

Appendix C

Ernst & Young's Quality Control Procedures

Ernst & Young's Quality Control Procedures

Ernst & Young's internal quality control policies

Our reputation for providing quality professional services in an independent, objective, and ethical manner is key to our success as independent auditors. Our strong commitment to quality services has led the firm to adopt a comprehensive set of quality control policies and other safeguards that are applicable to every audit engagement. Like any other system of internal control, no single control or safeguard provides us with the assurance that our professionals comply in all instances with applicable professional standards and the firm's standards of quality. Working in tandem, however, these controls and safeguards provide a comprehensive system that serves to prevent or detect in a timely manner matters that without corrective action could result in substandard performance. As a result, we believe that the firm's system of quality control for our accounting and auditing practice meets the requirements of quality control standards adopted by the Public Company Accounting Oversight Board for a public company accounting and auditing practice. The following is a summary description of some of Ernst & Young's quality control policies and other safeguards for our accounting and auditing practice.

Instilling professional values

Tone at the top — Ernst & Young's Executive Board and senior management regularly communicate and reinforce the firm's expectations and the importance of performing quality work and complying with the firm's policies. The Ernst & Young culture strongly supports collaboration and consultation and places special emphasis on the importance of consultation in dealing with complex and/or subjective accounting, auditing, reporting, SEC and independence matters. We also emphasize the importance of determining that the client has correctly followed our advice when necessary.

Organizational structure built around quality — Reflective of our commitment to quality, the firm's Quality and Risk Management (Q&RM) function, led by one of the firm's vice chairs, is responsible for overseeing firm-wide quality initiatives in each of our service lines. For example, the Q&RM group is responsible for establishing firm policies and processes and consulting on independence matters for all of our service lines.

The independence function within the Q&RM group is comprised of a dedicated centralized group of partners and professionals, as well as independence partners who are physically located in each of the firm's geographic operating sub-areas. They work closely with the technical resources located in our sub-area practices to identify and resolve independence issues affecting clients. The Vice Chair of Quality and Risk Management reports directly to the Chairman of the firm and is a member of the Executive Board.

The Assurance and Advisory Business Services (AABS) Professional Practice and Risk Management function, also led by one of the firm's vice chairs, is responsible for establishing firm policies and methodologies and consulting on accounting, auditing, and SEC reporting matters, as well as practice monitoring and risk management activities for our accounting and auditing practice. The Professional Practice and Risk Management function is comprised of highly-qualified, seasoned partners and senior managers in technical support groups such as the National Accounting group in New York, the National SEC group in Washington, and the National Standards & Methodology group in Cleveland. In addition, the Professional Practice and Risk Management function includes a National Professional Practice Director (PPD) network comprised of partners and senior managers physically located in each of the firm's geographic operating sub-areas. The PPD network is a key part of our consultation process so having them geographically located within the operating sub-areas helps the network be more knowledgeable about our people and clients, as well as more easily accessible for consultations with audit engagement teams and our clients. It is important to note that although the PPD network is located within the operating sub-area it is independent of the operating sub-area leadership. The partners in the network report to and are evaluated and compensated by the Vice Chair of AABS Professional Practice and Risk Management to provide greater assurance on the objectivity of our consultation process.

Given the volume and complexity of new accounting, reporting, and regulatory matters facing our audit engagement teams and our clients, we continue to evaluate our resources dedicated to improving the quality of our work and are committed to increasing them when needed.

Ernst & Young's Quality Control Procedures

Code of professional conduct — The Ernst & Young Code of Conduct was developed to provide an ethical framework for all of our activities. Each partner and employee are asked to sign an annual confirmation statement that they have read the Code of Conduct carefully, have become familiar with the elements of the Code, understand their responsibilities with respect to its requirements and agree to abide by its provisions as a condition of continued employment or association.

Ethics hotline/website and Ethics Oversight Board — The firm's leadership has clearly communicated to our partners and employees an expectation of personal responsibility to pursue an understanding of any matter pertaining to ethics. Although, in most instances consultation with client service partners, business unit leaders, or others will resolve a matter, our EY/Ethics Hotline and EY/Ethics website, which supplements the phone-based hotline, were designed to provide another — and confidential — way for our people to raise concerns about unethical or illegal actions, violations of professional standards, or other actions inconsistent with the Ernst & Young Code of Conduct. In addition, our Ethics Oversight Board, reporting directly to the Executive Board and comprised of senior partners in the firm, provides ongoing monitoring of the practices and principles that guide the way we do business.

Independence — Ernst & Young has a comprehensive set of independence policies. The firm's written policies cover relationships with restricted entities (e.g., audit clients) as well as all other professional and regulatory independence requirements. Our independence policies and processes comply with the SEC's auditor independence rules. Compliance with the firm's policies and procedures is tested in several ways. Professionals who do not comply with professional or regulatory requirements are subjected to disciplinary sanctions.

Document retention — The firm has a comprehensive Retention of Records policy that applies to all of our service lines. This policy is intended to ensure that professional standards on working papers are complied with and that appropriate documents are retained as long as necessary for business, legal and regulatory purposes. The policy emphasizes that all documents must be preserved whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving Ernst & Young or one of our clients that may relate to our work.

Audit performance

Audit methodology — As a result of substantial investment and our focused efforts to continually maintain state-of-the-art audit methodologies and supporting tools, our auditors are well equipped to perform audits of the financial statements of companies of varying sizes and complexities, including integrated audits of internal controls over financial reporting when required. The Ernst & Young Global Audit Methodology provides a framework for application of a consistent thought process to all audits. The methodology contemplates team-based audit service delivery and allows alternative solutions depending on client circumstances, professional judgment and audit team input. We make enhancements to our audit methodology on a regular basis as a result of new standards, emerging auditing issues or implementation experiences.

Technology enablers — Numerous technology enablers are used by our audit engagement teams to assist in executing and documenting the work performed in accordance with the Ernst & Young Global Audit Methodology.

Formation of audit engagement teams — Ernst & Young requires an annual review of partner assignments for public companies by geographic operating sub-area leadership and the National Professional Practice Directors located in the geographic operating sub-areas to make sure that the partners serving our public company clients possess the appropriate competencies to fulfill their engagement responsibilities.

Ernst & Young's Quality Control Procedures

Policies for review and consultation

Reviews of audit work — Firm policies describe the requirements for timely, direct executive participation on audits and various levels of reviews of the work performed.

An independent look at all our audits — A professional and regulatory requirement for audits of public companies is that a partner independent of the audit team reviews the audit report on the financial statements (and where applicable the audit reports on internal controls over financial reporting) and performs certain other procedures prior to issuance of the report(s). We require such reviews on all audits, of both public and private companies.

Consultation requirements — Our consultation processes and related policies are designed to take advantage of all of the firm's resources in reaching our conclusions on complex and/or subjective accounting, auditing, reporting, SEC and independence matters. Consultation is a decision-making process, not just a process to provide advice. For complex and sensitive matters, Ernst & Young requires consultation outside of the audit team with other personnel who have more experience or specialized knowledge, with the goal of deciding the appropriate firm position regarding these matters. We have an extensive list of matters that require consultation on any engagement where the situation is encountered, and we supplement the list of required consultations to focus on emerging matters. Our people are expected to, and do, consult regularly on other significant accounting, auditing, reporting, SEC and independence matters, as well as on other sensitive issues or sensitive communications to clients or others outside the firm.

Audit engagement team disagreement resolution process — Ernst & Young has a collaborative culture and encourages its people to speak up if a professional-practice disagreement arises or they are uncomfortable about something having to do with a client engagement. The firm's policies provide all of our people with the authority to demand a hearing for their views and an understanding that the firm considers all points of view when resolving key issues. When a matter that goes beyond the audit engagement team is ultimately resolved, firm policies require it to be documented.

Internal accountability

Audit partner rotation — As required by the SEC's independence rules, on audit engagements for public companies our firm will rotate the lead audit partner, the reviewing partner (i.e., partner independent of the audit team), and other audit partners (as defined) no less frequently than the maximum years of service permitted by the SEC.

Conflicts resulting from employment relationships — Ernst & Young has policies and procedures to address the potential for actual or perceived impairment of independence for situations where the firm's professionals accept employment at the firm's audit clients. Our policies in this area address the SEC's one-year cooling off requirement, and set forth consultation protocols within the firm for certain job positions so that compliance is achieved with respect to both the letter and the spirit of the SEC's rules.

Partner evaluation and compensation methods — Ernst & Young evaluates and compensates its partners based on several factors, which are aligned to the firm's overall strategy and direction. We do not compensate our audit partners on the sale or delivery of non-audit services to their audit clients. Our compensation approach reflects the firm's deep commitment to provide quality service to our clients as well as our professional obligation to maintain our independence.

Staff evaluations — Ernst & Young's performance management and development process is designed to provide timely, specific feedback on job performance. The purpose of the process is to help our people grow in their careers and to understand how their personal development is linked to the firm's values, strategy and overall success.

Ernst & Young's Quality Control Procedures

Client acceptance and continuance — Ernst & Young's audit client acceptance process involves a careful consideration of the risk characteristics of a prospective client and several due diligence procedures. Our approval process is rigorous, and no new audit client may be accepted without the prior approval of the National PPDs located in the geographic operating sub-areas. Additionally, as part of audit client acceptance, an independence review is performed prior to accepting an initial engagement pursuant to the standards of the PCAOB. The National PPDs also are very involved in the client continuance process and must be satisfied with the geographic operating sub-area leadership's decisions. Both client acceptance and client continuance decisions depend on, among other things, the absence of any perception that a company's management pressures the audit engagement team to accept inappropriate accounting and reporting. Our considerations and conclusions on the integrity of management are essential to our acceptance and continuance decisions.

Internal and external practice monitoring — Ernst & Young conducts an annual internal inspection program (Assurance Quality Review or AQR) that assesses the quality of our audit work for a cross-section of engagements. The objective of the AQR program is to evaluate the design and operating effectiveness of the firm's quality control policies and procedures for our accounting and auditing practice. The AQR program also aids our efforts to continue to identify areas where we can improve our performance or enhance our policies and procedures.

The PCAOB performs annual inspections of the firm's public company accounting and auditing practice and our non-public company practice is reviewed on a triennial basis as part of the AICPA peer review program.

People management

Recruitment and hiring — One of Ernst & Young's strategic objectives is to attract and build lifelong relationships with extraordinarily talented people. For the most part, the firm hires only candidates who have qualified academically to sit for the CPA examination in the state for which they are being recruited.

Professional development — Ernst & Young has requirements for continuing professional education that apply to all professionals. Our commitment to lifelong learning results in an improved ability to meet personal and professional goals and provide the highest quality service to our clients. An individual's professional development principally occurs through formal learning and on-the-job training. The core training courses are supplemented by training programs that are developed in response to changes in accounting and reporting standards, professional standards, and emerging practice issues.

Internal communications

Communication technology and knowledge databases — Ernst & Young makes significant investments in its knowledge and communications networks to assist our professionals. Examples of electronic mail communications and knowledge databases are: a daily newsletter that reports on the latest news and information about the firm and its services, a periodic newsletter that reports on recent accounting and auditing standard-setter activities and other important matters, and several intranet repositories providing information on important accounting, auditing and industry related topics.

Peer review, internal quality control review and other inquiries —

[Client team TBD — Note: For New York Stock Exchange listed companies, audit committees are required to obtain and review annually a report by the independent auditor that includes a description of any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with such issues. Audit teams may communicate this information anytime throughout the year. Audit teams who elect to include this communication as part of the audit plan or results should refer to the latest version of the *Report for Audit Committees: Information on Ernst & Young's Accounting and Auditing Practice* to complete this section.

As of November 2008, the most recent version of this report is included in Information Release No. BB1627.]

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 135,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com.

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About Ernst & Young's Assurance Services

Strong independent assurance provides a timely and constructive challenge to management, a robust and clear perspective to audit committees and critical information for investors and other stakeholders. The quality of our audit starts with our 60,000 assurance professionals, who have the experience of auditing many of the world's leading companies. We provide a consistent worldwide audit by assembling the right multidisciplinary team to address the most complex issues, using a proven global methodology and deploying the latest, high-quality auditing tools. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

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Informative

	ERCOT Finance & Audit Committee Self-Evaluation December 2009	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 	5	2	1	<ul style="list-style-type: none"> • I think it's too large • Ability to raise issues in time is reduced. There should be a separate audit committee • 1 or 2 two less members would still be an effective committee
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.	7	0	1	<ul style="list-style-type: none"> • All members freely express items of concern with management
3.	Differences of opinion on issues are resolved to the satisfaction of the committee.	7	0	1	
4.	Committee members challenge the Chair as appropriate.	7	0	1	<ul style="list-style-type: none"> • This group is not bashful
5.	The committee charter is used as a document to guide the committee in its efforts, and to help guide the committee's agenda.	5	0	3	
6.	6.1 Committee members are financially literate, and the committee has determined that it has adequate financial expertise in accordance with its charter.	8	0	0	<ul style="list-style-type: none"> • We have some very competent financial members
	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.	1	1	6	<ul style="list-style-type: none"> • My general understanding is that members pursue continuing education opportunities, but am not aware of specifics. • No formal committee procedure exists but I am aware that several committee members perform continuing education requirements • Not sure about everyone. We do not report this
	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.	6	0	2	
	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.	6	1	1	

	ERCOT Finance & Audit Committee Self-Evaluation December 2009	Yes	No	Not Sure	Comments
	6.5 The committee discusses significant, complex, or unusual transactions with management and the external auditors.	7	0	1	
	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.	5	0	3	<ul style="list-style-type: none"> While the Chair and the staff interact with the external auditors, the entire committee seldom has a discussion with the external auditors, and I don't think it's appropriate to do so
	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.	7	0	1	<ul style="list-style-type: none"> The committee meets with external auditors periodically to perform this review
	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.	6	0	2	
	6.9 The committee commits sufficient time to review, discuss, and consider the financial statements.	6	2	0	
	6.10 The committee makes optimum use of the meeting time allotted.	6	1	1	<ul style="list-style-type: none"> Meetings are generally well-run, with ample opportunity to discuss relevant issues Generally, all allotted time is used
	6.11 The committee meets with financial management to discuss results reported before finalization.	7	0	1	<ul style="list-style-type: none"> When necessary
7.	Committee members have a clear understanding of ERCOT's debt structure and cash management practices.	6	0	2	
8.	Committee members receive sufficient details regarding long-term financial planning.	8	0	0	<ul style="list-style-type: none"> Yes we receive 5 year forecasts, but long term at ERCOT is 2 years
9.	The Committee makes appropriate use of workgroups or task forces to investigate issues defined by the Committee.	5	1	2	<ul style="list-style-type: none"> Work groups or task forces are seldom used. The entire committee usually addresses issues, unless they are personnel issues Workgroups and task forces have not been necessary
10.	The committee engages outside experts as appropriate.	6	1	1	<ul style="list-style-type: none"> Seldom needed
11.	11.1 The organization's financial reporting processes are stronger as a result of management's interactions with the committee.	7	0	1	<ul style="list-style-type: none"> There should be a higher degree of commitment from top management to the financial aspects of ERCOT

	ERCOT Finance & Audit Committee Self-Evaluation December 2009	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 	5	0	3	
	11.3 The committee and the board concur with any changes to the committee's internal control oversight mandate.	7	0	1	
	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.	6	1	1	<ul style="list-style-type: none"> • These issues typically are discussed in detail with the Board as a whole, in addition to discussions at the committee level
12.	The committee is cognizant of the line between oversight and management, and endeavors to respect that line.	7	0	1	
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.	8	0	0	<ul style="list-style-type: none"> • Most meetings begin in executive to facilitate this discussion
14.	14.1 The committee does its part to ensure the objectivity of the internal audit team.	8	0	0	
	14.2 The committee provides constructive feedback to the chief audit executive at least annually.	8	0	0	<ul style="list-style-type: none"> • We do it every month
	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.	8	0	0	<ul style="list-style-type: none"> • Probably too much • Monthly review of ethics points are done by the committee with probing questions of staff
	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.	7	1	0	<ul style="list-style-type: none"> • Internal auditor also performs tasks for the PUC over which the committee has no control, but does review the results • We have a risk adjusted internal audit plan
15.	The committee communicates at an appropriate level of detail when informing the Board of its actions.	8	0	0	

	ERCOT Finance & Audit Committee Self-Evaluation December 2009	Yes	No	Not Sure	Comments
16.	Committee members receive clear and succinct agendas and supporting written material sufficiently prior to scheduled meetings.	8	0	0	
17.	Committee members have adequate opportunities to discuss issues and ask questions.	7	1	0	<ul style="list-style-type: none"> • The Chair never cuts off conversation
18.	The frequency of committee meetings is appropriate for the responsibilities assigned to the committee.	6	1	1	
19.	Meeting facilities and presentation materials are effective for the conduct of committee activities.	8	0	0	
20.	The committee is efficient and value adding.	8	0	0	<ul style="list-style-type: none"> • Could do better
21.	Please add additional comments, questions and suggestions here.				

Q&A only

ERCOT Market Credit Status

as of 10/31/2009

as of 11/30/2009

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	
10	22,512,212	8%	143,161,174	U

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
9	21,003,765	8%	138,161,174	U

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

45	155,408,302	58%	312,307,811	S
12	89,031,300	33%	328,912,171	S

50	139,316,445	53%	288,959,130	S
16	100,777,434	39%	370,412,171	S

Total Exposure

67	266,951,814	100%		
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75	261,097,644	100%		
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Other QSEs in the ERCOT Market (ERCOT owes)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

6	(6,121,571)	-13%	71,347,047	U
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7	(2,956,555)	-8%	76,347,047	U
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QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

75	(27,835,616)	-56%	76,786,019	S
15	(15,774,154)	-32%	191,011,700	S

67	(23,993,325)	-60%	81,273,580	S
11	(13,017,368)	-33%	149,511,700	S

Total

96	(49,731,341)	-100%		
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85	(39,967,248)	-100%		
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Total

163

160

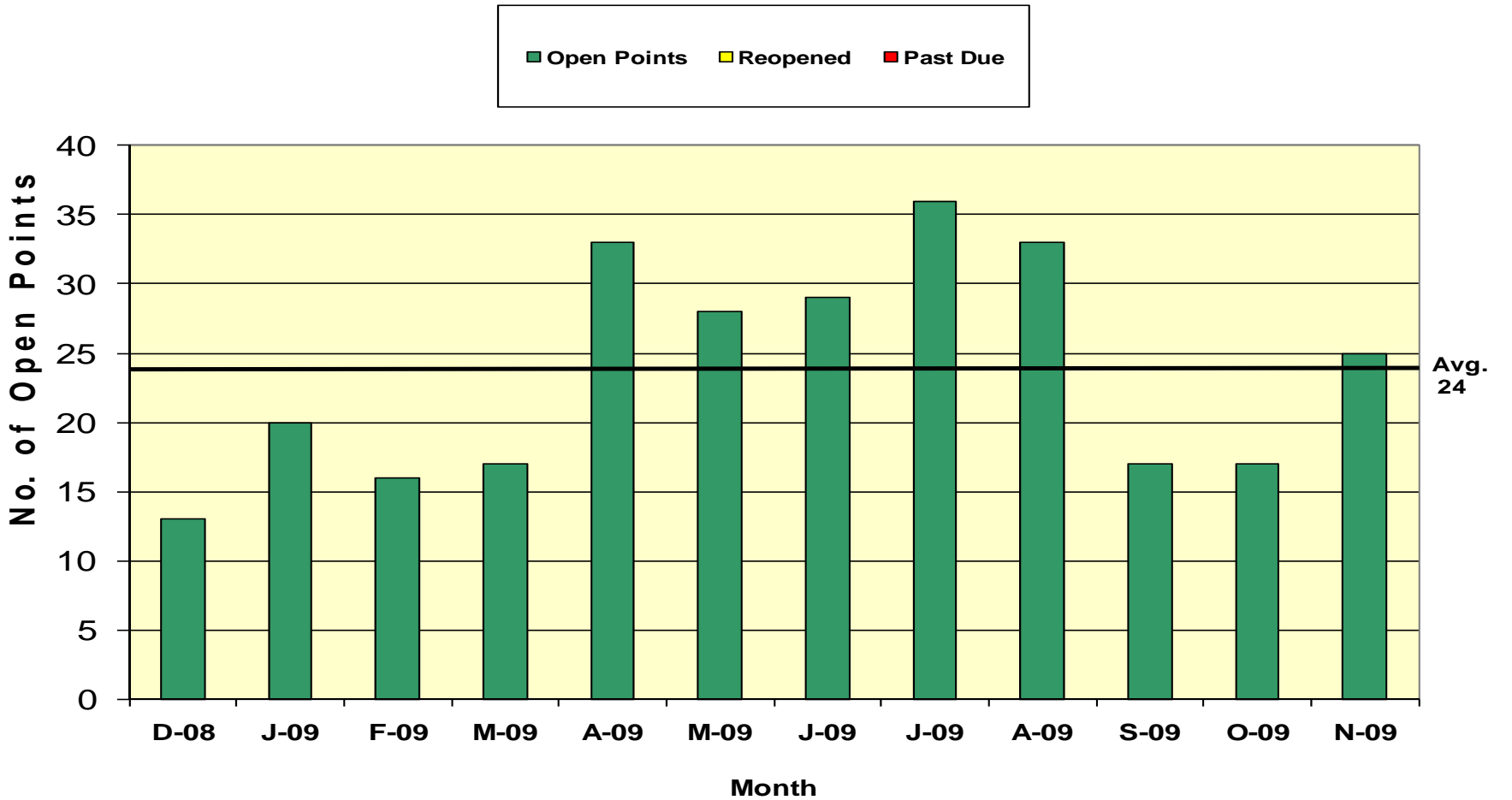
U: For QSEs that meet ERCOT's Creditworthiness Standards, amount of unsecured credit granted.

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

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

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

12. Committee Briefs: ICMP – Status of Open Audit Point Cheryl Moseley



Avg. 24

Totals

Audits Completed	5	1	1	6	3	3	3	3	3	3	2	3	36
Points Added	11	12	9	24	27	6	16	11	6	0	5	11	138
Points Completed	15	5	13	23	11	11	15	4	9	16	5	3	130



Audits Completed

(last 3 months)

Internal Audits

- Cash & Investments
- Employee Onboarding, Transfer, Offboarding & Termination
- PDA and Cell Phone Reimbursements (Special Request)
- Human Resources Metrics
- Internal Control Testing
- Q3 2009 Fraud Auditing

External Audits

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

Open Audits

Internal Audits

- Nodal Contract Management (Special Request)
- Incident/Problem Management REMEDY system
- Nodal Budget-to-Actual Mgmt (Special Request - Follow-up)
- Protocol 1.4 Required Audit – Ethics Compliance
- Employee Ethics Compliance
- IT Disaster Recovery Processes (Special Request)

External Audits

- None

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)
- FY2009 Fraud Auditing Program
- Nodal Program Spending
- System Operators' Compliance with Operating Procedures (Limited Scope)
- Analysis of Nodal Program Reporting

External Audits

- 2009 Financial Audit (Ernst & Young, LLP)
- 2010 SAS70 Audit (SAS70 Solutions, Inc.)

**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

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of December 1, 2009)**

Strategic	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Legal and Regulatory Compliance
Strategy Development <i>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</i>	Performance Monitoring <i>Clearly defined and actively monitored performance metrics linked to mission and goals- Performance status communicated and corrective action taken.</i>	Customer Choice <i>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</i>	Grid Operations <i>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.</i>	Review Practices <i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</i>	Legal & Legislative <i>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</i>
Mission and Goals <i>Corporate objectives and performance standards are understood and followed.</i>	Business Practices <i>Business planning, processes and management standards are effective and efficient.</i>	Nodal Implementation Project <i>Nodal Implementation on budget on schedule, and within defined scope.</i>	Planning <i>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</i>	Disclosure <i>Reporting and other disclosures to intended parties is timely, accurate and effective.</i>	Internal Control Compliance <i>Internal Control Compliance, processes and management standards are effective and efficient.</i>
<p>To help ERCOT evaluate its needs post-Nodal go-live, an RFP to perform an organizational assessment was released in late November. Responses are expected in December. Expect to select vendor in January 2010.</p>		<p>Integration testing schedule for Phase 4 and 5 has slipped 2 and 4 weeks respectively. Strategies for catching up include scheduling more work over the holiday slowdown period (last half of December), and prioritizing testing to ensure critical functionality and reports are completed first.</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>ERCOT is developing processes to institutionalize the ongoing training on current policies and procedures for all ERCOT staff and contract workers.</p>
Reputation <i>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</i>	Workforce <i>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</i>	Counterparty Credit <i>Maintain credit risk exposure for overall market within acceptable limits.</i>	Bulk System Resources <i>Market Participants construct and make available adequate bulk electric grid resources.</i>	Communication <i>Internal & external communications are timely and effective.</i>	Industry Standards <i>Business practices provide stakeholders with required assurances of quality.</i>
<p>ERCOT is addressing reputation issues by 1) refocusing communication efforts (e.g. expanding the CEO Report to the BOD to include more details on ERCOT successes and disappointments), 2) continuing to complete Nodal on time and on budget, 3) preparing a well thought out budget for 2011, and 4) increasing accountability.</p>	<p>The rolling 12-month voluntary turnover has dropped slightly to 2.9%. 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 November ERCOT was seeking to fill 21 positions, up from 11 positions in October.</p>	<p>Results of the potential credit exposure model for YE 2008 and 1st and 2nd quarters 2009 have been reported to the F&A committee. Updates for the 3rd quarter will be reported in January 2010.</p>			<p>ERCOT has received a confidential draft and returned comments on the 1st part of the 2009 NERC reliability audit. ERCOT expects to receive confidential draft results of the 2nd part of the audit in January.</p>
Fiscal Management <i>ISO design requires competent, prudent and cost effective provision of services.</i>	Technology Infrastructure <i>Information systems, supporting facilities and data are effectively managed and are reliable.</i>	Administration, Settlement & Billing <i>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</i>	Operational Responsibility <i>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</i>	Adequacy and Integrity <i>Robust processes exist to support management assertions embodied within financial reports.</i>	Regulatory Filings <i>Evidence, testimony and other supporting materials are compelling and successful.</i>
<p>Record temperatures this summer helped narrow the revenue variance seen YTD, but with one month to go, revenues are expected to come in at or below budgeted levels. 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>Systems remain stable in all areas. Sufficient computer room capacity for Nodal go-live and for the start of advanced metering are available with the completion of the TCC1 expansion. Austin data center capacity near maximum and may not be able to accommodate additional unforeseen expansion prior to switchover to Bastrop. Capacity requirements are being closely monitored. Bastrop and TCC 3 data centers are under construction with expected building availability by end of 3rd quarter 2010, and occupancy and equipment relocations in mid 2011.</p>		<p>There is still a lack of consensus over application of low voltage ride-through, reactive power and frequency response requirements to existing wind generation resources.</p>		

Legend: Elevated Risk Level

Reduced Risk Level

(New Risk Categories / Descriptions Indicated in Green)

12. Committee Briefs: PMO David Troxtell

ERCOT Enterprise Projects Summary Report



12. Committee Briefs: Investment Balances: November 30, 2009

Cheryl Yager

ERCOT Summary of Investments 11/30/2009

<u>Investment Account</u>	<u>Chase</u> <i>Treasury and Repo</i>	<u>Federated 068</u> <i>Treasury and Repo</i>	<u>Federated 0125</u> <i>Treasury only</i>	<u>Evergreen 497</u> <i>Treasury and Repo</i>	<u>Invesco</u> <i>Treasury and Repo</i>	<u>BlackRock</u>	<u>Subtotal</u>
Operating	\$ 176,224	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ 181,224
TRE	1,262,831	1,359,686	-	-	-	-	\$ 2,622,517
Market	25,626,874	15,000	15,000	15,000	15,000	5,000	\$ 25,691,874
Deposit/Restricted	18,256,420	46,000,267	42,000,211	49,000,336	49,003,983	49,005,039	\$ 253,266,257
Total	\$ 45,322,349	\$ 47,379,953	\$ 42,015,211	\$ 49,015,336	\$ 49,018,983	\$ 49,010,039	\$ 281,761,872
% Investments:	16%	17%	15%	17%	17%	17%	100%

Future Agenda Items – January 2010

- **Standing Internal Audit agenda items**
- **Elect officers and confirm financial qualifications**
- **Credit briefing – Potential Future Risk**
- **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