



# Semi-Annual Audit, Compliance and Enterprise Risk Management Update












































Cheryl Yager  
Treasurer

**ERCOT Public**

**17 November 2009**

# Enterprise Risk Management Update

# November 2009 "Stoplight" Report

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. RISK MANAGEMENT EVENT PROFILE MATRIX (as of November 1, 2009)					
 Strategic	 Operational Excellence	 Market Facilitation	 Grid Reliability	 Reporting	 Legal and Regulatory Compliance
 <b>Strategy Development</b> Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.	 <b>Performance Monitoring</b> Clearly defined and actively monitored performance metrics linked to mission and goals - Performance status communicated and corrective action taken.	 <b>Customer Choice</b> Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.	 <b>Grid Operations</b> Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.	 <b>Review Practices</b> Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.	 <b>Legal &amp; Legislative</b> Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.
 <b>Mission and Goals</b> Corporate objectives and performance standards are understood and followed.	 <b>Business Practices</b> Business planning, processes and management standards are effective and efficient.	 <b>Nodal Implementation Project</b> Nodal Implementation on budget on schedule, and within defined scope.	 <b>Planning</b> Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability.	 <b>Disclosure</b> Reporting and other disclosures to intended parties is timely, accurate and effective.	 <b>Internal Control Compliance</b> Internal Control Compliance, processes and management standards are effective and efficient.
 Review of ERCOT's mission and strategic objectives will be accomplished by mid 2010. This review will include a staffing and budget requirement necessary to achieve the strategic objectives.		 Market connectivity testing was initiated on schedule on Oct 28 and is continuing. Taylor data center expansion completed and operational. Top ongoing risks include integration testing, reconciling protocols with market expectations and efforts to accommodate an updated version of Internet Explorer for nodal testing.	 Demand for planning studies exceeds ERCOT's ability to perform them. A list of studies desired by ERCOT and Stakeholders has been prepared and reviewed and a plan is in place to conduct these studies. ERCOT has applied for federal grants to supplement 2011 budget limitations to enable these studies to be completed in a timely fashion.		 ERCOT is developing processes to institutionalize the ongoing training on current policies and procedures for all ERCOT staff and contract workers.
 <b>Reputation</b> Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.	 <b>Workforce</b> Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.	 <b>Counterparty Credit</b> Maintain credit risk exposure for overall market within acceptable limits.	 <b>Bulk System Resources</b> Market Participants construct and make available adequate bulk electric grid resources.	 <b>Communication</b> Internal & external communications are timely and effective.	 <b>Industry Standards</b> Business practices provide stakeholders with required assurances of quality.
 Nodal fee increase approved. The approved 2010 base O&M budget will not require a fee increase, although a significant increase is projected for 2011. ▲  The CEO position has been filled on an interim basis while a search for a permanent successor is underway. The CFO position has also been filled on an interim basis. ▼	 The rolling 12-month voluntary turnover has dropped to 3.1%. ERCOT readiness continues to make progress on the skills and training required for Nodal success. Strong demand for subject matter experts and technical positions is keeping the current risk level from being lowered further. As of the end of October, ERCOT was seeking to fill 11 positions.	 Results of the potential credit exposure model for YE 2008 and 1st quarter 2009 have been reported to the F&A committee. Updates for 2nd quarter 2009 are expected by year end and 3rd quarter in January 2010.			 The 2009 NERC audit began in late October and is ongoing. Preparation for 2010 NERC audits will create competition for subject matter expert resources. Broad scope of these audits and lack of precedent makes preparation difficult and time-consuming.
 <b>Fiscal Management</b> ISO design requires competent, prudent and cost effective provision of services.	 <b>Technology Infrastructure</b> Information systems, supporting facilities and data are effectively managed and are reliable.	 <b>Administration, Settlement &amp; Billing</b> Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production	 <b>Operational Responsibility</b> Market participant conduct their operations in a manner which facilitates consistent grid reliability.	 <b>Adequacy and Integrity</b> Robust processes exist to support management assertions embodied within financial reports.	 <b>Regulatory Filings</b> Evidence, testimony and other supporting materials are compelling and successful.
 Record temperatures this summer helped narrow the revenue variance seen YTD, but with two months to go, revenues are still expected to come in below budgeted levels. However, lower costs of Zonal projects, along with cost containment measures have largely offset revenue shortfall. Barring any significant additional extraordinary costs, we expect to end 2009 at or below budget.	 Systems remain stable in all areas. The TCC1 data center building expansion is complete. Equipment is in place. Sufficient capacity for Nodal go-live and for the start of advanced metering are available with the completion of the TCC1 expansion. The Bastrop and TCC 3 data centers are under construction. Expected building availability is end of 3rd quarter 2010, with occupancy and equipment relocations in mid 2011.		 Response of generators and LaaRs to grid operation events has improved.  Lack of consensus over application of low voltage override and frequency response requirements to existing renewables.		
Legend:  Elevated Risk Level  Reduced Risk Level (New Risk Categories / Descriptions Indicated in Green)					

# Risk Management Update

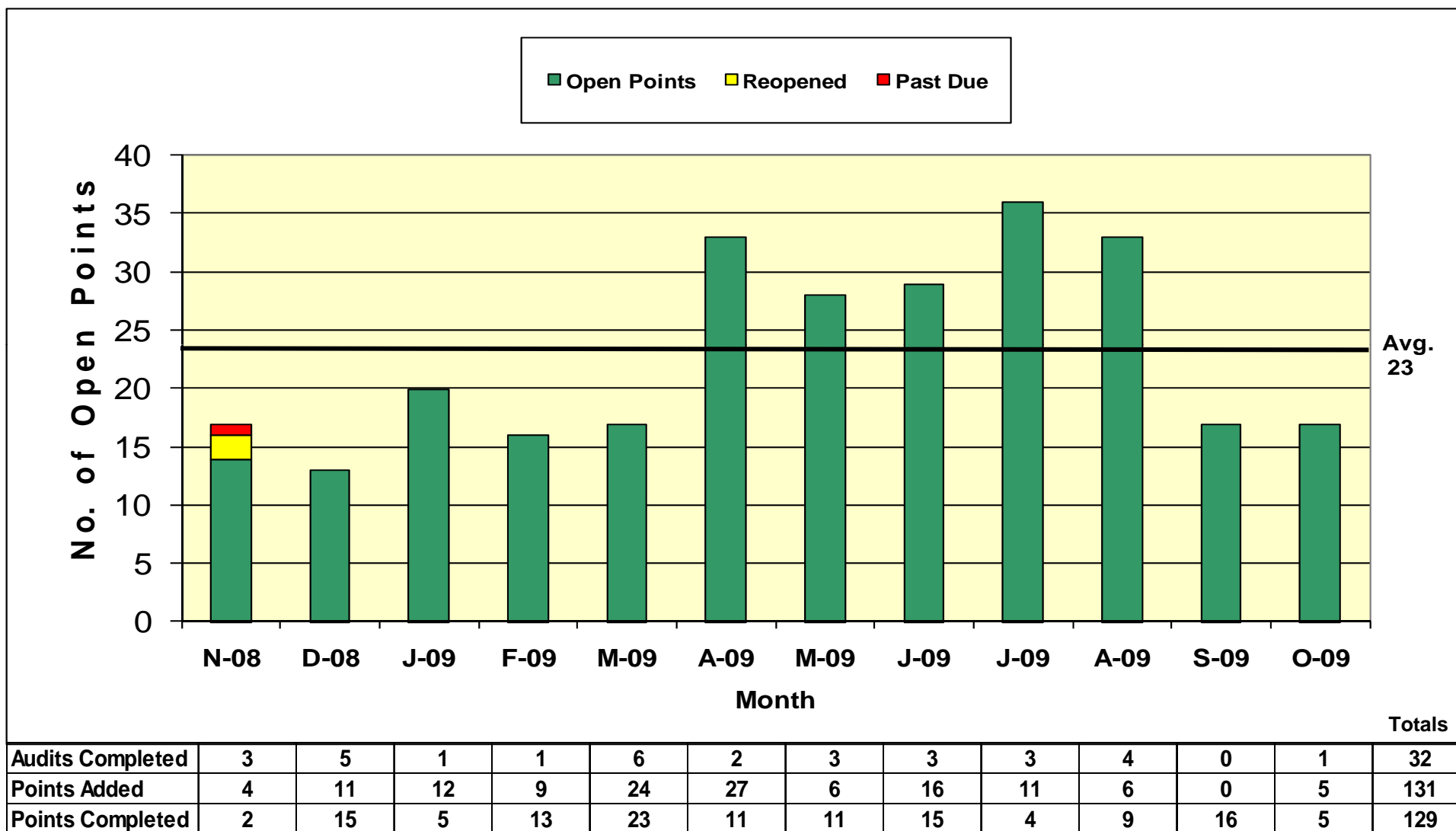
- **Enhanced risk analytics**
  - Portfolio (overall) credit risk exposure model is being produced
- **Increased emphasis on Risk Management**
  - Risk awareness training materials have been updated for 2009
  - Risk Management core competency added to 2009 performance reviews for all managers & above; optional for all employees

# Audit Update

# Audits

- **2009 SAS70 Audit fieldwork is complete**
  - Expect an unqualified opinion
- **Internal Audit is on track with 2009 Audit Plan**
  - 25 audits completed to date, 8 audits in progress
  - Also performing audits/reviews based on special requests
- **Security Assessment of Nodal systems is in progress**
  - 1 Security Assessment planned in the next 3 months
- **YTD 24 audit reports received with 116 audit points**

# Status of Open Audit Points



All but five open audit points projected to be complete by January 31, 2010

## Financial Control - Status Summary

- **Financial controls are designed to be comprehensive, pertinent and relevant**
  - Policies and procedures are reviewed and updated at least annually
  - Changes to policies and procedures are periodically communicated to all ERCOT staff and contract workers
- **Financial controls have been tested and are generally working as designed**
  - Using ControlPath, management is able to confirm that individuals understand their responsibilities for financial control activities
  - Internal Audit produces a Memorandum on the Annual Testing of ERCOT's Internal Controls every year to summarize the results of financial control testing

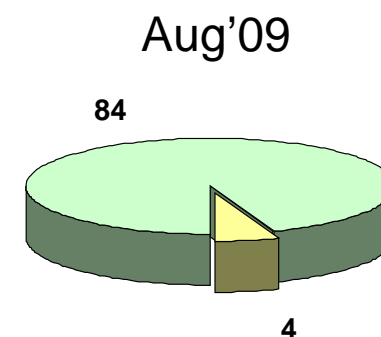
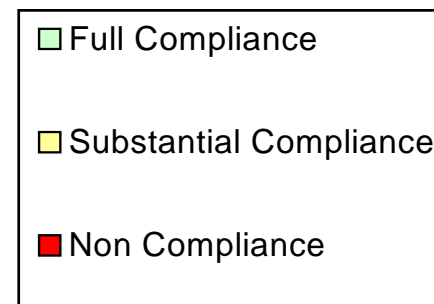
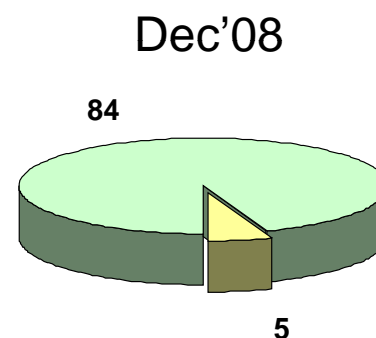
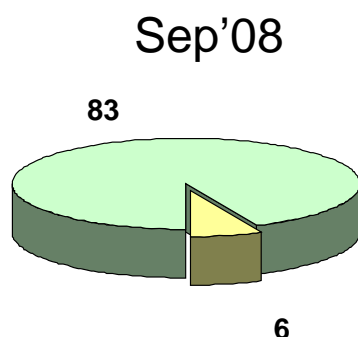
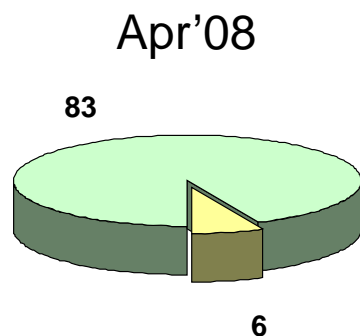


# Compliance Update

# Management Compliance “Self Assessment”

- Management conducts regular “self assessments” of compliance
  - applicable laws
  - regulations & protocols
  - contractual obligations
  - disclosure mandates
  - etc.
- For each requirement, an assessment is made of whether the area is in Full Compliance, Substantial Compliance, or Non Compliance. Any areas not in Full Compliance require further explanation.
- Each ERCOT Officer has completed signed attestations as to the status of Compliance Requirements within their respective organizations for January 1, 2009 to May 15, 2009 and for May 15, 2009 to August 15, 2009.

# Management Compliance – Status Update



- We are presently tracking 89 compliance items with 100% reported as “Substantial Compliance” or better
- Details regarding changes to compliance status since last Board report (March 2009) are included in your Executive Session materials.

Questions ?