



ERCOT Finance & Audit Committee Meeting

7620 Metro Center Drive, Austin, Texas

Met Center, Conference Room 206

November 17, 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	7:30am
	Decision required	2b. Approval of executive session minutes (Vote) (10/20/09)	C. Karnei	7:31am
	For discussion	2c. Internal Audit status report	B. Wullenjohn	7:32am
	Informative	2d. Internal Audit 2009 goals update	B. Wullenjohn	7:40am
	For discussion	2e. Update on proposed 2010 Internal Audit plan	B. Wullenjohn	7:45am
	Informative	2f. EthicsPoint update	B. Wullenjohn	8:00am
3.	Informative	Financing update	C. Yager	8:10am
4.	Informative	ERM update on emerging risks	C. Yager	8:15am
5.	Informative	Contracts, personnel, litigation and security	various	8:30am
		Recess Executive Session		8:35am
		Convene General Session		
6.	Decision required	Approval of general session minutes (Vote) (10/20/09)	C. Karnei	8:35am
7.	Decision required	Annual charter review (Vote)	C. Karnei	8:36am
8.	For discussion	Preview Board semi-annual ERM, Compliance and Internal Control update	C. Yager	8:40am
9.	For discussion	Financing update – 2010 needs	J. Nield / C. Yager	8:55am
10.	Informative	Preview Board credit briefing – Potential Future Exposure for 2 nd quarter	R. Baker	9:10am
11.	Informative	Update on SAS 70 audit	S. Barry	9:20am
12.	Decision required	Review and approval of Financial & Investment Corporate Standards (Vote)	C. Yager	9:30am
13.	For discussion	Perform Finance & Audit Committee self assessment	C. Karnei	9:40am
14.	Informative	Committee Briefs (Q&A only)	All	9:45am
15.	Informative	Update on pilot Procurement Card program	R. Bowman	9:50am
16.	Informative	Future agenda items	R. Bowman	9:52am
		Adjourn ISO meeting	C. Karnei	9:55am

* Background material is enclosed or will be distributed prior to meeting. All times shown in the agenda are approximate. The next Finance & Audit Committee Meeting will be held Tuesday, December 15, 2009, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 206.

Decision required
For discussion

6. Approval of General Session Minutes Clifton Karnei

- **Approval of General Session Minutes**
 - Vote 10/20/09

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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744
 October 20, 2009

Pursuant to notice duly given, the Finance & Audit Committee (“Committee”) of 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 **7:45 a.m.** The Committee met in Executive Session from **7:45 a.m. to 8:36 a.m.**, at which time it recessed to General Session.

General Session Attendance

Committee members:

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

Other Board Members and Segment Alternates:

Barker, Laurie	Office of the Public Utility Counsel (PUC)	Litigation Director & Assistant Public Counsel	Present (Segment Alt for Don Ballard)
Bartley, Steve	CPS Energy	Municipal	Present
Brown, Deryl	Hudson Energy Services	Independent Representative	Present
Ryall, Jean	Constellation Energy	Independent Power Marketer	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT Staff and Guests:

Adler, Amy	ERCOT – Supervisor, Internal Audit
Baker, Randy	ERCOT – Director, Credit Risk Management
Beckham, Rebecca	ERCOT – Financial Analyst (Financial Reporting)
Burke, Tom	Luminant
Cleary, Mike	ERCOT – Senior Vice President and Chief Technology Officer
Day, Betty	ERCOT – Director of Markets
Deskin, Andy	Wells Fargo / Wachovia
Doolin, Estrellita	ERCOT – Assistant General Counsel
Forfia, David	ERCOT – Director IT Infrastructure
Gillmore, Gina	ERCOT – Administrative Assistant

Grable, Mike	ERCOT – Vice President and General Counsel
Kahn, Bob	ERCOT – President and Chief Executive Officer
Kolodzies, Eddie	Customized Energy Solutions
Kleckner, Tom	ERCOT – Nodal Communications Strategist
List, Amanda	Credit Work Group
Leady, Vickie	ERCOT – Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant, Finance
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Petterson, Mike	ERCOT – Controller
Stauffer, Tarra	ERCOT – Legal Assistant
Troxell, David	EROCT – Director of Program Management Office
Walsh, Meg	ERCOT – Manager of Procurement
Wullenjohn, Bill	ERCOT – Director of Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of Prior Meeting General Session Minutes

Dan Wilkerson moved to approve the minutes for the General Session of the Committee meeting held on September 15, 2009. Mr. Gent seconded the motion. The motion passed by voice vote with no abstentions.

Vote on Items from Executive Session

Mr. Karnei stated that the Committee met in Executive Session and discussed whether to recommend Firm X for a Nodal Program Review. **Mr. Gent moved to not support the engagement of Firm X to conduct a Nodal Program Review. Mr. Wilkerson seconded the motion. The motion passed by voice vote. Brad Cox abstained.**

Annual Charter Review and Committee Structure

Bob Thomas provided comments and suggested revisions prior to the meeting via email to Committee members regarding the Charter Review and Committee structure. Mr. Karnei proposed that Mr. Thomas' comments be taken under advisement by the Committee and be brought back at the November 2009 meeting for further review. No vote was taken on this item.

Review of ERCOT's 2008 Form 990 Filing

Mike Petterson directed the Committee to review the draft ERCOT 2008 Form 990 filing. He mentioned that there had been significant changes to the annual IRS Form 990. Mr. Petterson noted that ERCOT would be subject to heightened scrutiny and numerous reviews to become classified as a 501(c)(3) organization. He added that ERCOT's filing deadline had been extended to November 15, 2009, and that the Board would be reviewing the draft Form 990 in Executive Session of the Board meeting. He said there would not be a vote, but the minutes would reflect that the Board had reviewed the Form 990 before filing. Mr. Petterson informed the Committee that ERCOT staff prepared the Form 990, and that PricewaterhouseCoopers and outside counsel had reviewed the document.

Quarterly Investment Update

Cheryl Yager directed the Committee to materials provided to them prior to the meeting. Ms. Yager pointed the Committee to the investment summary slide included with the Committee Briefs as requested by the Committee to give the Committee a monthly snapshot of ERCOT's investments. She asked whether any additional information was desired. The Committee indicated that the slide provided the information needed. The allocation of investable monies among money market funds was discussed, and Ms. Yager noted that she was satisfied that the current diversification of investments adequately protects ERCOT's liquidity. She noted that additional diversification could be pursued; however, an additional ERCOT staff would likely be needed to handle the additional administration needs.

Credit Briefing

Randy Baker provided the Committee with the results of the potential credit loss model for the first quarter of 2009. He stated that although the impact of various model factors have changed, base case residual

credit risk remains comparable to the FYE-2008 level. He added that current case residual credit risk also remains comparable to the previous levels reported. Mr. Karnei asked Mr. Baker about collateral assumptions in the base case and the current case. Mr. Baker responded that by comparing a base case scenario with a current case, you could see two different foundations for determining liability. The base case assumes collateral as required by the Protocols; the current case assumes collateral never goes below a current amount.

Mr. Baker went on to note that almost 70 percent of simulations resulted in minimal losses, somewhat lower than the losses at the 2008 year-end. He also highlighted for the Committee the more extreme levels of potential credit loss that can occur in unusual circumstances. Mr. Espinosa inquired as to whether there were any current areas for credit concern that might not be apparent in the potential credit loss model. Ms. Yager responded that there are always QSEs that are being monitored closely and that ERCOT uses tools such as Credit Risk Monitor and the internet to keep current on QSE's financial condition. Following this discussion, Mr. Karnei stated that the Committee had recommended earlier in 2009 that the Board be given a briefing on the results of the potential credit loss model. The Committee agreed that it would be beneficial to provide a briefing for the Board at its November meeting. Mr. Baker and Ms. Yager agreed to add second quarter data to the information for that briefing.

Semi-Annual Credit Report and Review and Approval of CWG Charter and Membership Requirements

Amanda List of the Credit Work Group ("CWG") joined the meeting by conference call. Ms. List stated that the PCR model has been presented to the CWG, which found nothing outside of its expectations. She also reviewed proposed changes to the CWG Charter and Membership Requirements. **Mr. Espinosa moved for approval of the proposed changes to the charter. Mr. Thomas seconded. The motion passed unanimously.**

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")
5. Investment Update

Michehl Gent commended ERCOT staff for its work on investment risk mitigation.

Future Agenda Items

The following items were identified as future agenda items:

1. Standing Internal Audit agenda items
2. Review of the F&A Committee Charter
3. Review and assessment of compliance and internal control systems
4. Review ERM standard
5. Credit briefing – Potential Future Exposure
6. Financial Statement Audit Plan & Independence Certification
7. 2010 Financing Update
8. SAS 70 Audit Update
9. Standing investment update
10. Committee briefs
11. Future agenda items

Adjournment

Clifton Karnei adjourned the meeting at approximately 9:50 a.m.

Juliana Morehead
Associate Corporate Counsel

Charter is attached as separate document.

<Vote>



THE ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
FINANCE & AUDIT COMMITTEE CHARTER

Purpose

The Finance and Audit Committee (the “Committee”) of the Board of Directors of ERCOT (the “Company”) shall:

1. Oversee the ~~Company’s budget process~~development of and adherence to a Company budget;
2. Provide recommendations to the Board of Directors for ~~establishing levels of financing and in setting the Company’s fees~~Company needs, including ~~its administrative fee~~both debt and revenue financing;
3. Review and make recommendations to the Board of Directors regarding investment and financial ~~standards~~guidelines for the Company;
4. Review and make recommendations to the Board of Directors regarding credit standards, procedures, governance, ERCOT Protocols and other market rules which impact credit risk;
5. Ensure that the Company’s financial statements are timely audited by qualified accountants who are independent;
6. Assist the Board of Directors in fulfilling its oversight responsibility with respect to the Company’s maintenance of an effective internal audit function;
7. Establish and maintain procedures for the receipt (including anonymous submission), retention and treatment of complaints regarding accounting, internal controls, and auditing;
8. Perform such other duties and responsibilities enumerated in and consistent with this Charter.

The Committee’s function is one of oversight, recognizing that the Company’s management is responsible for preparing the Company’s financial statements, and the independent auditor is responsible for auditing those statements. In adopting this Charter, the Board of Directors acknowledges that the Committee members (with the exception of ERCOT’s Chief Executive Officer) are not employees of the Company and are not providing any expert or special assurance as to the Company’s financial statements or any professional certification as to the external auditor’s work or auditing standards. Each member of the Committee shall be entitled to rely on the integrity of staff and external auditors to provide accurate, complete financial and other information to the Committee, absent actual knowledge to the contrary, and shall also exercise their fiduciary duties as Directors, including their duties of care, loyalty, and obedience.

While the Committee has the responsibilities, duties and powers set forth in this Charter, it shall be the responsibility and duty of the Company’s management and independent auditor, and not the responsibility or duty of the Committee, to plan or conduct audits, to make any determination that the Company’s financial statements are complete, accurate and in accordance with generally accepted accounting principles, and to assure compliance with laws, regulations and the Company’s ethics policies. It is the responsibility of the Committee to conduct investigations and resolve disagreements regarding financial reporting, if any, between management and the independent auditor.

The Committee shall provide assistance to the Board in fulfilling its oversight responsibility relating to the Company’s financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company’s

financial statements and the legal compliance and ethics programs as established by management and the Board. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee and the Company's independent auditors, internal accounting personnel and management.

Membership

The Committee shall be comprised of at least five Board members, at least three of which are from ~~market~~Market Segments and two or more of which must be Independent Board members of the Company. Each Member must be able to read and understand fundamental financial statements, including the balance sheet, income statement and cash flow statement. ~~At least one Member~~At least one Member shall be designated a "financial expert" as such term may be defined from time to time by the Board of Directors consistent with definitions generally accepted by the accounting industry or other regulatory authorities (the "Financial Expert"). At a minimum, the Financial Expert must have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which ensures the individual's financial sophistication, including a past or current position as a Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") or other senior officer with financial oversight responsibilities.

The ~~board~~Board members shall decide from among themselves who shall participate in the Committee. The term shall be for not more than one year.

The Chair of the Committee shall be selected through a majority vote of the Committee members. The Committee Chair shall not be the CEO of the Company and shall have accounting or related financial management expertise.

~~The~~Any member of the public may attend and participate in the open session of Committee meetings. For the executive session of Committee meetings, the Committee shall close the Committee meeting to the public to address sensitive matters such as confidential personnel information, contracts, lawsuits, competitively sensitive information, or other information related to the security of the regional electrical network. For such executive sessions of Committee meetings, the Committee may request that any officers or employees of the Company, or any other person, whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests. In addition, for such executive sessions of the Committee meetings, the Committee may exclude any persons who are not Directors, the Directors' Segment Alternates or the Directors' Designated Representatives.

Board members (other than Committee members) including Board member alternates may attend and participate in all Committee meetings but may not participate in Committee voting.

~~Non-Committee members may attend Committee meetings at the discretion of the Committee. The Committee may exclude any persons who are not Directors, the Segment Alternate or the Director's Designated Representative from any meeting or portion of any Committee meeting~~

~~that the Committee determines, in its discretion, needs to be held in closed session to discuss personnel issues, confidential legal matters, negotiations or other business of the Committee involving confidential information.~~

Qualifications

Each member of the Committee shall also meet any experience requirements as may be established from time to time by the Board of Directors. The Board of Directors shall endeavor to appoint at least one member to the ~~committee who is a financial expert as such term may be defined from time to time by the Board of Directors, the accounting industry or other regulatory authorities~~Committee as the Financial Expert.

Authority

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain outside counsel or other experts for this purpose. All employees are directed to cooperate as requested by the Committee or any of its Members for Committee purposes. The Committee may request any officer or employee of the Company, the Company's outside counsel or the Company's independent auditor to attend a meeting of the Committee or to meet with any Member or any consultants to the Committee.

The Director of Internal Audit is the Chief Audit Executive at the Company. The Company's Chief Audit Executive shall report directly to the Committee. For administrative purposes, the Chief Audit Executive shall report to the CEO. The Committee shall approve an Annual Internal Audit Plan prepared by the Chief Audit Executive. The Chief Audit Executive shall (1) manage the execution of the Annual Internal Audit Plan, (2) conduct investigations at the direction of the Chair and the Committee, and (3) make periodic reports to the Committee at regularly scheduled Committee meetings and as otherwise directed by the Chair and the Committee.

The Committee may appoint workgroups or task forces to investigate issues defined by the Committee. Members of such workgroups or task forces need not be Directors. Such workgroups or task forces shall have no authority to bind the Committee or the Company.

Structure

The presence of at least half of the members of the Committee shall constitute a quorum. At any meeting at which a quorum exists, the act of a majority of the members present at a meeting shall be the act of the Committee. For the purposes of voting, members who recuse themselves from voting on an issue shall not be counted as present for that vote.

The Chair, in consultation with the CFO, shall develop the agenda, the frequency, and length of meetings and shall have unlimited access to management and information for purposes of carrying out functions of the Committee. The Chair shall establish such other rules, as may from time to time be necessary and proper for the conduct of the Committee.

Duties and Responsibilities

The following shall be the prominent recurring duties and responsibilities of the Committee in carrying out its oversight functions. The duties and responsibilities are set forth below as a guide

to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, and by the Company's Articles of Incorporation and Bylaws:

With respect to budget oversight and financing:

1. Annually, on a schedule to be established by the Board of Directors, the Committee shall review staff's proposed budget for the following year, including proposed staffing levels, proposed capital expenditures, and other proposed expenditures.
- ~~2. The Committee shall review the staff's estimate of revenues to support all proposed expenditures, including staff's recommendations for fee levels for the following year.~~
- ~~3.2.~~ The Committee shall review the staff's recommendation of the amount and type of financing ~~that may be needed, both revenue and debt financing,~~ to support the proposed budget, including the staff's proposed financial performance measures (e.g. ratios).
- ~~4.3.~~ Following the Committee's review of the above items, the Committee shall recommend to the Board of Directors a staffing level, a proposed budget, proposed fees, and proposed financial performance measures for the following year.
- ~~4. As needed, the Committee shall review staff's recommendations among debt financing alternatives and recommend to the Board of Directors a debt structure or facility that meets the Company's liquidity needs.~~

With respect to maintaining investment and financial guidelines for the Company, the Committee shall:

1. Establish standards by which the Company will invest funds and maintain its financial health/strength and review these standards at least annually, recommending updates to the Board of Directors as needed.

With respect to the Company's credit policies and standards:

- ~~1. Establish a standard by which the Board will seek to maintain the long-term financial integrity of the ERCOT market and review this standard at least annually, recommending updates to the Board of Directors as needed.~~
- ~~1.2.~~ The Committee shall review the Company's credit policies to consider:
 - a. Appropriateness of credit practices and creditworthiness standards established for market participants;
 - b. Compliance with existing creditworthiness standards by market participants;
 - c. Compliance with credit-related Protocols and market rules; and
 - d. Development of appropriate methods to evaluate and mitigate credit risk;
- ~~2.3.~~ In establishing or reviewing the standard under Item 1 above and in conducting the review under Item 2 above the Committee~~The Committee's review~~ shall consider the recommendations of staff and the Credit Work Group and the decisions and recommendations of the appropriate stakeholder groups, including the Technical Advisory Committee and the Market Credit Work Group.
- ~~3.4.~~ Following each such review, the Committee may, in its discretion, recommend to the Board of Directors any proposed changes to the previously approved standard or credit policies.

With respect to the independent auditors:

1. Annually, the Committee shall recommend to the Board of Directors the selection and engagement of the Company's independent auditor. The Committee shall fulfill the oversight responsibility of the Board of Directors with respect to the independent auditors' audit of the books and accounts of the Company and for the fiscal year for which it is appointed.
2. The Committee shall approve the provision of all auditing and non-audit services (in excess of \$5,000) by the independent auditor to the Company in advance of the provision of those services and shall also approve the fees for all non-audit services provided by the independent auditor.
3. Provision of non-audit services of less than or equal to \$5,000 by the independent auditor to the Company do not require pre-approval from the Committee, but shall be communicated in writing to the members of the Committee at the first meeting following the engagement for the non-audit services at issue.
4. In connection with the Committee's approval of non-audit services, the Committee shall consider whether the independent auditor's performance of any non-audit services is compatible with the external auditor's independence.
5. At least annually, the Committee shall obtain and review a report by the independent auditor describing:
 - a. the independent auditor's internal quality control procedures;
 - b. all relationships between the independent auditor and the Company, in order to assess the auditor's independence.
6. The Committee shall also review any report by the independent auditor describing:
 - a. significant accounting policies and practices used by the Company;
 - b. alternative treatments of financial information as required to be discussed by the independent auditors with the Committee; and
 - c. any other material written communication between the independent auditors firm and the Company's management.
7. Establish the Company's hiring policies for employees who are former employees of the Company's independent auditors.

With respect to the Company's financial statements:

1. The Committee shall discuss the annual audited financial statements with management and the independent auditor, including the Company's disclosures.
2. The Committee shall review disclosures made to the Committee by the Company's CEO and CFO about any significant deficiencies in the design or operation of the internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
3. In connection with its review of the Company's financial statements, the Committee shall review and discuss with the independent auditor the matters relating to the conduct of the audit as they may be modified or supplemented, including, but not limited to, significant judgments, significant estimates, critical accounting policies, and unadjusted differences.
4. Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
5. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.

6. Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
7. Review any and all press stories that relate to the Company's accounting and disclosure, require that management or the auditor explain any negative comments and determine whether these comments necessitate a change in the accounting structure of the Company.
8. Based on its review and discussions with management, the Chief Audit Executive and the independent auditor, the Committee shall provide a recommendation to the Board of Directors whether the Company's financial statements should be accepted.

With respect to periodic reviews and reports:

1. Periodically, the committee shall meet separately with senior management, the Chief Audit Executive and the independent auditors.
2. The Committee shall review with the independent auditor any audit problems or difficulties and management's response to them.
3. The Committee shall review the Company's policies with respect to risk assessment and risk management.
4. The Committee shall inquire of management and the independent auditors about significant risks or exposures to the Company and the Company's market and assess the steps management has taken to minimize such risks.
5. The Committee shall establish procedures for:
 - a. The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - b. The confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.
6. The Committee shall review a summary of the Company's dealings with any financial institutions that are also market participants.
7. The Committee shall communicate to the Board of Directors the matters discussed at each meeting of the Committee, including any issues with respect to the quality or integrity of the Company's financial statements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.
8. The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors.

With respect to Internal Audit:

1. The Committee shall review with management and the Chief Audit Executive the charter, activities, staffing, and organizational structure of the internal audit function.
2. The Committee shall have final authority to review and approve the Annual Internal Audit Plan and all major changes to the Plan.
3. The Committee shall review, considering the recommendations of the independent auditors and the CFO, the scope of the Internal Audit Plan and the plan of work to be done by the Company's Internal Audit Department, and the results of such work.
4. The Committee shall review the significant reports to management prepared by the Internal Audit Department and management's responses.

5. The Committee shall ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive.
6. The Committee shall, at least once per year, review the performance of the Chief Audit Executive and concur with the annual compensation and salary adjustment.
7. The Committee shall review the adequacy and effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
8. The Committee shall, on a regular basis, meet separately with the Chief Audit Executive in executive session to discuss any matters that the committee or Internal Audit believes should be discussed privately.

~~With respect to the other matters:~~

- ~~9. The Committee shall inquire of management and the independent auditors about significant risks or exposures to the Company and the Company's market and assess the steps management has taken to minimize such risks.~~
- ~~10. The Committee shall establish procedures for:~~
 - ~~a. The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and~~
 - ~~b. The confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.~~
- ~~2. The Committee shall establish the Company's hiring policies for employees who are former employees of the Company's independent auditor's.~~
- ~~3. The Committee shall meet at least biannually with the independent auditor and the CFO in separate executive sessions.~~

Meetings

The Committee shall meet at least once during each fiscal quarter, and as many additional times as the Committee shall deem necessary or appropriate.

Minutes

The Committee shall designate a secretary, who may be a Committee Member or employee of ERCOT, who shall prepare or cause to be prepared the minutes of each meeting and file such minutes with the corporate records of the Company. The secretary shall send, or cause to be sent, copies of such minutes to each of the Members.

Evaluation

The Committee shall undertake an annual evaluation assessing its performance and, in light of this, consider changes in its membership, charter or procedures. The Committee shall report to the Board the results of its evaluation, including recommended charter, membership and other changes, if any.

8. Preview Board Semi-Annual ERM, Compliance & Internal Control Update: Cheryl Yager

For discussion

Enterprise Risk Management Update

8. Preview Board Semi-Annual ERM, Compliance & Internal Control Update: ERM 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
<p>Strategy Development</p> <p>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</p>	<p>Performance Monitoring</p> <p>Clearly defined and actively monitored performance metrics linked to mission and goals - Performance status communicated and corrective action taken.</p>	<p>Customer Choice</p> <p>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</p>	<p>Grid Operations</p> <p>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.</p>	<p>Review Practices</p> <p>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</p>	<p>Legal & Legislative</p> <p>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</p>
<p>Mission and Goals</p> <p>Corporate objectives and performance standards are understood and followed.</p> <p>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.</p>	<p>Business Practices</p> <p>Business planning, processes and management standards are effective and efficient.</p>	<p>Nodal Implementation Project</p> <p>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.</p>	<p>Planning</p> <p>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability.</p> <p>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.</p>	<p>Disclosure</p> <p>Reporting and other disclosures to intended parties is timely, accurate and effective.</p>	<p>Internal Control Compliance</p> <p>Internal Control Compliance, processes and management standards are effective and efficient.</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>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</p> <p>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. ▲</p> <p>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. ▼</p>	<p>Workforce</p> <p>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</p> <p>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.</p>	<p>Counterparty Credit</p> <p>Maintain credit risk exposure for overall market within acceptable limits.</p> <p>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.</p>	<p>Bulk System Resources</p> <p>Market Participants construct and make available adequate bulk electric grid resources.</p>	<p>Communication</p> <p>Internal & external communications are timely and effective.</p>	<p>Industry Standards</p> <p>Business practices provide stakeholders with required assurances of quality.</p> <p>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.</p>
<p>Fiscal Management</p> <p>ISO design requires competent, prudent and cost effective provision of services.</p> <p>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.</p>	<p>Technology Infrastructure</p> <p>Information systems, supporting facilities and data are effectively managed and are reliable.</p> <p>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.</p>	<p>Administration, Settlement & Billing</p> <p>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production</p>	<p>Operational Responsibility</p> <p>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</p> <p>Response of generators and LAA&Rs to grid operation events has improved.</p> <p>Lack of consensus over application of low voltage override and frequency response requirements to existing renewables.</p>	<p>Adequacy and Integrity</p> <p>Robust processes exist to support management assertions embodied within financial reports.</p>	<p>Regulatory Filings</p> <p>Evidence, testimony and other supporting materials are compelling and successful.</p>
<p>Legend: ▲ Elevated Risk Level ▼ Reduced Risk Level (New Risk Categories / Descriptions Indicated in Green)</p>					



8. Preview Board Semi-Annual ERM, Compliance & Internal Control Update: Risk Management Update

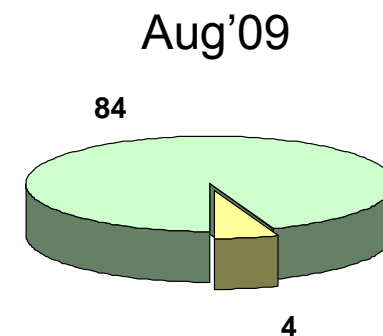
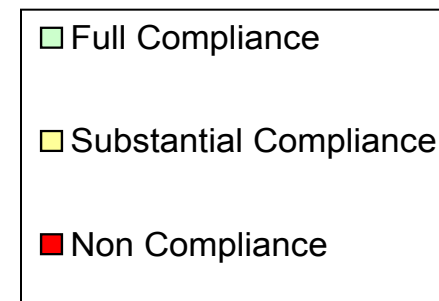
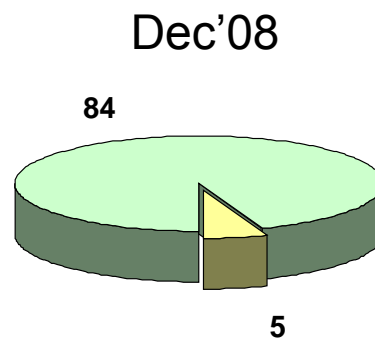
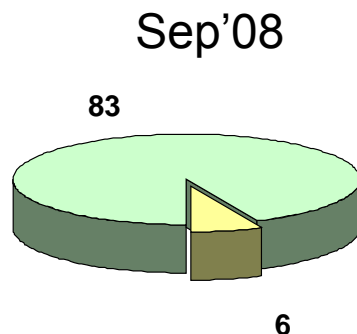
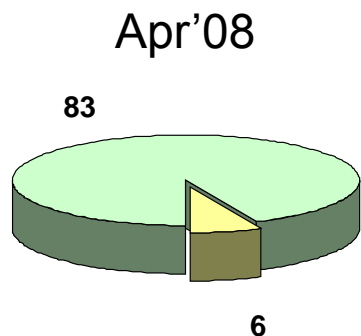
- **Enhanced risk analytics**
 - Portfolio (overall) credit risk exposure model is being produced
- **Increased emphasis on Risk Management**
 - Risk awareness training materials have been updated for 2009
 - Risk Management core competency added to 2009 performance reviews for all managers & above;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

Compliance Update

8. Preview Board Semi-Annual ERM, Compliance & Internal Control 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.

8. Preview Board Semi-Annual ERM, Compliance & Internal Control Update: Management Compliance – Status Update



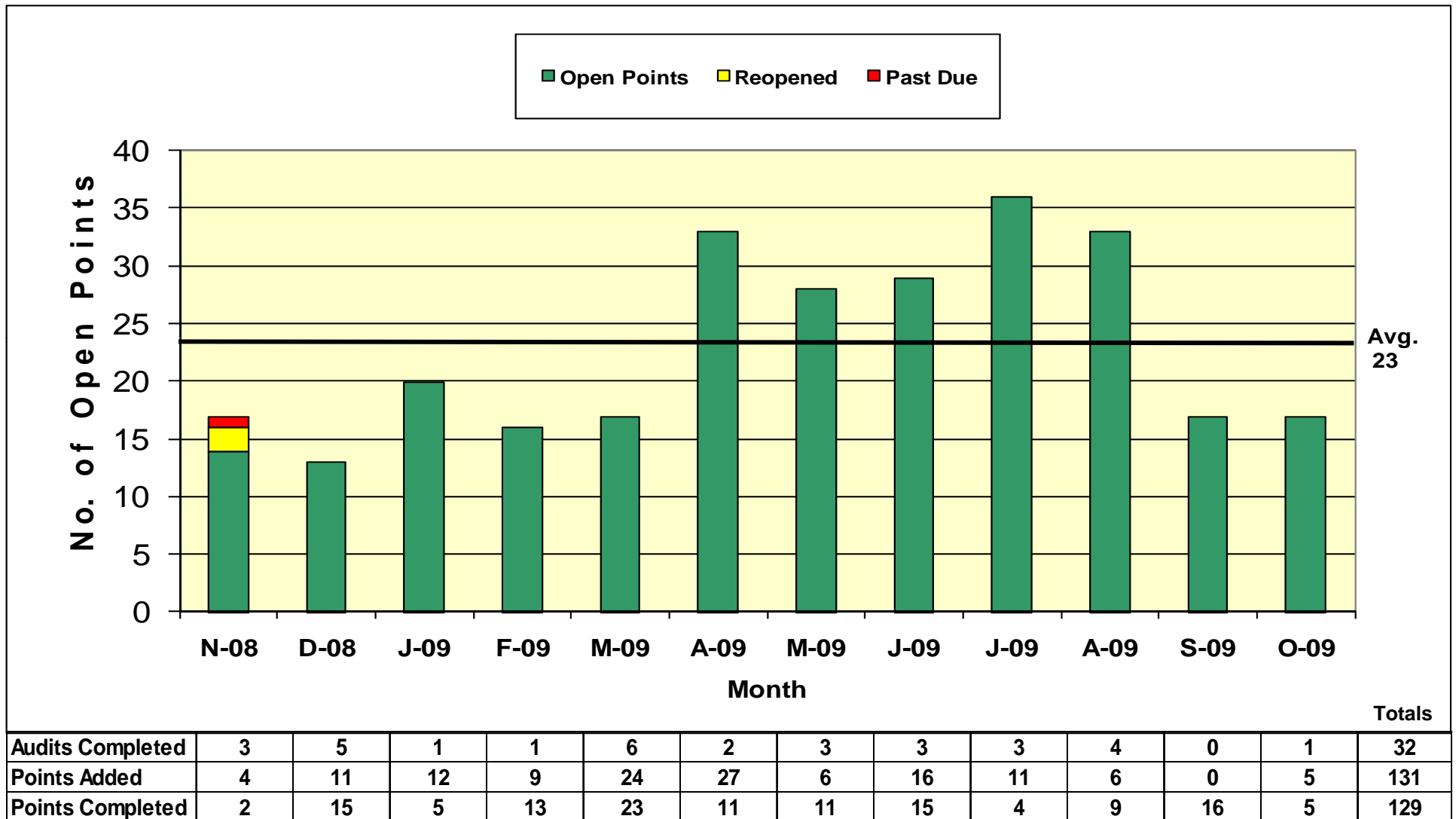
- We are presently tracking 89 compliance items with 100% reported as “Substantial Compliance” or better
- Details regarding changes to compliance status since last Board report (March 2009) are included in your Executive Session materials.

Internal Control Update

8. Preview Board Semi-Annual ERM, Compliance & Internal Control 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**

8. Preview Board Semi-Annual ERM, Compliance & Internal Control Update: Status of Open Audit Points



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

8. Preview Board Semi-Annual ERM, Compliance & Internal Control Update: 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

Agenda

- **Summary of debt capacity – Dec 31, 2008 and Oct 31, 2009**
- **Projected debt outstanding – Dec 31, 2009 and 2010**
- **Summary of projected debt capacity – Dec 31, 2009 and 2010**
- **2010 financing strategy**
- **Questions?**
- **Executive session slide: Debt Facility Details**

9. Financing Update – 2010 Needs: Summary of Debt Capacity – Dec 31, 2008 and Oct 31, 2009

Borrowing (\$ Millions)	As of 12/31/08				As of 10/31/2009		
	Board Authorized	Debt Capacity	Debt Outstanding	Credit Available	Debt Capacity	Debt Outstanding	Credit Available
Senior Notes	\$ 82	\$ 82	\$ 82	\$ -	\$ 68	\$ 68	\$ -
Term Loan	213	213	213	-	213	213	-
JPMorgan/Wachovia Revolver	100	100	-	100	100	-	100
JPMorgan/Wachovia Revolver	75	75	47	28	75	42	33
Bank of America Revolver	50	50	-	50	50	-	50
Other	150	-	-	-	-	-	-
Total	\$ 669	\$ 519	\$ 341	\$ 178	\$ 506	\$ 323	\$ 183
TCR Borrowings						31	(31)
Total (Incl. TCR Borrowing)	\$ 669	\$ 519	\$ 341	\$ 178	\$ 506	\$ 354	\$ 152

Swaps:	\$180	\$ 180
Fix	77%	70%
Float	23%	30%

9. Financing Update – 2010 Needs: Projected Debt Outstanding – Dec 31, 2009 and 2010

	<u>December 31, 2009</u> ⁽¹⁾	<u>December 31, 2010</u> ⁽²⁾
	(\$millions)	(\$millions)
Beginning debt as of December 31, 2008 and 2009	\$ 341	\$ 365
Plus: Base operations capex to be funded with debt	21	28
Plus: Nodal Program spend to be funded with debt	53	45
Plus/Less: Estimated sales tax refund, net	(24)	13
Less: System admin fee used to reduce debt	(13)	(13)
Subtotal of net required availability	<u>\$ 38</u>	<u>\$ 73</u>
Less: Payments made on facilities with no availability	(14)	(14)
Projected ending debt as of December 31, 2009 and 2010	<u><u>\$ 365</u></u>	<u><u>\$ 424</u></u>
Debt outstanding at October 31, 2009	<u><u>\$ 354</u></u>	

Note: Forecast is based on Base and Nodal project budgets and cash flows for 2009 and 2010.

(1) 2009 projected debt outstanding based on forecast as of October 31, 2009

(2) 2010 projected debt outstanding based on 2010 budget

9. Financing Update: Summary of Projected Debt Capacity – Dec 31, 2009 and 2010

Borrowing	Projected 12/31/2009			Projected 12/31/2010											
	Debt Capacity	Debt Outstanding	Credit Available	Debt Capacity	Debt Outstanding	Credit Available									
(\$ Millions)															
Senior Notes	\$ 68	\$ 68	\$ -	\$ 54	\$ 54	\$ -									
Term Loan	213	213	-	213	213	-									
JPMorgan/Wachovia Revolver	100	9	91	100	82	18									
JPMorgan/Wachovia Revolver	75	75	-	75	75	-									
Bank of America Revolver	50	-	50	50	-	50									
Total	\$ 506	\$ 365	\$ 141	\$ 492	\$ 424	\$ 68									
Less: liquidity requirement			50			50									
Net credit available			<u>\$ 91</u>			<u>\$ 18</u>									
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Swaps:</td> <td style="width: 30%; text-align: center;">\$240</td> <td style="width: 30%; text-align: center;">\$ 200</td> </tr> <tr> <td style="padding-left: 20px;">Fix</td> <td style="text-align: center;">84%</td> <td style="text-align: center;">60%</td> </tr> <tr> <td style="padding-left: 20px;">Float</td> <td style="text-align: center;">16%</td> <td style="text-align: center;">40%</td> </tr> </table>							Swaps:	\$240	\$ 200	Fix	84%	60%	Float	16%	40%
Swaps:	\$240	\$ 200													
Fix	84%	60%													
Float	16%	40%													

2010 Debt Capacity Assumptions:

- \$71 million term loan payment due in November, 2010 is deferred until 2011 / 2012
- JPMorgan / Wachovia \$100 mm revolver is extended to 2011
- Bank of America \$50 million revolver is extended until 2011
- \$13 million of revenue from System Admin Fee established for debt repayment is used to avoid or reduce debt under revolving credit facilities

Note 1: If debt capacity assumptions do not hold, capacity could potentially be reduced to \$271 million from the projected \$492 million in capacity.

Note 2: Floating rate debt is currently projected to reach 40% by year-end 2010. ERCOT will continue to monitor debt allocations to ensure compliance with guidelines

9. Financing Update – 2010 Needs: 2009 and 2010 Financing Strategy

- **To meet projected liquidity needs through 2010, ERCOT is considering pursuing the following actions:**
 1. Work with existing lenders and lending agreements
 - Extend the \$50 million Bank of America 364-day facility
 - Facility currently expires in June 2010
 - Seek to renegotiate the Term Loan repayment schedule
 - \$70.8 million principal payment currently due in November 2010
 - Extend the \$100 million J.P. Morgan Chase / Wachovia Facility
 - Facility currently expires in November 2010
 - Confirm with the BOD that the portion of the 2009 and 2010 System Administration Fee established for debt repayment be used to repay or avoid debt under revolving credit facilities
 - Preserves debt capacity
 2. Pursue other financing alternatives

Questions?

10. Preview Board Credit Briefing – Potential Future Exposure: Overview – Randy Baker

- **Summary Results**
- **Background**
- **Base Case & Current Case**
- **Summary of Most Common Outcomes – Base Case**
- **Comparisons – Base Case**
- **What Has Changed – Q2 2009**
- **Extreme Events – Base Case**
- **Current Case Simulations**
- **Comparison of Results Over Multiple Periods**

While the impact of various model factors changed...

Base case residual credit risk remains comparable to the previous level reported for Q1-2009

- Changes in market factors have increased risk
- Changes in QSE factors have decreased risk
- Net effect – overall risk has increased slightly

Current case residual credit risk also remains comparable to the previous level reported for Q1-2009

- Same factors as for Base case
- Net effect – overall risk has increased slightly

10. Preview Board Credit Briefing – Potential Future Exposure: Background

- **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 June 30, 2009.
 - Information is compared to the results of the Potential Credit Risk Model based on the financial statement information provided by QSEs as of March 31, 2009.
- **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

10. Preview Board Credit Briefing – Potential Future Exposure: Background

- **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.**

- **Two cases are represented –**

Base Case

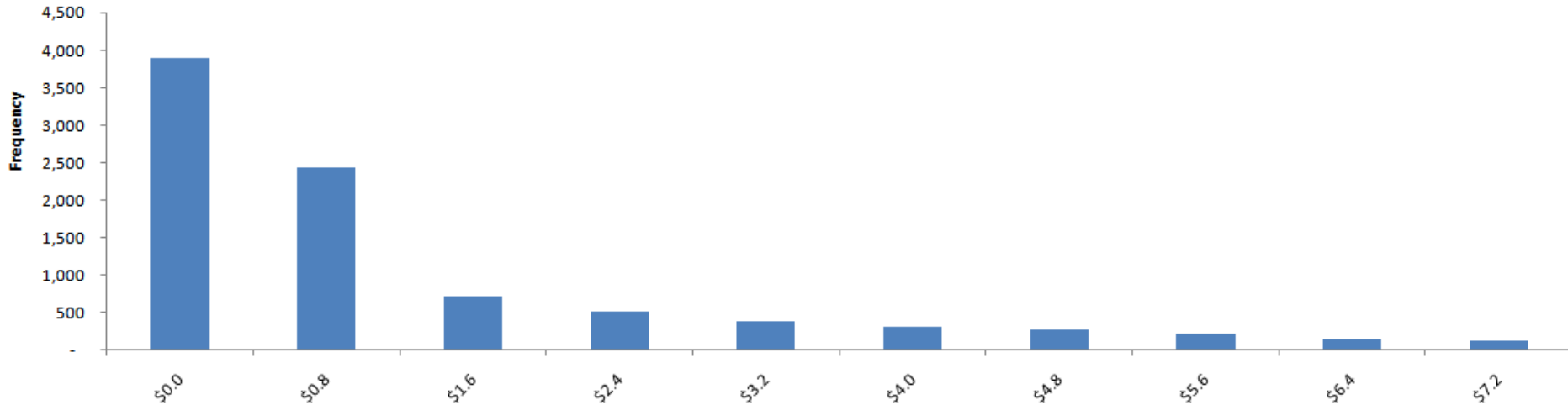
- Does not include current collateral held by ERCOT
- Fundamental assumption for this case deems collateral balances to be at least consistent with current protocols until a default occurs
- Unless otherwise indicated, this case is represented in all slides since it represents what ERCOT can enforce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

10. Preview Board Credit Briefing – Potential Future Exposure: Summary of Most Common Outcomes – Base Case

Histogram of losses - Base Case showing 9,000 of 10,000 simulations

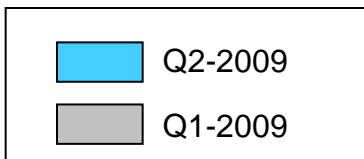
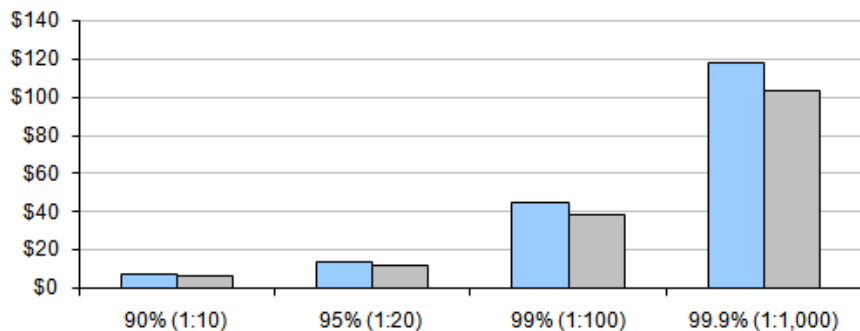


- Histogram above shows the number of simulations with credit losses less than or equal to **\$7.2** million dollars
- Losses of **\$0** are the most common results
 - Nearly 39% (3,895) of simulations had no losses, either from no defaults or defaults with adequate collateral
 - Over 70% of simulations resulted in losses of less than or equal to approximately **\$1.6** million
 - Results assume that market conditions and QSE credit ratings in place at the time of the simulation continue to be relatively unchanged over the next twelve months
- The Expected Loss across all simulations is approximately **\$3.1** million (up from \$2.8 million for Q1-2009)
 - The Expected Loss does not represent “the most common outcome”, but the long-run average across all outcomes
- Typical characteristic of this simulation - **heavily skewed to the right, showing extreme losses to be very rare**
- Recent results are slightly poorer as compared to Q1-2009 results

10. Preview Board Credit Briefing – Potential Future Exposure: Comparisons – Base Case

Simulations using Q2-2009 and Q1-2009 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)

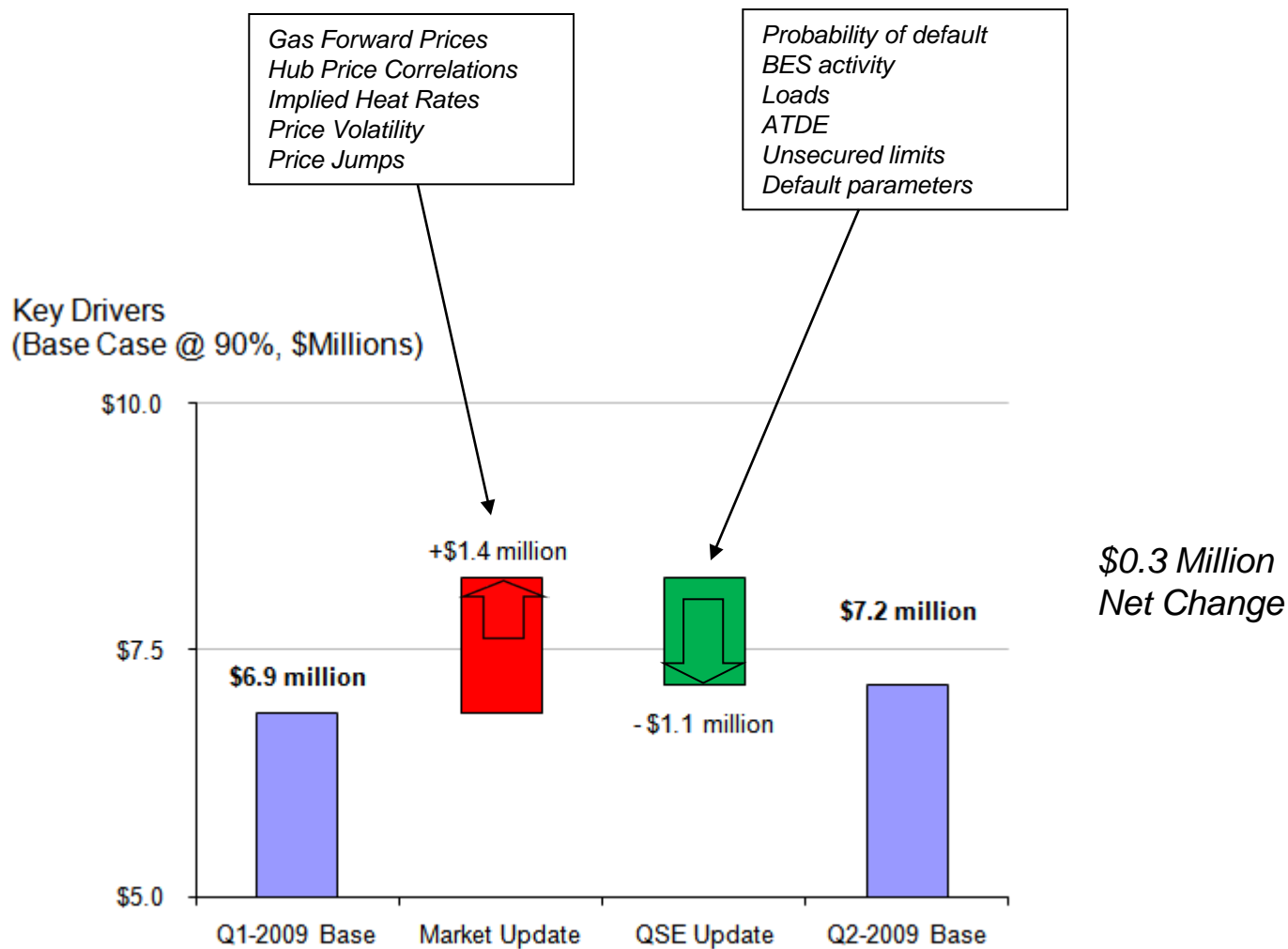
Expected Loss
Median (1:2)

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

	Q2-2009	Q1-2009
Base Case	365	365
Simulations	10,000	10,000
Total defaults	41,485	40,963
Simulations with defaults	9,487	9,393
Simulations without defaults	513	607
Default simulations with zero loss	3,382	3,205
Total simulations with zero loss	3,895	3,812
Expected Loss	\$3.1	\$2.8
Median (1:2)	\$0.2	\$0.3
90% (1:10)	\$7.2	\$6.9
95% (1:20)	\$14.1	\$12.1
99% (1:100)	\$44.9	\$38.4
99.9% (1:1,000)	\$118.0	\$103.5
Max (1:10,000)	\$308.9	\$152.4

10. Preview Board Credit Briefing – Potential Future Exposure: What Has Changed – Q2 2009

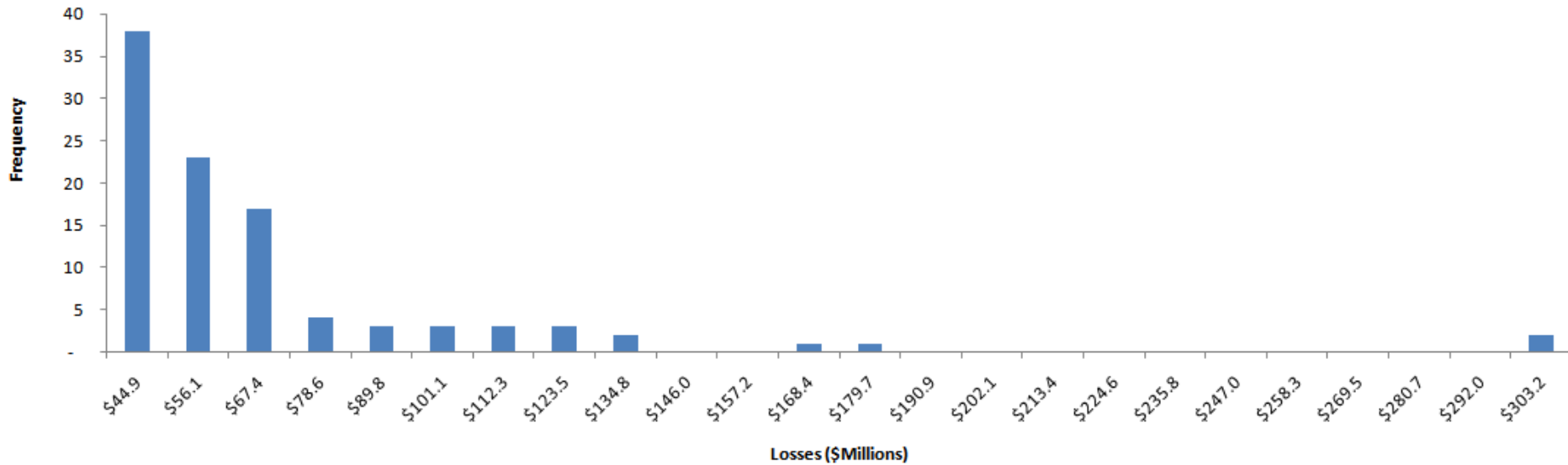
(US\$ Millions, 90% confidence)



10. Preview Board Credit Briefing – Potential Future Exposure: Extreme Events – Base Case

Base Case – Highest Loss Simulations

High Loss Simulations (Tail)



- Histogram above shows the largest 100 loss simulations.
- This graph represents Tail risk, a.k.a. “Extreme Events”.
- These 100 simulations resulted in losses equal to or in excess of \$44.9 million.
- At 99% confidence, losses are **\$44.9 million**, higher than Q1-2009 results of **\$38.4 million**.

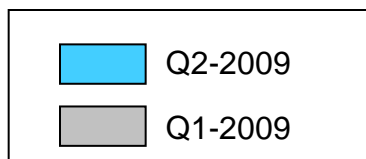
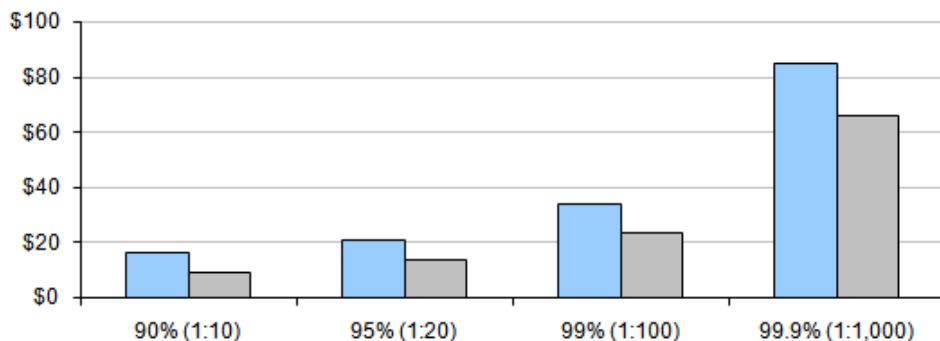
10. Preview Board Credit Briefing – Potential Future Exposure: Current Case Simulations

- **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

10. Preview Board Credit Briefing – Potential Future Exposure: Current Case Simulations – Comparison

Simulations using Q2-2009 and Q1-2009 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)

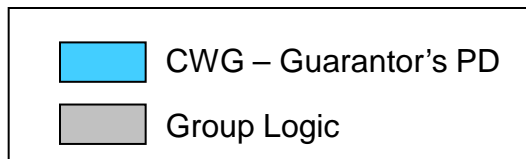
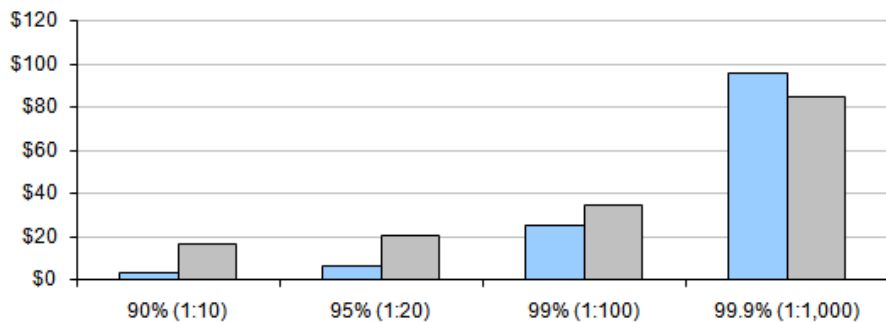
90% (1:10)
95% (1:20)
99% (1:100)
99.9% (1:1,000)
Max (1:10,000)

	Q2-2009	Q1-2009
Current Case	365	365
Simulations	10,000	10,000
Total defaults	42,055	41,354
Simulations with defaults	9,456	9,433
Simulations without defaults	544	567
Default simulations with zero loss	3,208	3,789
Total simulations with zero loss	3,752	4,356
Expected Loss	\$4.9	\$2.7
Median (1:2)	\$0.3	\$0.1
90% (1:10)	\$16.7	\$9.3
95% (1:20)	\$20.8	\$13.7
99% (1:100)	\$34.1	\$23.9
99.9% (1:1,000)	\$85.1	\$65.8
Max (1:10,000)	\$148.4	\$158.7

10. Preview Board Credit Briefing – Potential Future Exposure: Current Case Simulations – Comparison to CWG

Simulations using Q2-2009 and Q1-2009 Financials

Potential Credit Loss - Current Case (\$Millions)

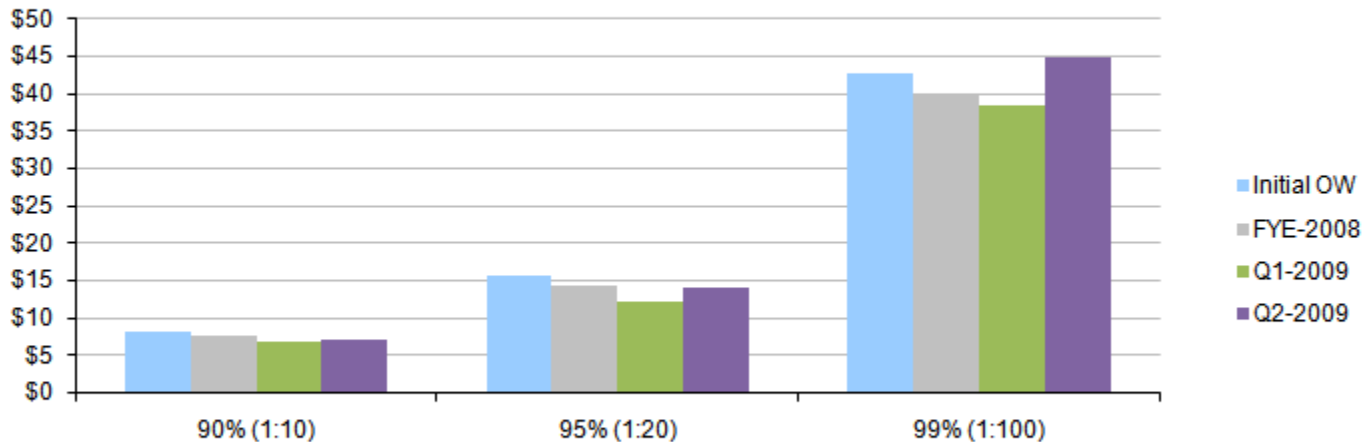


	Guarantor's PD	Group Logic
Current Case	365	365
Horizon (in days)	365	365
Simulations	10,000	10,000
Total defaults	22,784	42,055
Simulations with defaults	8,226	9,456
Simulations without defaults	1,774	544
Default simulations with zero loss	3,895	3,208
Total simulations with zero loss	5,669	3,752
Expected Loss	\$1.4	\$4.9
Median (1:2)	\$0.0	\$0.3
90% (1:10)	\$3.2	\$16.7
95% (1:20)	\$6.5	\$20.8
99% (1:100)	\$25.3	\$34.1
99.9% (1:1,000)	\$95.9	\$85.1
Max (1:10,000)	\$246.2	\$148.4

10. Preview Board Credit Briefing – Potential Future Exposure: Comparison of Results Over Multiple Periods

- **The Potential Credit Risk Model demonstrates consistent levels of risk over multiple periods**
- **Results impacted by offsetting influences**
 - For example, between the initial OW results and the FYE-2008 results, market prices decreased while market participant risk increased

Potential Credit Loss - Base Case
(\$Millions)



Questions?



**ERCOT
2009 SAS No. 70
Results
Finance & Audit Committee
November 17, 2009**



Highlights

- SAS 70 Report is ready to be issued today, pending F&A Committee approval
- The opinion is unqualified
- 2 testing exceptions are included in the report (discussed in August)

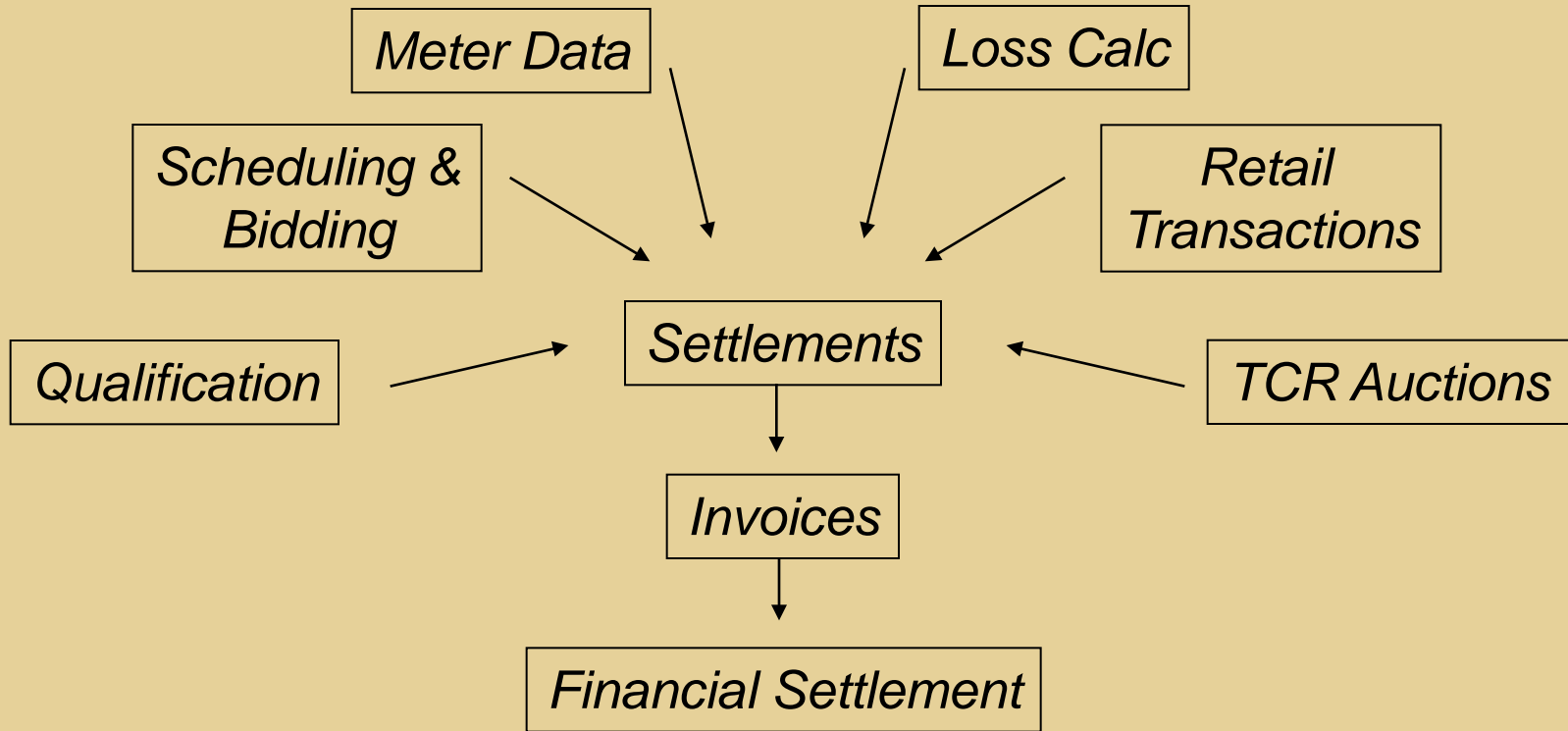
Discussion Topics

- Scope and Background on SAS 70
- SAS 70 Type 2 Audit Results
- Path Forward and Final Thoughts

Scope and Background on SAS 70 Overview

- SAS 70 is an examination of internal controls for your market-based systems and processes
- Primary uses by market participants and their auditors; SEC registrants in particular
- Audit covers the period of October 1, 2008 through September 30, 2009
- Sustaining audit function; scope and timing similar to other ISO/RTO organizations
- 2009 scope has only small changes from prior year
- Testing is broken into two phases – each covering about half of the year.

Scope and Background on SAS 70 Processes Included



Infrastructure: IT Security, Change Management, Operations

Scope and Background on SAS 70 History

Year	Opinion	Objectives Qualified	Key Areas Requiring Remediation
2009	Unqualified	None	Exceptions noted related to TCR Auctions and Logical Security
2008	Unqualified	None	None
2007	Unqualified	None	Exceptions noted related to TCR Auctions
2006	Qualified	1	Logical Security
2005	Qualified	2	Logical Security, Physical Security
2004	Qualified	3	Logical Security, Physical Security, Change Management
2003	n/a	n/a	Internal Diagnostic
2002	Unqualified	n/a	Type I Report

SAS 70 Type 2 Audit Results

- Audit conduct status – on plan; on time; on budget
- Two exception conditions identified during the year (discussed in August F&A meeting)
 - Annual PCR allocation approval
 - IT access management
- Exception conditions do not qualify the audit opinion
- Report issuance is planned for today, pending approval

Path Forward and Final Thoughts

- Success seen in 2009 should be appreciated, but not taken for granted.
 - An unqualified opinion requires all control activities to be operating effectively throughout the period
 - Changes in the environment and pressures on resources resulting from the nodal project pose a potential risk.
- Planning for controls in the nodal market is a significant undertaking.
 - Re-evaluate control objectives with market participant input
 - Assess control gaps and design of controls
 - Demystify SAS 70 controls – its all about QC

Path Forward and Final Thoughts

- Key success factors for successful controls conversion include:
 - Controls integration a discrete element of project plan
 - Thoughtful risk assessment
 - Big picture oversight – avoiding silos
 - Careful clarification of controls – how calibrated and monitored (the devil is in the details)
 - Audit trail – critical in monitoring controls execution
 - Agility – morphing controls as circumstances (market tests – and live environment) dictate

Standards attached as separate documents.

<Vote>

ERCOT CORPORATE STANDARD

Document Name:	Financial Corporate Standard
Document ID:	CS3.1
Effective Date:	March 17, 2009
Owner:	Board of Directors, F&A Committee
Approved:	Board of Directors, F&A Committee

1.0 PURPOSE

This financial corporate standard is a framework from which ERCOT’s financial integrity will be maintained while serving the long-term interests of the company and the ERCOT market. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT’s primary responsibilities.

2.0 DEFINITIONS

TERM	DEFINITION
Budget	The Budget consists of Project Budgets, an Operating and Maintenance Budget and a Texas Regional Entity Division of ERCOT (“Texas RE”) Budget as a component.
Project Budgets	Project Budgets consist of proposed expenditures to be made to develop capital assets during ERCOT’s Fiscal Year. Any significant projects not included in the approved project budgets will be presented to ERCOT’s Board of Directors for approval as they arise.
Cash Operating and Maintenance Expenses	Cash Operating and Maintenance Expenses consist of all reasonable and necessary costs (excluding non-cash items such as depreciation and amortization) incurred in the operation and maintenance of ERCOT’s facilities, equipment and systems.
Fiscal Year	ERCOT’s fiscal year is January 1 st through December 31 st .
NERC	North American Electric Reliability Corporation, the entity currently certified as the Electric Reliability Organization by the Federal Energy Regulatory Commission (“FERC”).
Operating and Maintenance Budget	The Operating and Maintenance Budget consists of all reasonable and necessary costs expected to be incurred during ERCOT’s Fiscal Year.
Texas RE Budget	The Texas RE Budget is the budget (which can include both operating and maintenance and project budgets) for the Texas RE which is approved by NERC and FERC and which is used exclusively for the Texas RE’s proposal and enforcement of Reliability Standards (Federal Statutory duties) and for

TERM	DEFINITION
	ERCOT Protocol and Operating Guide compliance investigation activities.
Scheduled Debt Service	Scheduled Debt Service is all interest and mandatory principal payments due on ERCOT’s outstanding indebtedness (both long-term and short-term) for a stated period.
Strategic Financial Plan	The Strategic Financial Plan will provide current financial information and a five-year projection, which addresses all sources of revenues, including any proposed fee adjustments. It will include projections of operating and maintenance expenses, project expenditures, the funding sources of project expenditures, and debt service requirements as well as the resulting capital structure.
TCR	Transmission Congestion Rights
CRR	Congestion Revenue Rights

3.0 FINANCIAL OBJECTIVES

In seeking to fulfill its corporate objectives, ERCOT will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

Strategic Financial Plan and Budget. Prior to or in conjunction with the submission of the annual Budget, the Chief Financial Officer will submit an update to the Strategic Financial Plan.

The Budget will be substantially consistent with the Strategic Financial Plan and will be submitted to the Board with sufficient time for the review and approval of the Board prior to the beginning of the Fiscal Year. The Texas RE Budget component of the Budget may be approved in advance of the full Budget if required to meet deadlines set by regulators.

In developing the Strategic Financial Plan and Budget, ERCOT staff will work to ensure that financial ratios required for compliance with debt instruments are maintained.

ERCOT will pursue financial objectives that will allow it to maintain an investment grade debt rating with Standard & Poor’s, Moody’s or Fitch. If a rating below investment grade is received or expected to be received, staff will promptly recommend a plan for Board consideration to recover or maintain the targeted rating within 18 months.

Overall, the Strategic Financial Plan and the related Budget will seek to assure ERCOT’s financial stability. They will be approved by the Board and will guide ERCOT’s financial planning process.

Fees and Charges. ERCOT will assess fees consistent with the ERCOT Protocols and Public Utility Commission of Texas rulings. Established fees will include payment of the portion of the Texas RE Budget for ERCOT Protocol and Operating Guide compliance investigation activities. ERCOT will also collect fees on behalf of the Electric Reliability Organization as approved by FERC. The Texas RE will also receive funding for its Federal Statutory duties from NERC,

pursuant to a Delegation Agreement. Fees, funding, and charges will be requested to recover the Board-approved Operating and Maintenance Budget (excluding depreciation and amortization), Scheduled Debt Service (less any principal payments reasonably expected to be refinanced), and the portions of Project Budgets that are to be financed with revenue. Fee adjustments, if necessary, will generally be developed and proposed in connection with ERCOT's annual Budget.

ERCOT will use all reasonable means to operate within the approved Budget for the current year. When unforeseen events occur (e.g. MWh's are significantly over or under projected levels, functionality is added or removed, etc.) and as a result, ERCOT experiences or expects to experience in the next 12 month period any overspending or more than a 525 percent under spending of variance from 1) its Project Budgets, 2) 1) its Operating and Maintenance Budget (excluding depreciation and amortization), net of or 3) its related projected revenue stream or 2) its Project Budgets, staff will promptly recommend a plan for Board consideration, which may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.

Sources of Financing. ERCOT may use a combination of equity (revenue funding) and debt to finance current year Project Budgets. In determining the combination of equity and debt to be used, ERCOT will consider the impact of the current year decision on future years, but in no event will ERCOT propose to revenue fund less than 40% of Project Budgets during the project development phase.

Generally, ERCOT will structure debt issues such that the average maturity of the debt approximates does not exceed the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified.

ERCOT may use variable-rate debt to provide flexibility in its overall financing program and to manage its overall interest rate exposure. However, in no event will ERCOT allow unhedged, variable rate debt to be more than 40 percent of total debt outstanding.

ERCOT will periodically evaluate the interest rate environment and review ways to manage interest rate exposure within that environment.

As appropriate, ERCOT will periodically evaluate mechanisms to restructure or refinance debt. ERCOT will regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this financial corporate standard.

Liquidity. ERCOT will seek to maintain adequate liquidity to meet its business needs. Liquidity is the combination of available 1) operating cash on hand, 2) operating cash equivalents / short term investments and 3) undrawn borrowing capacity under credit facilities.

ERCOT's targeted minimum level of liquidity will factor in: 1) six months of forecasted Scheduled Debt Service, other than principal payments reasonably expected to be refinanced, 2) two months of average Cash Operating and Maintenance Expenses, net of projected administrative fee receipts, 3) two months of budgeted project expenditures, and 4) to the extend TCR or CRR auction revenues have been utilized to fund ERCOT working capital and project

expenditure needs, two months of estimated TCR or CRR repayment obligations expected to be paid, net of projected TCR or CRR auction receipts during the same period.

If at any time ERCOT's liquidity is less than or is expected to be less than the targeted minimum level set forth in this corporate standard, staff will promptly recommend a plan for Board consideration to achieve the liquidity target within six months.

Funds received in conjunction with TCR or CRR auctions may be utilized to fund ERCOT working capital and project expenditure needs so long as liquidity is at or above the target levels and ERCOT's issuer rating remains investment grade. These funds may be utilized in place of borrowing under short term credit facilities to meet liquidity needs.

4.0 RESPONSIBILITIES

It is the responsibility of the Chief Executive Officer, Chief Compliance Officer and Chief Financial Officer to ensure that this corporate standard is implemented appropriately and to recommend changes in the corporate standard as needed.

5.0 FINANCIAL STANDARD ADOPTION

ERCOT's financial corporate standard was adopted by resolution of the Board of Directors. The corporate standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.

ERCOT CORPORATE STANDARD

Document Name:	Investment Corporate Standard
Document ID:	CS3.2
Effective Date:	February 17, 2009
Owner:	Board of Directors, F&A Committee
Governs:	ERCOT Personnel
Approved:	ERCOT, Inc. Board of Directors

1. PURPOSE

The purpose of the ERCOT Investment Corporate Standard is to document the guidelines and related activities approved by the ERCOT Board of Directors for the investment and management of funds held by ERCOT, whether those funds arise from ERCOT operations or are held by ERCOT on behalf of the ERCOT market.

It is ERCOT's policy to invest its funds in a manner that provides adequate security; meets daily cash flow demands; conforms to applicable laws, bylaws, board resolutions and debt covenants; and affords reasonable investment returns.

The corporate standard applies to activity involving ERCOT funds, except for the Electric Reliability Council of Texas, Inc. 401(k) Savings Plan, which is managed separately.

ERCOT funds specifically include proceeds held by ERCOT from:

- 1) ERCOT, Inc. from the ERCOT System Administration Fee and Nodal Surcharge, NERC funding under a Delegation Agreement, and other fees collected from time to time,
- 2) ERCOT, Inc. from debt issues and other miscellaneous cash received
- 3) the ERCOT market for transmission congestion rights (TCR) auctions,
- 4) the ERCOT market for market settlement operations,
- 5) the ERCOT market for security deposits, and
- 6) other miscellaneous cash received from the ERCOT market.

2. STANDARDS

Standard of Care. ERCOT investments will be made with judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of principal as well as the probable income to be derived.

The standard of prudence to be used by the Designated Investment Officers (defined below) shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing an overall portfolio. The Designated Investment Officers of ERCOT, acting in accordance with this standard and any other written procedures pertaining to the administration and management of ERCOT’s portfolio and who exercise the proper due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes.

Investment Objectives. The primary objectives, in priority order, of ERCOT’s investment activities shall be:

- 1) Safety – Safety of principal is the foremost objective of the investment program. Investment of ERCOT funds will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, ERCOT will diversify its investments by investing funds among a variety of securities offering independent returns and a variety of independent financial institutions.
- 2) Liquidity – ERCOT’s investment portfolio will remain sufficiently liquid to enable ERCOT to meet all operating requirements which might be reasonably anticipated.
- 3) Return on investment – ERCOT’s investment portfolio will be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, in line with ERCOT’s investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority. Responsibility for the investment program is hereby delegated to the Designated Investment Officers. The Chief Financial Officer and the Treasurer of ERCOT are the Designated Investment Officers of ERCOT and are authorized to enter into and are responsible for all investment transactions undertaken. They will establish a system of controls over the investment program.

The Designated Investment Officers will establish written investment procedures for the operation of the investment program consistent with this corporate standard. No person may engage in an investment transaction except as provided under the terms of this corporate standard and the procedures established by the Designated Investment Officers.

Any two of the following individuals, with at least one being a Designated Investment Officer shall have authority to open and close investment and / or depository accounts with Qualified Institutions (as defined below): Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Controller and Treasurer.

Qualified Institutions or Money Market Funds. A Designated Investment Officer will select banks and other financial institutions that are approved for investment and / or depository purposes (“Qualified Institutions”). Only firms meeting the requirements of

the attached Appendix A will be eligible to serve as Qualified Institutions or Money Market Funds.

If an ERCOT Board member or member of his or her immediate family is an officer or director, is employed by, or owns or has a beneficial interest in more than 10 percent of the stock in a bank or other financial institution that would otherwise be a Qualified Institution, such Board member shall provide full disclosure of such stock holdings or relationship in documented form to be filed with permanent records of ERCOT. Any institutions so disclosed will be excluded from consideration as a Qualified Institution without 1) full disclosure to the Board of Directors of the relationship and 2) approval of the Board to establish the relationship.

Authorized Instruments. ERCOT shall invest only in those types of instruments authorized under this corporate standard and listed in Appendix C and subject to restrictions included in Appendix C.

Safekeeping of Investments. Security transactions, including collateral for repurchase agreements, will be conducted on a “delivery-versus-payment” (DVP) basis. Securities, other than shares in money market mutual funds, will be held for safekeeping, in the name of ERCOT, by a custodian (an independent state or federally-chartered bank) designated by the Treasurer and evidenced by safekeeping receipts. Institutions that offer money market mutual funds are responsible for safeguarding their underlying securities.

Internal Reviews. Credit - To manage credit risk arising from investments, at least monthly ERCOT will review underlying securities held as investments, including investments held through money market funds. Any credit related concerns not satisfactorily resolved with fund managers will result in movement of the investment to an alternative fund. ERCOT staff will not duplicate credit analysis performed by fund managers and are not expected to provide assurance that all holdings are creditworthy

Internal Control. The Treasurer shall ensure that the internal controls over investments are reviewed 1) periodically by ERCOT’s internal auditor, and 2) annually in conjunction with the fiscal audit by the external auditor. This review will test compliance with policies and procedures.

Reporting. A Designated Investment Officer will provide quarterly investment reports to the Board of Directors and Finance and Audit Committee which provide a clear picture of the status of the current investment portfolio.

Schedules in the quarterly report will, at a minimum, include the following:

- 1) A listing of individual securities held at the end of the reporting period by authorized investment category. If the investment category is money market, a list of securities held within each money market fund will be provided.
- 2) Average life and final maturity of all investments listed
- 3) Coupon, discount or earnings rate
- 4) Par value, amortized book value and market value

- 5) Percentage of the portfolio represented by each investment category
- 6) Statement of compliance with the Investment Corporate Standard

Investment Losses. Investment losses incurred on funds held by ERCOT on behalf of Market Participants for collateral are attributable to Market Participants and are not borne by ERCOT.

ERCOT shall not have any fiduciary relationship with Market Participants and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this corporate standard. Investment losses attributable to Market Participants shall be addressed in the ERCOT Protocols or by direction from ERCOT Board of Directors.

Investment Corporate Standard Adoption. ERCOT's investment corporate standard will be adopted by resolution of the Board of Directors. The corporate standard will be reviewed annually by the Finance & Audit Committee and any modifications made thereto must be approved by the Board of Directors.

APPENDIX A

Requirements of Qualified Institutions or Money Market Funds

Only entities meeting the following requirements will be eligible to serve as Qualified Institutions:

General Requirements

- 1) The entity has a senior debt rating which is at least the equivalent of A- by Standard & Poor's or A3 by Moody's Investor Service,
- 2) Has provided a current audited financial statement which is on file at ERCOT,
- 3) Has capital of not less than \$100 million, and
- 4) Has assets of not less than \$1 billion.

Additional Requirements for Depositories

- 1) The entity is a federal- or state-chartered bank, and
- 2) Deposits up to ~~\$250,000~~[\\$400,000](#) are insured by federal agencies

Additional Requirements for Security Dealers

- 1) The entity is a "primary" or regional dealer that qualifies under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule),
- 2) Is registered as a dealer under the Securities Exchange Act of 1934,
- 3) Is a member in good standing of the National Association of Securities Dealers (NASD),
- 4) The entity has been in business for at least five (5) years,
- 5) A representative of the entity has returned a signed certification (substantially in the form attached as Appendix B) that he/she has read and is familiar with ERCOT's Investment Corporate Standard, and
- 6) The entity has provided such other information as ERCOT requires from time to time.

Only entities meeting the following requirements will be eligible to serve as Qualified Money Market Funds:

- 1) The fund is a money market fund under SEC Rule 2a-7
- 2) Has provided and commits to provide at least monthly a list of holdings in the fund
- 3) Has assets under management in the fund of at least \$1 billion.

APPENDIX B

**Investment Corporate Standard for
Electric Reliability Council of Texas**

Qualified Institution Certification for Security Dealers

Dealer / Investment Firm: _____

I hereby certify that I have received and thoroughly reviewed the ERCOT Investment Corporate Standard, and the firm I represent

- 1) meets all of ERCOT's Requirements for Qualified Institutions; and
- 2) has implemented reasonable procedures and controls in an effort to preclude investment transactions between this firm and ERCOT that are not authorized by the ERCOT Investment Corporate Standard, except to the extent that this authorization is dependent on an analysis of the makeup of ERCOT's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative

Name

Title

Date

APPENDIX C

Authorized Instruments

<u>Description</u>	<u>Quality Limitation</u>	<u>Maturity Limitation (Note 1)</u>	<u>Limitation per issuer</u>	<u>Category limitation</u>
1. Obligations of or guaranteed by the US government	n/a	5 yrs or less	none	none
2. Repurchase agreements in which the collateral is obligations of or guaranteed by the US government. (Note 3)	Note 2	7 days or less	\$5,000,000	33% of total
3. Money market mutual funds (MMMF) invested only in obligations of or guaranteed by the US government or repurchase agreements in which the collateral is obligations of or guaranteed by the US government	Note 4	Note 4	Note 4	Note 5

Note 1: To the extent possible, ERCOT will attempt to match its investments with anticipated cash flow requirements. Some level of cash may remain uninvested to meet the liquidity needs of ERCOT, Inc. and the ERCOT market or to address unusual situations as they arise.

Note 2: Investments may be made with financial institutions with a corporate or senior debt credit rating of at least A- with S&P or A3 with Moody's. Investments in repurchase agreements must be subject to a Master Repurchase Agreement signed with the bank or dealer (e.g. a PSA Master Repurchase Agreement or equivalent).

Note 3: Collateral is required for all repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value and accrued interest. Collateral may consist only of other instruments approved above. Collateral will always be held by an independent third party with whom ERCOT has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to and retained by ERCOT. The right of collateral substitution is granted.

Note 4: There is no credit rating required given 1) the MMMFs stated objective to preserve capital, 2) the credit quality restrictions placed on MMMFs by the SEC (may hold no more than 5% of middle-rated securities – A2/P2 or equivalent), 3) the SEC restriction that no more than 5% of assets in a MMMF may be invested in any one security (requires diversification) and 4) the restriction that MMMFs can only invest in instruments with maturities of less than 13 months and that the average maturity of all holdings in a MMF cannot extend beyond 90 days. There is no maturity limitation or limitation per issuer for the reasons mentioned above.

Note 5: There is no limit on how much money may be placed with MMMFs in this category because of the requirements on those funds outlined in Note 4 [and given the secure investments held by the funds](#). However, ERCOT must diversify investments held in money market accounts across at least [four](#) different fund families to [safeguard liquidity](#). Based on availability of funds meeting the above investment criteria, ERCOT will seek to ensure that no more than [30% of investable funds and no more than \\$xx400 million \(\\$25 - \\$100\)](#) is maintained in any one fund.

[c1]

For discussion

	ERCOT Finance & Audit Committee Self-Evaluation November 2008	Yes	No	Not Sure	Comments
1.	Does the committee have the appropriate number of members? The committee should not be so large that: <ul style="list-style-type: none"> ▪ its ability to operate efficiently and effectively is reduced ▪ members' ability to raise issues is hampered ▪ it is difficult to get a quorum when a time-sensitive issue arises 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.	Committee members demonstrate their objectivity during meetings through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3.	Differences of opinion on issues are resolved to the satisfaction of the committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4.	Committee members challenge the Chair as appropriate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5.	The committee charter is used as a document to guide the committee in its efforts, and to help guide the committee's agenda.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6.	6.1 Committee members are financially literate, and the committee has determined that it has adequate financial expertise in accordance with its charter.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	6.2 Committee members participate in some form of continuing education to stay abreast of changes in the financial accounting and reporting, regulatory and ethics areas.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	6.3 The committee understands how the organization's performance compares with its budgetary targets and its peers, and how management plans to address any unfavorable variances.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	6.4 The committee discusses the initial selection of or changes in significant accounting policies used in developing the financial statements, the reason for and impact of any changes in policy, and reasons alternative treatments were not adopted.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	ERCOT Finance & Audit Committee Self-Evaluation November 2008	Yes	No	Not Sure	Comments
	6.5 The committee discusses significant, complex, or unusual transactions with management and the external auditors.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	6.6 The committee understands which areas represent high risk for material misstatement of the financial statements, and discusses assumptions and approaches used with management and the external auditors.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	6.7 The committee forms its own view of the risk of material misstatement due to fraud, discusses with management and the external auditors their views on the risk of material misstatement due to fraud, and is comfortable that any differences in views can be reconciled.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	6.8 The committee fully understands significant changes in financial statements from prior years and from budget, and is provided with sufficient, reliable evidence to support variances.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	6.9 The committee commits sufficient time to review, discuss, and consider the financial statements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	6.10 The committee makes optimum use of the meeting time allotted.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	6.11 The committee meets with financial management to discuss results reported before finalization.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7.	Committee members have a clear understanding of ERCOT's debt structure and cash management practices.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8.	Committee members receive sufficient details regarding long-term financial planning.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9.	The Committee makes appropriate use of workgroups or task forces to investigate issues defined by the Committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10.	The committee engages outside experts as appropriate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11.	11.1 The organization's financial reporting processes are stronger as a result of management's interactions with the committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	ERCOT Finance & Audit Committee Self-Evaluation November 2008	Yes	No	Not Sure	Comments
	11.2 The committee understands and agrees with the board on which categories of internal control it oversees. Categories include: <ul style="list-style-type: none"> ▪ Integrity of financial reporting ▪ Compliance with laws and regulations ▪ Operational efficiency and effectiveness 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	11.3 The committee and the board concur with any changes to the committee's internal control oversight mandate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	11.4 The committee understands the current high-risk areas - including information technology and computer systems - in the categories of controls it oversees, as well as how management addresses those areas.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12.	The committee is cognizant of the line between oversight and management, and endeavors to respect that line.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13.	The committee conducts executive sessions in a manner that offers a "safe haven" to the individual, while at the same time asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14.	14.1 The committee does its part to ensure the objectivity of the internal audit team.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	14.2 The committee provides constructive feedback to the chief audit executive at least annually.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	14.3 The committee receives sufficient detail regarding material issues and complaints brought forward which relate to the company's fraud, ethics or accounting practices.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	14.4 The committee has developed the scope of work to be done by the independent auditor and by the internal audit department based upon a reasoned review of the risks or exposures to the company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	ERCOT Finance & Audit Committee Self-Evaluation November 2008	Yes	No	Not Sure	Comments
15.	The committee communicates at an appropriate level of detail when informing the Board of its actions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16.	Committee members receive clear and succinct agendas and supporting written material sufficiently prior to scheduled meetings.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17.	Committee members have adequate opportunities to discuss issues and ask questions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18.	The frequency of committee meetings is appropriate for the responsibilities assigned to the committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
19.	Meeting facilities and presentation materials are effective for the conduct of committee activities.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20.	The committee is efficient and value adding.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
21.	Please add additional comments, questions and suggestions here.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Q&A only

ERCOT Market Credit Status

as of 9/30/2009

as of 10/31/2009

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	13,987,002	7%	128,161,174	U	10	22,512,212	8%	143,161,174	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	48	134,121,211	64%	345,059,359	S	45	155,408,302	58%	312,307,811	S
Guarantee Agreements	15	60,993,036	29%	360,412,171	S	12	89,031,300	33%	328,912,171	S
Total Exposure	72	209,101,249	100%			67	266,951,814	100%		
Other QSEs in the ERCOT Market (ERCOT owes)										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	7	(7,967,980)	-22%	86,347,047	U	6	(6,121,571)	-13%	71,347,047	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	68	(23,543,994)	-61%	24,785,018	S	75	(27,835,616)	-56%	76,786,019	S
Guarantee Agreements	12	(7,332,822)	-19%	159,511,700	S	15	(15,774,154)	-32%	191,011,700	S
Total	87	(38,844,796)	-100%			96	(49,731,341)	-100%		

Total

159

163

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

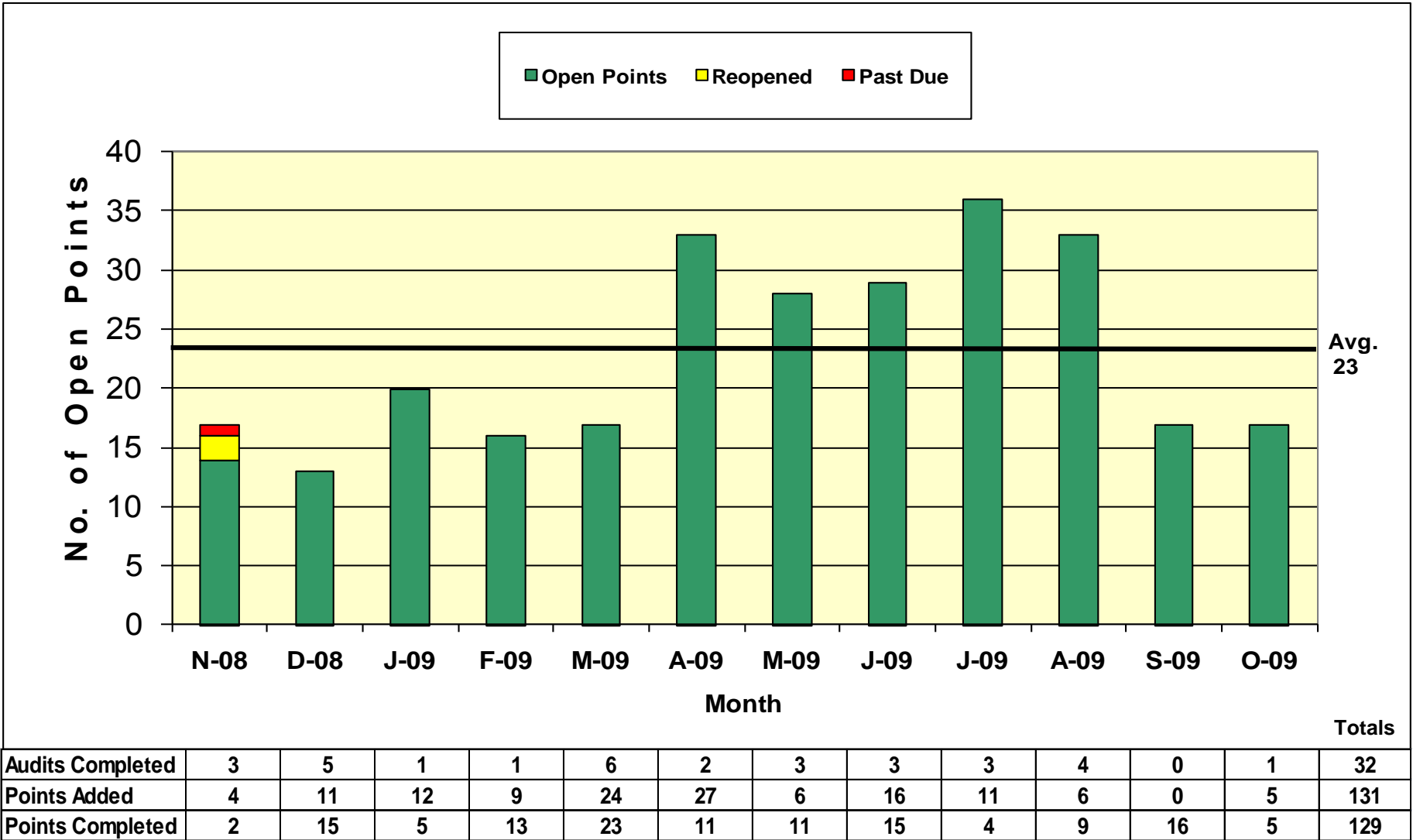
S: For QSEs that do not meet ERCOT's Creditworthiness Standards, amount of Security posted.

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.

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

Cheryl Moseley



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



Audits Completed

(last 3 months)

Internal Audits

- Financial Reporting & Close
- Cash & Investments
- Q2 2009 Fraud Auditing
- Protocol 1.4 Required Audit – Independence Verification
- Cash & Investments
- Employee Onboarding, Transfer, Offboarding & Termination
- PDA and Cell Phone Reimbursements (Special Request)

External Audits

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

Open Audits

Internal Audits

- Human Capital Metrics/ Benchmarks
- Nodal Contract Management (Special Request)
- Incident/Problem Management REMEDY system
- Q3 2009 Fraud Auditing
- Nodal Budget-to-Actual Mgmt (Special Request - Follow-up)
- Protocol 1.4 Required Audit – Ethics Compliance
- Employee Ethics Compliance

External Audits

- 2009 SAS70 Audit (PricewaterhouseCoopers)

Planned Audits

(next 3 months)

Internal Audits

- Enterprise Resource Mgmt.
- Taylor Data Center Expansion (Special Request)
- New Data Center & Control Center (Special Request)
- Pre-Assessment Review of 28 NERC CIP Requirements (Special Request)
- IT Disaster Recovery Processes (Special Request)
- FY2009 Fraud Auditing Program

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

External Assessments
Assessment of Nodal
NMMS

**Open Consultation/
Analysis Reviews**

External Assessments
Assessment of Nodal
Systems

**Planned Consultation/
Analysis Reviews**
(next 3 months)

External Assessments
1 Security Assessment
planned

14. Committee Brief: Investment Balances: October 31, 2009

James Nield

ERCOT Summary of Investments 10/31/2009

<u>Investment Account:</u> <i>(Data in thousands)</i>	<u>Chase</u> <i>Treasury and Repo</i>	<u>Evergreen 497</u> <i>Treasury and Repo</i>	<u>Federated 068</u> <i>Treasury and Repo</i>	<u>Federated 0125</u> <i>Treasury only</i>	<u>Invesco</u> <i>Treasury and Repo</i>	<u>Subtotal</u>
Operating	\$ 5,650	\$ -	\$ 6,100	\$ -	\$ -	\$ 11,750
TRE	-	-	2,760	-	-	2,760
Market	1,654	1,515	1,515	15	1,515	6,214
Deposit/Restricted	44,324	42,002	20,098	14,733	45,754	166,911
Total	\$ 51,628	\$ 43,517	\$ 30,473	\$ 14,748	\$ 47,269	\$ 187,635
% Investments:	28%	23%	16%	8%	25%	100%
			└──────────┘ 24%			

The Reserve:

- \$3.8 million in funds invested in the Reserve net of the distribution of \$0.9 million received on 10/2/09
- The judge overseeing the case is targeting December 23, 2009 to resolve outstanding payments to shareholders

Account Diversification:

- Additional Market and Collateral investment accounts have been opened with BlackRock
- Additional investment account for TRE has been opened with J.P. Morgan Chase

**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
Strategy Development Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.	Performance Monitoring Clearly defined and actively monitored performance metrics linked to mission and goals- Performance status communicated and corrective action taken.	Customer Choice Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.	Grid Operations Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.	Review Practices Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.	Legal & Legislative Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.
Mission and Goals Corporate objectives and performance standards are understood and followed.	Business Practices Business planning, processes and management standards are effective and efficient.	Nodal Implementation Project Nodal Implementation on budget on schedule, and within defined scope.	Planning Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.	Disclosure Reporting and other disclosures to intended parties is timely, accurate and effective.	Internal Control Compliance Internal Control Compliance, processes and management standards are effective and efficient.
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.
Reputation Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.	Workforce Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.	Counterparty Credit Maintain credit risk exposure for overall market within acceptable limits.	Bulk System Resources Market Participants construct and make available adequate bulk electric grid resources.	Communication Internal & external communications are timely and effective.	Industry Standards Business practices provide stakeholders with required assurances of quality.
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.
Fiscal Management ISO design requires competent, prudent and cost effective provision of services.	Technology Infrastructure Information systems, supporting facilities and data are effectively managed and are reliable.	Administration, Settlement & Billing Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.	Operational Responsibility Market participant conduct their operations in a manner which facilitates consistent grid reliability.	Adequacy and Integrity Robust processes exist to support management assertions embodied within financial reports.	Regulatory Filings Evidence, testimony and other supporting materials are compelling and successful.
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

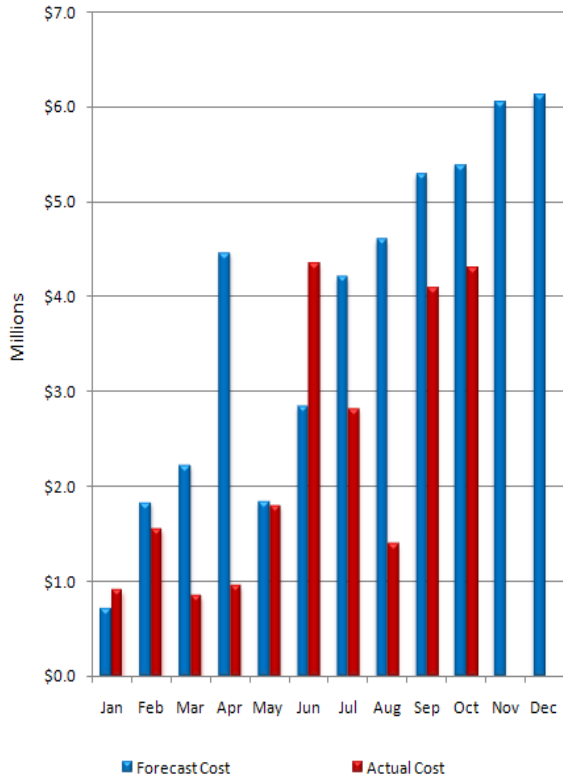
(New Risk Categories / Descriptions Indicated in Green)

14. Committee Brief: PMO David Troxtell

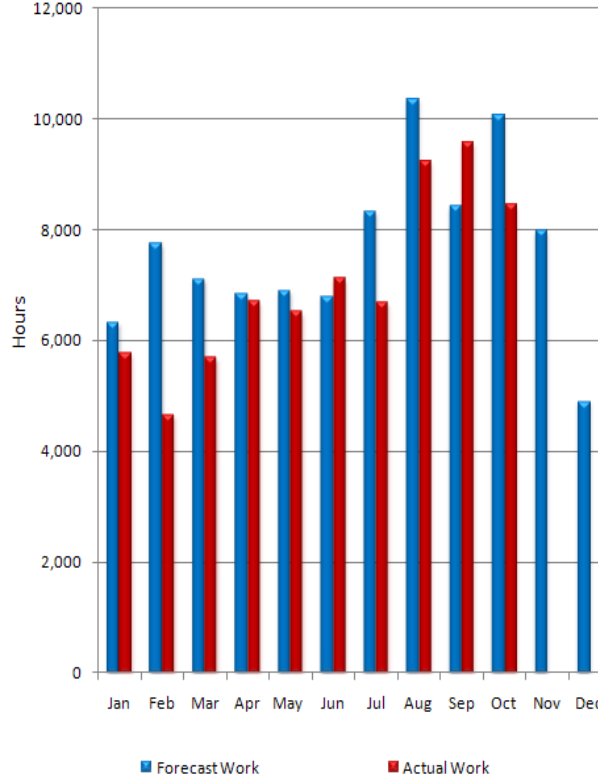
ERCOT Enterprise Projects Summary Report

ERCOT		Overall Projects Report					Reporting Period:		10/31/2009	
Projects in Ercot's Portfolio							Portfolio Performance			
Deferred	Concept	On Hold	Initiation	Planning	Execution	Closing	Schedule		Budget	
4	0	1	6	1	20	2				
Closed			22	Total Active		29				
Cancelled			4	Projects Not Started		1	**Current Year Funded Budget:			\$38,150,000

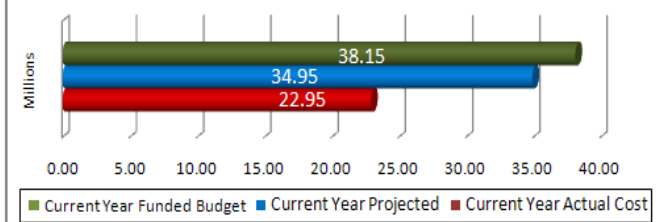
ERCOT Projects
Current Year - Cost



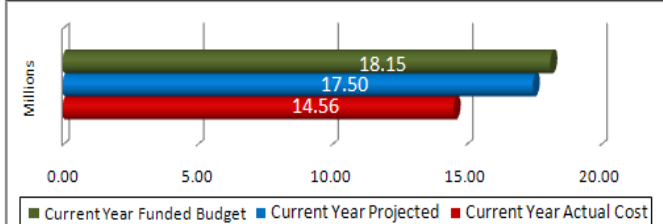
ERCOT Projects
Current Year - Work



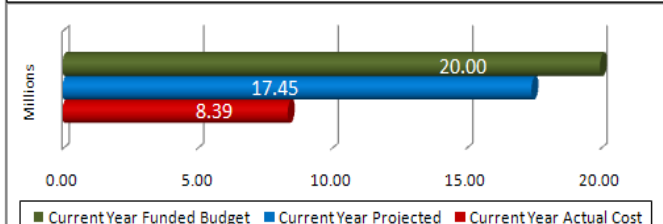
ERCOT Projects
Current Year-to-Date Financials



ERCOT Projects (Excluding MET Center)



MET Center Project



Informative

Future Agenda Items – December 2009

- **Standing Internal Audit agenda items**
- **Approve scope of internal auditing plan for upcoming year**
- **Assessment of the adequacy and effectiveness of the Internal Audit staff**
- **Results of Finance & Audit Committee self-assessment**
- **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**
- **Review ERM Standard**
- **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