside Services” in the 2010 budget preview. Mr. Espinosa suggested that ERCOT identify items that do not add to electric reliability. Jan Newton summarized that if she is interpreting the data correctly, the \$2.5M increase over 2009 was driven by Data Center and hardware/software requirements that the Board has determined critical to electric reliability.

In moving on with the discussion, Deryl Brown asked about decreased Zonal spending and expressed concerns of an increased risk congestion. Trip Doggett verified that no Zonal projects related to congestion management are being terminated. Don Ballard further responded that there should be no degradation of Zonal support that would cause reliability to suffer.

A few questions were posed regarding the high costs for labor. Mr. Petterson stated he would provide more information to the Finance and Audit Committee regarding the 23 positions highlighted in the 2010 Management Recommendation option. He added however, that ERCOT had to factor in results from turnover and the time it takes to fill a position. Dr. Patton commented that if staff were cut, a number of employees would vacate positions, which is a considerable risk to ERCOT’s determination to preserve reliability. Bob Kahn agreed that there is a risk of additional employees leaving because of layoffs.

Mr. Petterson stated that the proposed budget forecast assumes a flat load, and that in 2015, a 6-cent per MWH impact on load growth to 350M MWHs can be expected. Jan Newton commented that a net reduction should be seen due to a decrease in work. Mr. Karnei then asked if the forecast included the Sunset Review cost. Mr. Petterson responded that the budget forecasts \$750,000.00 in Sunset Review expense.

Mr. Petterson gave a brief overview of the debt forecast. He covered the 2010 headcount and FTE Equivalency, and directed the Committee to meeting materials covering the 2010 Project Priority List. Mr. Smitherman mentioned that he would like to see more details on the debt repayment and information related to the Nodal program. Jan Newton followed up by stating that the challenge would be the Nodal and Zonal budgets coming together.

Divisional Review of Key Services and Cost Containment Measures

Mr. Doggett gave the first divisional reviews regarding the ERCOT Operations group. He reviewed recent organizational efficiency changes. Mr. Doggett then outlined his current organization and informed the Committee that his 2009 organizational budget was approximately \$33.9M. He provided information regarding growth for ERCOT as well as in his area. Specifically speaking, Mr. Doggett noted that ERCOT has had a personnel growth of 163 employees since 2006, 75 of which are/were employed in the Operations group. Mr. Doggett discussed several factors for consideration as the Board reviews the 2010 budget options. Such considerations include: (1) the need for “study horsepower” and wind integration; (2) Nodal support (112 FTEs in Nodal Budget); and (3) employee rate versus contractor rate in Nodal Project. He added that personnel who will operate Nodal are those who are building Nodal. Mr. Doggett further commented that to date, beyond the global reductions mentioned by Mr. Kahn, ERCOT’s Operations group has identified cuts exceeding \$1.6M in 2009 alone. He said the cuts thus far have resulted from not filling budgeted positions, reducing budget for travel, training, expenses, and outside services. Mr. Doggett then gave examples of potential budget reductions for each of the three budget scenarios.

Dr. Patton commented that the cuts and/or reductions for engineering operations and planning concerned him.

Richard Morgan then presented a review of ERCOT’s IT group. His discussion focused on operating expenses relating to ERCOT business functions, specifically, grid management, market services, general public services, PUCT/IIM services, and internal user services. Mr. Morgan provided a list of critical business, IT projects, and key milestones. He briefly talked about ERCOT’s IT budget, comparing the 2009 budget to the 2010 Management Recommendation option, which provides for the addition of only one extra employee/contractor to the IT group. Mr. Morgan began listing the cost containment and efficiency actions, but due to time constraints, Mr. Karnei asked Mr. Morgan to yield to the remaining presentation.

Nancy Capezutti provided the Committee with an overview of ERCOT’s Administrative function covering cost reduction and expenses for the 2010 budget. Ms. Capezutti briefly touched on the HR, PMO, and Facilities departments’ structure, cost reduction, and expense control methods. She added that a new department would be working on strategic and organizational development plans.

Question and Answer Session

Due to time constraints, there was no designated question and answer session, though questions had been asked and answered during the Special Finance and Audit Committee Meeting.

Adjournment

Clifton Karnei adjourned the meeting at approximately 4:00pm.

Juliana Morehead
Associate Corporate Counsel

6. Vote on Items From Executive Session Clifton Karnei

<Vote>

7. Review Results of and Vote on Acceptance of 2008 401(k) Audit Report (Vote) – Lea Anne Porter

- **No issues noted in the audit**
- **401(k) Audit report attached as separate document**
- **Please see Board agenda item 13c for decision template**
- **Discussion and Vote**

Please see Board agenda item 13a

Please see Financial Summary Report

- **Investment overview**
- **Review of investment balances**
- **Liquidity profile of investable funds**
- **Investment options**
- **Investment options: Direct municipal bond purchase**
- **Investment options: Broader group of Treasury funds**
- **Financial institutions as market participant**
- **Investment options: Additional considerations**
- **Considerations when determining who bears risk of loss**
- **Review of collateral management alternatives**
- **Discussion items**

- **ERCOT manages cash investments related to:**
 - Collateral deposits
 - TCR auction receipts
 - Prepayments for settlement activity
 - Operational working capital

- **Investment Goals:**
 - Safety
 - Liquidity
 - Return

- **Review of current investment practices initiated last month:**
 - F&A committee asked that we provide analysis of other investment options

10. Standing Investment Update – Review of Investment Balances

Cheryl Yager

Period	Investment Income to Market Participants	Investment Income to ERCOT		
	Collateral	TCR Receipts & Settlement Prepayments	+ Operating Cash	= Total
Quarter 3 - 2007	128,042,534	16,650,726	4,161,123	20,811,849
Quarter 4 - 2007	147,841,503	21,370,246	4,001,728	25,371,973
Quarter 1 - 2008	145,522,930	61,159,360	4,822,403	65,981,762
Quarter 2 - 2008	174,522,923	66,901,460	3,519,205	70,420,665
Quarter 3 - 2008	161,794,903	63,866,951	8,576,633	72,443,584
Quarter 4 - 2008	202,770,932	45,460,358	11,161,154	56,621,512
Quarter 1 - 2009	167,233,381	71,475,107	2,639,229	74,114,336
Quarter 2 - 2009	142,540,155	46,905,395	7,304,434	54,209,828
Average balance	\$ 158,783,658	\$ 49,223,700	\$ 5,773,239	\$ 54,996,939

Note: The majority of investable funds are cash collateral

10. Standing Investment Update – Liquidity Profile of Investable Funds

- **Collateral**
 - Market participant may choose to post other forms of collateral at any time
 - Some base level of funds may have a lower level of required liquidity
- **TCR Auction Receipts**
 - Predictable within a given year; available cash decreases over the course of the year
- **Prepayments for Settlement Activity**
 - Liquidity needed on a weekly basis
- **Operational Working Capital**
 - Liquidity needed on a daily basis

10. Standing Investment Update – Investment Options

Cheryl Yager

Factors	Money Market Funds		Bank Instruments		Direct Investments ⁽³⁾		
	Treasury Money Market Accounts	Prime Money Market Accounts	NOW Account	Certificates of Deposit (CD)	Treasuries	Municipal Bonds	Commercial Paper (CP)
Description	Treasury & Treasury backed Repos only	Asset backed Commercial Paper, CD's, Bonds	Business Checking Account	Short term deposits with bank	Invest directly in Treasuries	Loan to specific company / municipality	Invest directly in CP programs
Current Yield	0.00% - 0.10%	0.10% - 0.40%	0.35% - 0.50%	<i>90 Days</i> 0.40% <i>180 Days</i> 1.00%	<i>90 Days</i> 0.15% <i>180 Days</i> 0.24%	1.0% - 1.5% ⁽¹⁾	0.10% - 0.30% ⁽²⁾
Gov't Guarantee	Yes	No	Guaranteed through mid 2010	\$250,000 per account <i>programs enable multiple accounts</i>	Yes	No	No
Credit Risk	Low	Low / Med	Low	Low	Low	Med	Med
Interest Rate Risk	Low	Low	Low	Low	Med / High	Med / High	Med
Liquidity	High	High	High	Low	High	Low / Med	Med
Expected Annual Yield (\$)	\$0 - \$55,000	\$55,000 - \$220,000	\$192,500 - \$275,000	\$220,000 - \$550,000	\$82,500 - \$132,000	\$550,000 - \$825,000	\$55,000 - \$165,000

NOTE: Calculations based on average balance in operating and market investment accounts of \$55 million (excludes collateral funds)
Investment options listed were previously valid investment options prior to changes made to guidelines in late 2008

(1) Approximate range of yields with investment maturity < 2 Years. Longer term instruments may have higher yield

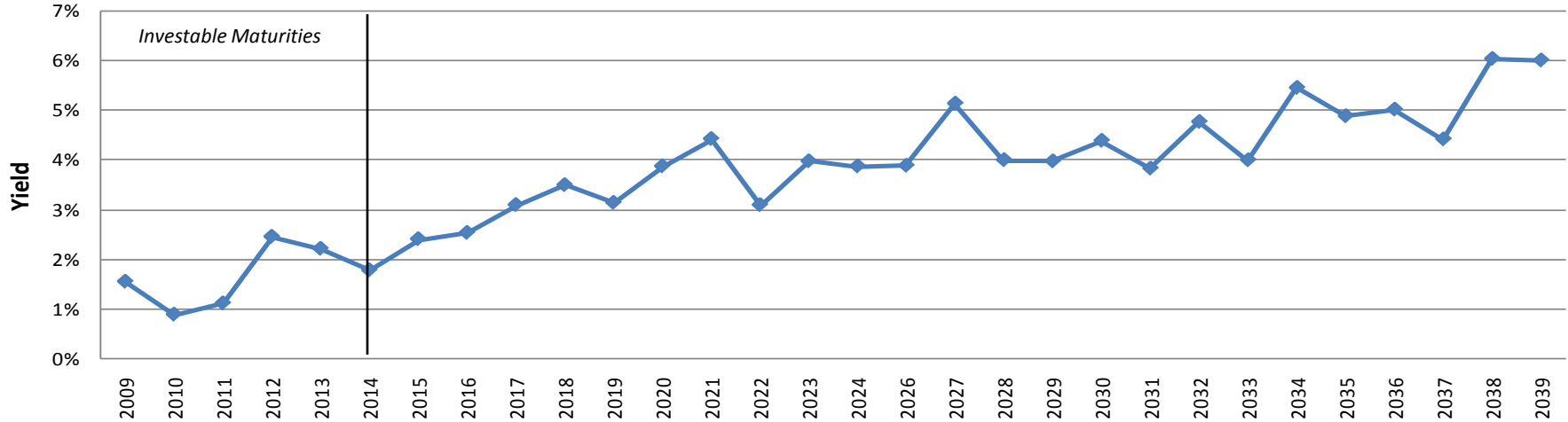
(2) Commercial Paper Info. based on GE's program

(3) More complex structures would require additional ERCOT resources

10. Standing Investment Update – Investment Options: Direct Municipal Bond Purchase

Texas Municipal Bond Yield Curve

Yield Curve from Municipal Bonds.com
(8/28/09)



Benefits:

- Direct municipal bond investments offer higher yield

Considerations:

- Longer duration investments may not match short term liquidity needs
 - Market liquidity is variable – may not be able to sell investment when desired
- Longer duration investments subject to greater rate risk
 - Yield subject to interest rate risk if not held to maturity (may vary substantially)
- Some additional cost to establish and manage program

10. Standing Investment Update – Investment Options: Broader Group of Treasury Funds

- **Limited Treasury Fund investment options available:**
 - BlackRock
 - DWS
 - Morgan Stanley (market participant)
 - Western Asset

 - Fidelity, Vanguard and several other Treasury funds remain closed to new investors
 - First American Fund currently offers a 0% yield on Treasury fund

10. Standing Investment Update – Financial Institutions as Market Participant

- **According to BlackRock, Inc.’s web site, Merrill Lynch & Co., Inc., a wholly-owned subsidiary of Bank of America Corporation, owns approximately 4.8% of BlackRock’s voting common stock. Affiliates of Merrill Lynch and Bank of America are market participants in the ERCOT market.**
- **A November 14, 2006 Board Resolution allows ERCOT to use financial institutions that are affiliates of Market Participants if certain conditions are met. However, the term “affiliate” is not defined; therefore, ERCOT looked to**
 - the common legal definition for “affiliate” found in Black’s Law Dictionary
 - and the definition of “affiliate” or “affiliated persons” note in the Public Utility Regulatory Act and the Investment Company Act of 1940
- **All definitions refer to affiliates requiring the direct or indirect ownership of at least 5% of the voting stock of another entity.**
- **Based on the above definition, ERCOT determined that BlackRock is not considered an affiliate of either Merrill Lynch or Bank of America, and ERCOT need not obtain a Non-Disclosure Agreement to do business with BlackRock.**

10. Standing Investment Update – Investment Options: Additional Considerations

- **Additional complexity of investment strategy (e.g. number of funds, kinds of investment vehicles, etc):**
 - Additional administrative cost associated with opening, trading, and monitoring account
- **Overall impact on cost:**
 - Compare the additional potential yield with potential administrative / personnel costs
- **Risk of loss:**
 - For collateral: clarified in the Investment Corporate Standard that market participants bear risk of loss
 - Other market funds: not specifically addressed in Investment Corporate Standard

10. Standing Investment Update – Considerations When Determining Who Bears Risk of Loss

Considerations	Source of funds - Market			
	Cash collateral	TCR Revenues	Settlement Payments	Other Prepays/Funds
Can MPs control whether cash is held by ERCOT?	Yes, MPs may post other forms of collateral.	Not at this time.	Not at this time.	Not at this time.
Who (currently) receives interest income from investments?	MPs	ERCOT	ERCOT	ERCOT
Who (currently) determines the investment vehicle?	ERCOT	ERCOT	ERCOT	ERCOT
Options for treatment of loss	<ol style="list-style-type: none"> 1. ERCOT, Inc. bears and funds the loss from SAF. 2. Directly assign loss to entity that sent collateral. 3. Define a method to uplift losses across market participants 	<ol style="list-style-type: none"> 1. ERCOT, Inc. bears and funds the loss from SAF. 2. Reduce the amount available for distribution to load. 3. Define a method to uplift losses across market participants 	<ol style="list-style-type: none"> 1. ERCOT, Inc. bears and funds the loss from SAF. 2. Directly assign loss to entity that sent payment. 3. Short pay the market and uplift losses. 	<ol style="list-style-type: none"> 1. ERCOT, Inc. bears and funds the loss from SAF. 2. Directly assign loss to entity that sent payment. 3. Short pay the market and uplift losses.

10. Standing Investment Update – Review of Collateral Management Alternatives

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

- **Investment strategies / options - generally**
- **Investment strategies / options - collateral**
- **Assignment of risk of loss**
- **Next steps**

Q&A only

ERCOT Market Credit Status

as of 7/31/2009

as of 8/31/2009

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-	9	32,897,909	11%	157,353,168	U	7	25,430,029	8%	107,970,653	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	46	157,876,513	55%	362,616,251	S	49	190,248,647	61%	369,901,462	S
Guarantee Agreements	18	97,543,581	34%	426,871,871	S	17	95,961,816	31%	416,971,871	S
Total Exposure	73	288,318,003	100%			73	311,640,492	100%		
Other QSEs in the ERCOT Market (ERCOT owes)										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	7	(3,217,436)	-10%	56,537,568	U	9	(6,019,626)	-12%	106,537,568	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	67	(24,653,344)	-72%	23,358,990	S	68	(38,489,157)	-71%	18,358,208	S
Guarantee Agreements	9	(6,222,395)	-18%	93,052,000	S	9	(9,796,737)	-18%	102,952,000	S
Total	83	(34,093,175)	-100%			86	(54,305,520)	-100%		

Total

156

159

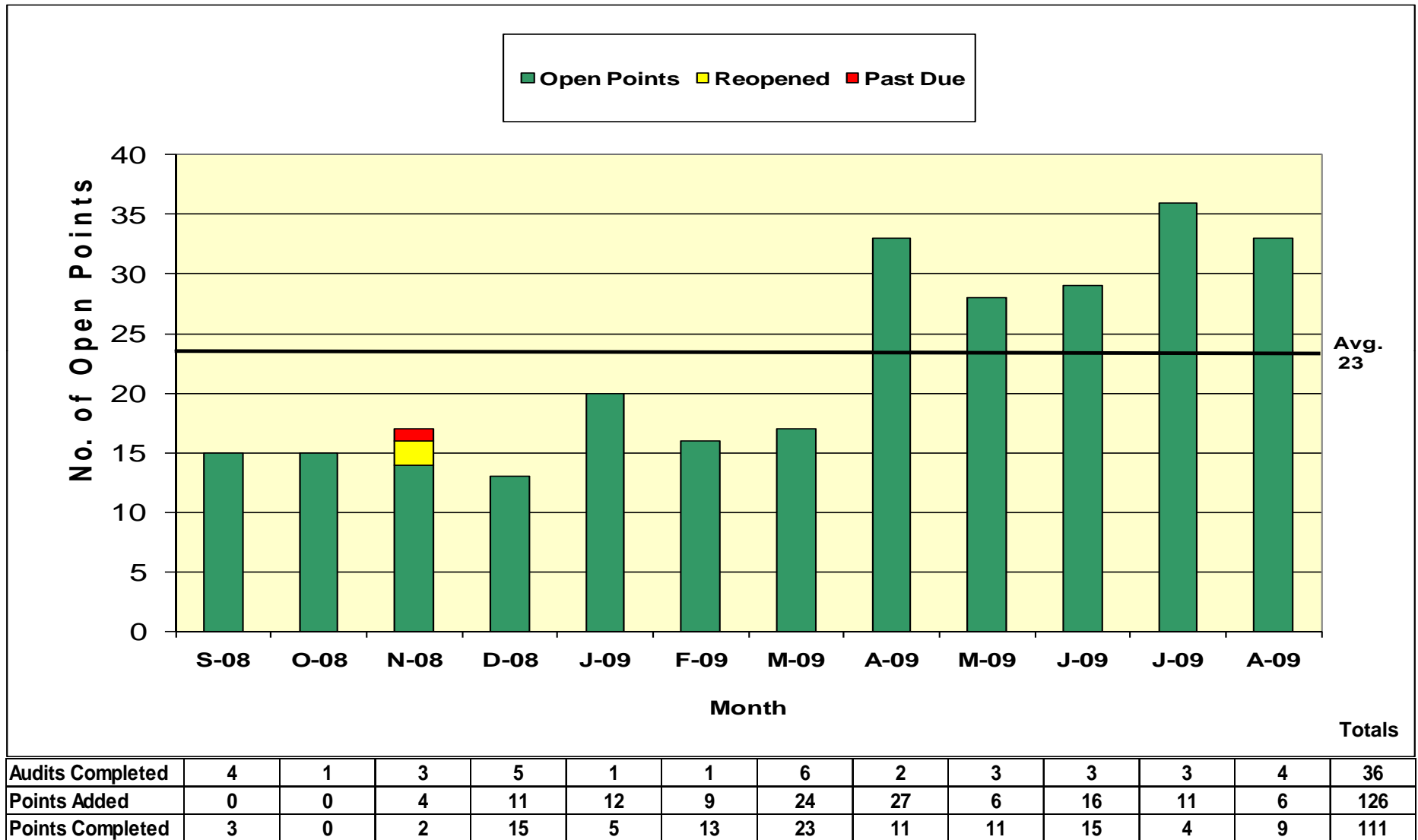
U: For QSEs that meet ERCOT's Creditworthiness Standards, amount of unsecured credit granted.

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

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

Cheryl Moseley



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



11. Committee Brief: Audit Cheryl Moseley

Audits Completed

(last 3 months)

Internal Audits

- IT System Availability & Performance
- Procurement Card Process (Special Request Targeted Review)
- Procurement & Contract Administration
- Enterprise Risk Management
- Long-Term Technology Strategy
- Financial Reporting & Close

External Audits

Open Audits

Internal Audits

- Cash & Investments
- Q2 2009 Fraud Auditing
- Protocol 1.4 Required Audit – Independence Verification
- Payroll Employee Onboarding, Transfer, Offboarding and Termination Processes
- Human Capital Metrics/ Benchmarks

External Audits

- 2009 SAS70 Audit (PricewaterhouseCoopers)
- Benefit Plan Audit (Maxwell Locke & Ritter)
- Nodal Program Billings – ABB (Opportune LLP; Targeted Review; Internal Audit to Provide Support)

Planned Audits

(next 3 months)

Internal Audits

- Q3 2009 Fraud Auditing
- Nodal Program Contract Management (Special Request)
- Enterprise Resource Mgmt.
- Protocol 1.4 Required Audit – Ethics Compliance
- Employee Ethics Compliance
- REMEDY Incident Mgmt.
- Taylor Data Center Expansion (Special Request)
- New Data Center & Control Center (Special Request)

External Audits

- Nodal Program Review – Schedule & Milestone Performance (Report #11; SAIC)
- Nodal Program Review – Reassess ERCOT Readiness (Report #12; SAIC)



11. Committee Brief: Audit
Cheryl Moseley

**Consultation/
Analysis Reports
Completed**
(last 3 months)

External Assessments

**Open Consultation/
Analysis Reviews**

External Assessments
Assessment of Nodal
Systems

**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 September 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. System changes to comply with the requirements for the PUCT amendments regarding expedited switches were implemented on August 16, 2009.	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.
Mission and Goals Corporate objectives and performance standards are understood and followed. Over the next few months, ERCOT will be conducting an overall organizational review to assure an efficient and effective structure for post nodal go-live. The leadership team will consider the primary directives and support activities assigned to ERCOT and how best to deliver on these objectives. Once this is accomplished, a revised Strategic Plan will be delivered to the Board of Directors. The 2010 Key Performance Indicators will be presented to HR & G in November for approval by year end.	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. Program "YELLOW" based on a number of known risks being addressed as the Program transitions from a primary system focus to an implementation and readiness (operational, market and ERCOT) focus. Key risks include integration, performance, resource utilization (personnel and environments) and data center capacity. Actions for mitigating these risks are in progress.	Planning Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards. 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.	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. 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. 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.	Workforce Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals. The rolling 12-month voluntary turnover has dropped to 3.6%. ERCOT readiness has developed a timeline and project plan for nodal. Discussions of potential lay-offs and continued strong demand for subject matter experts needed for Nodal project, on-going base projects and operations continue to be threats for a stable workforce. As of the end of August ERCOT was seeking to fill 11 positions. ERCOT has frozen 12 positions to assist with the revenue shortfall in the ERCOT budget for 2009.	Counterparty Credit Maintain credit risk exposure for overall market within acceptable limits. A Market Credit Risk Standard was approved by the Board in May. Results of the potential credit exposure model for YE 2008 were reported to the F&A committee in August. Updates for 1st, 2nd and 3rd quarter 2009 are expected by year end. The market experienced price spikes in June; ERCOT is monitoring market activity closely through the summer.	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. 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. Compliance is meeting with internal business owners to review the upcoming 2009 NERC audit, specific standards to be audited and providing training as requested.
Fiscal Management ISO design requires competent, prudent and cost effective provision of services. 2009 electric load is trending below budget resulting in reduced revenues ; cost containment measures have been implemented to remain within budget.	Technology Infrastructure Information systems, supporting facilities and data are effectively managed and are reliable. Systems remain stable in all areas. The TCC1 data center expansion is near completion. Equipment moves are underway. Sufficient 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 mid 2011 and the new TCC3 facility to be ready by May 2011	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. Response of generators & 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 Tx Renewable Implementation Plan defining steps needed to integrate wind with non-wind	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.

Legend: Elevated Risk Level

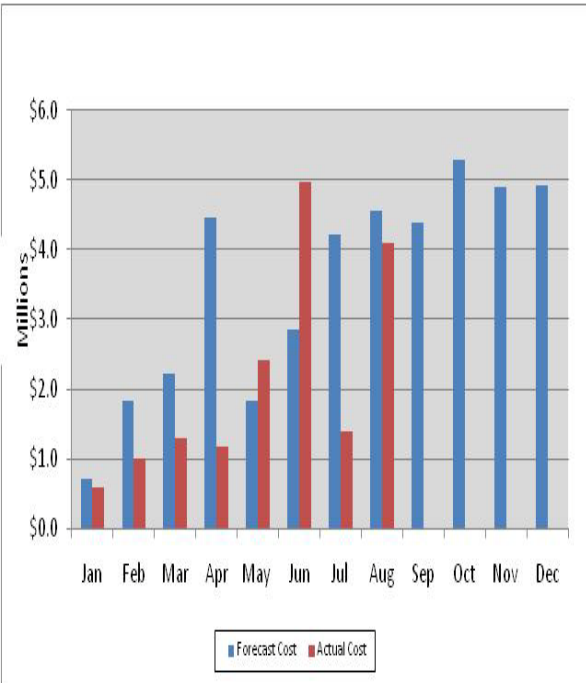
Reduced Risk Level

(New Risk Categories / Descriptions Indicated in Green)

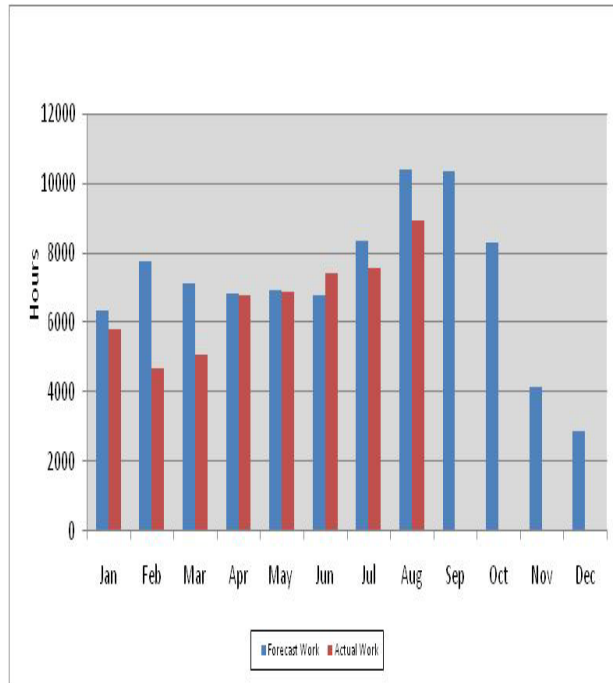
ERCOT Enterprise Projects Summary Report

ERCOT		Overall Projects Report					Reporting Period: 9/2/2009	
Projects in Ercot's Portfolio							Portfolio Performance	
Deferred	Concept	On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget
4	1	1	0	4	24	4		
		Closed	14	Total Active		33		
		Cancelled	3	Projects Not Started		1	**Current Year Funded Budget: \$38,150,000	

ERCOT Projects
Current Year - Cost



ERCOT Projects
Current Year - Work

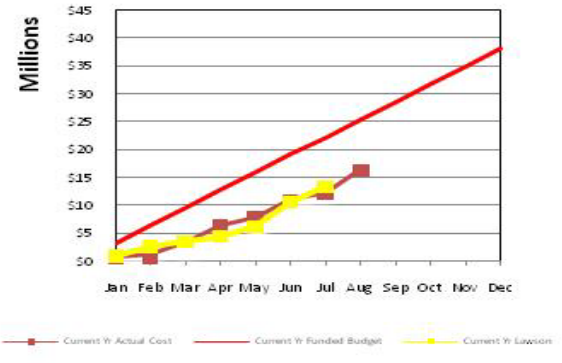


ERCOT Projects
Current Year to Date Financials



** 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 July 2009



Future Agenda Items – October 2009

- **Standing Internal Audit agenda items**
- **Review F&A charter**
- **Review and assessment of compliance and internal control systems**
- **Review ERM standard**
- **Review and approval of CWG charter and membership qualifications**
- **Credit briefing – Potential Future Exposure**
- **Review ERCOT's 2008 Form 990 filing**
- **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