



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

Cheryl Yager
Treasurer

Board of Directors Meeting
February 16, 2010

ERM Update

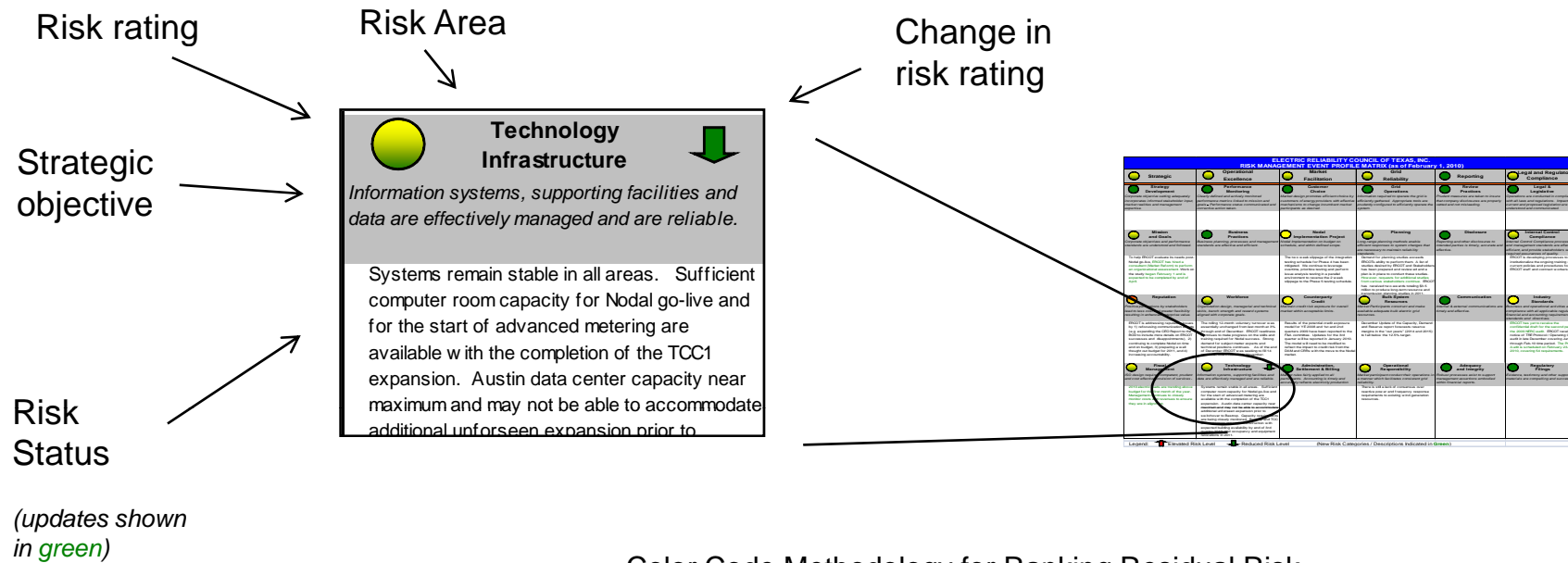
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Board of Directors Meeting

Risk Management Event Profile Matrix or “Stoplight Report”

- Monthly Report
- Public information
- Risk ratings: Green – fully mitigated; other colors – not fully mitigated (residual risk exists)
- Reflects management’s analysis of key risks
- Most items reflect risk to the Company; some items reflect market risk
- Risks are categorized or grouped under six (6) headings
 - Strategic
 - Operational Excellence
 - Market Facilitation
 - Grid Reliability
 - Reporting
 - Legal and Regulatory Compliance

Stoplight report format



Color Code Methodology for Ranking Residual Risk

Risk Rating	Risk Tolerance	Description of Residual Risk			Mitigation Plan Effectiveness
		Impact	Likelihood	Threat (impact x Likelihood)	
Green	Fully within	Low to none	Low	None	Effective
Yellow-Green	Outside	Low	Low to none	Minimal	Effective
Yellow	Outside	Low to medium	Low to medium	More than minimal but not likely to jeopardize company goals	Effective
Yellow-Red	Significantly Outside	High	Reasonable probability	Would jeopardize company goals	Inadequate
Red	Significantly Outside	High	Substantial probability	Would jeopardize company goals	Inadequate

February 2010 "Stoplight" report

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. RISK MANAGEMENT EVENT PROFILE MATRIX (as of February 1, 2010)					
● 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 and provide stakeholders with required assurances of quality.</i>
To help ERCOT evaluate its needs post-Nodal go-live, ERCOT has hired a consultant (Market Reform) to perform an organizational assessment. Work on the study began February 1 and is expected to be completed by end of April.		Market trials for real time markets began on Feb 1. The first monthly CRR auction (for March) is on schedule to begin on February 12. We continue to leverage overtime, prioritize testing and perform issue analysis testing in a parallel environment to reverse the 2 week slippage to the Phase 5 testing schedule.	Demand for planning studies exceeds ERCOT's ability to perform them. A list of studies desired by ERCOT and Stakeholders has been prepared & reviewed, with a plan in place to conduct them. However, requests for additional studies from various stakeholders continue. ERCOT has received two awards totaling \$3.5 million to produce long-term resource and transmission planning studies in 2011.		ERCOT is developing processes to institutionalize the ongoing training on current policies and procedures for all ERCOT staff and contract workers.
● 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 and operational activities are in compliance with all applicable regulatory standards and directives.</i>
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.	The rolling 12-month voluntary turnover fell to 2.6%. ERCOT readiness continues to make progress on the skills and training required for Nodal success. Strong demand for subject matter experts and technical positions continues. As of the end of December ERCOT was seeking to fill 15 full-time positions, and 11 summer intern positions.	Credit risk reflected by the PFE model has been fairly consistent for the current market over the past year and stakeholders have had the opportunity to review these results. Color remains yellow pending the review of risk factors (e.g. counterparty probabilities of default, impact of new markets and instruments, collateral levels, price volatility) in the	December Update of the Capacity, Demand and Reserve report forecasts reserve margins in the "out years" (2014 and 2015) to fall below the 12.5% target.		ERCOT has yet to receive the confidential draft for the second part of the 2009 NERC audit. ERCOT received notice of TRE Protocol / Operating Guide audit in late December covering Jun-07 through Feb-10 time period. The Protocol Audit is scheduled on February 23-25, 2010, covering 54 requirements.
● 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</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>
2010 electric loads are trending above budget for the first month of the year. Management continues to closely monitor costs and revenues to ensure they are in alignment.	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		There is still a lack of consensus over reactive power and frequency response requirements to existing wind generation resources.		
Legend: ↑ Elevated Risk Level ↓ Reduced Risk Level (New Risk Categories / Descriptions Indicated in Green)					



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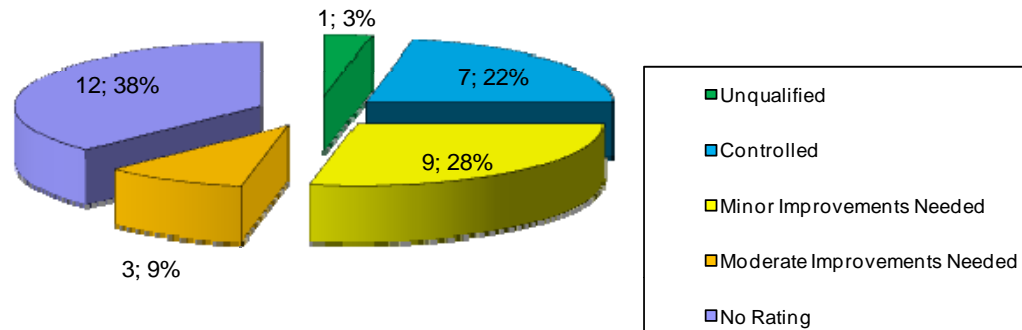
Audit Update

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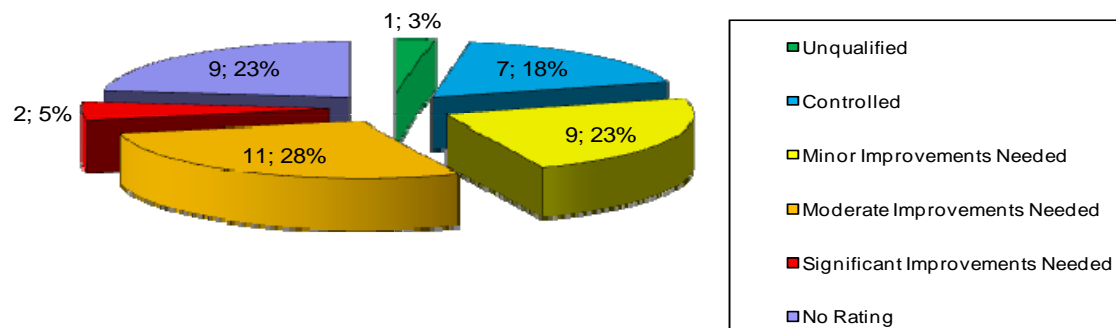
Board of Directors Meeting

Summary of audit ratings

2008 Audit Ratings



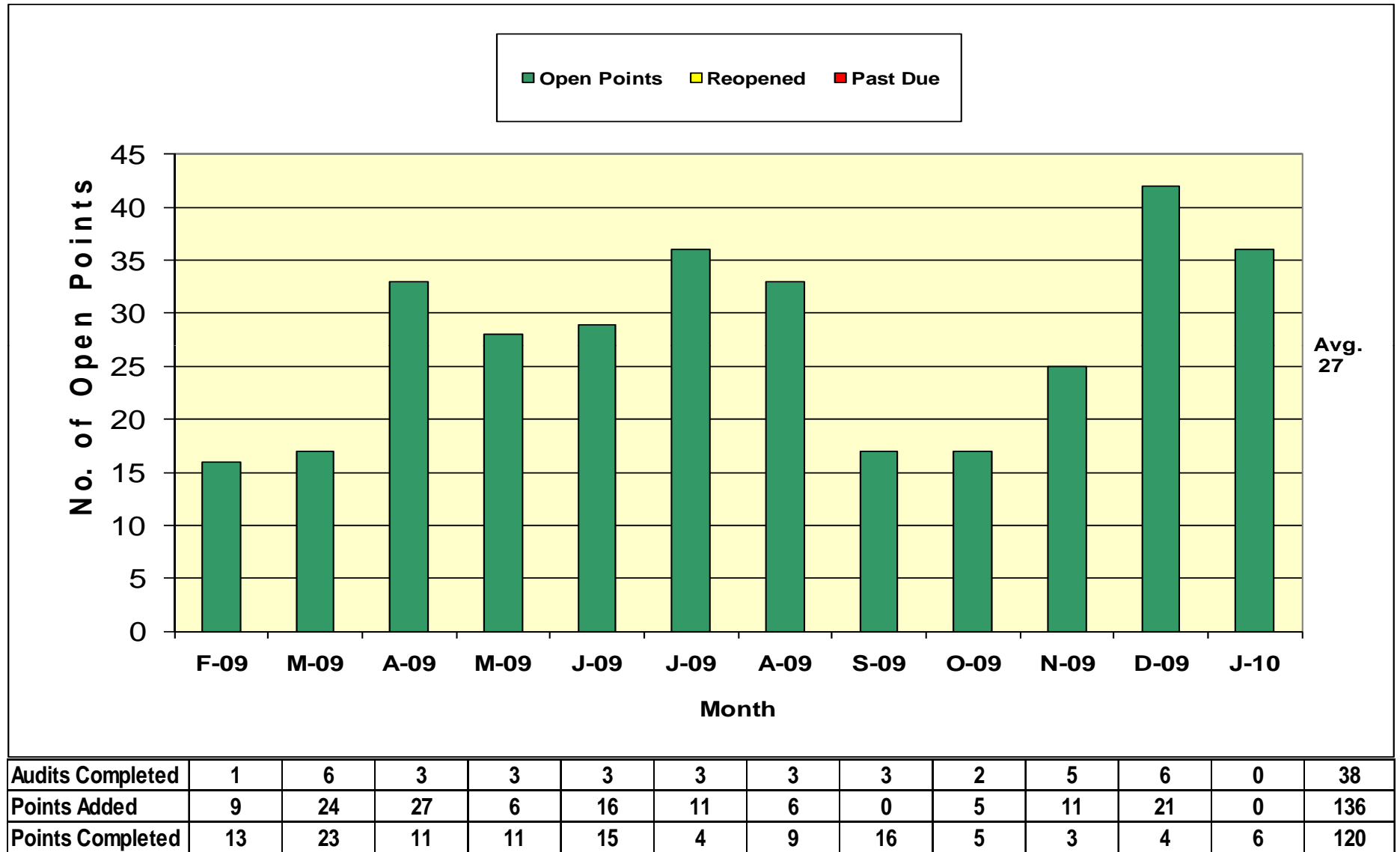
2009 Audit Ratings



Audits and Security Assessments

- **Internal Audit is on track with 2010 audit plan**
 - Also performing audits/reviews based on special requests
 - 6 audits currently in progress
- **Security Assessment of Nodal NMMS system completed in 2009**
 - Security Assessment of other Nodal systems currently in progress
 - One other security assessment planned within the next 3 months

Status of Open Audit Points



Financial Control - Status Summary

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

Compliance Update

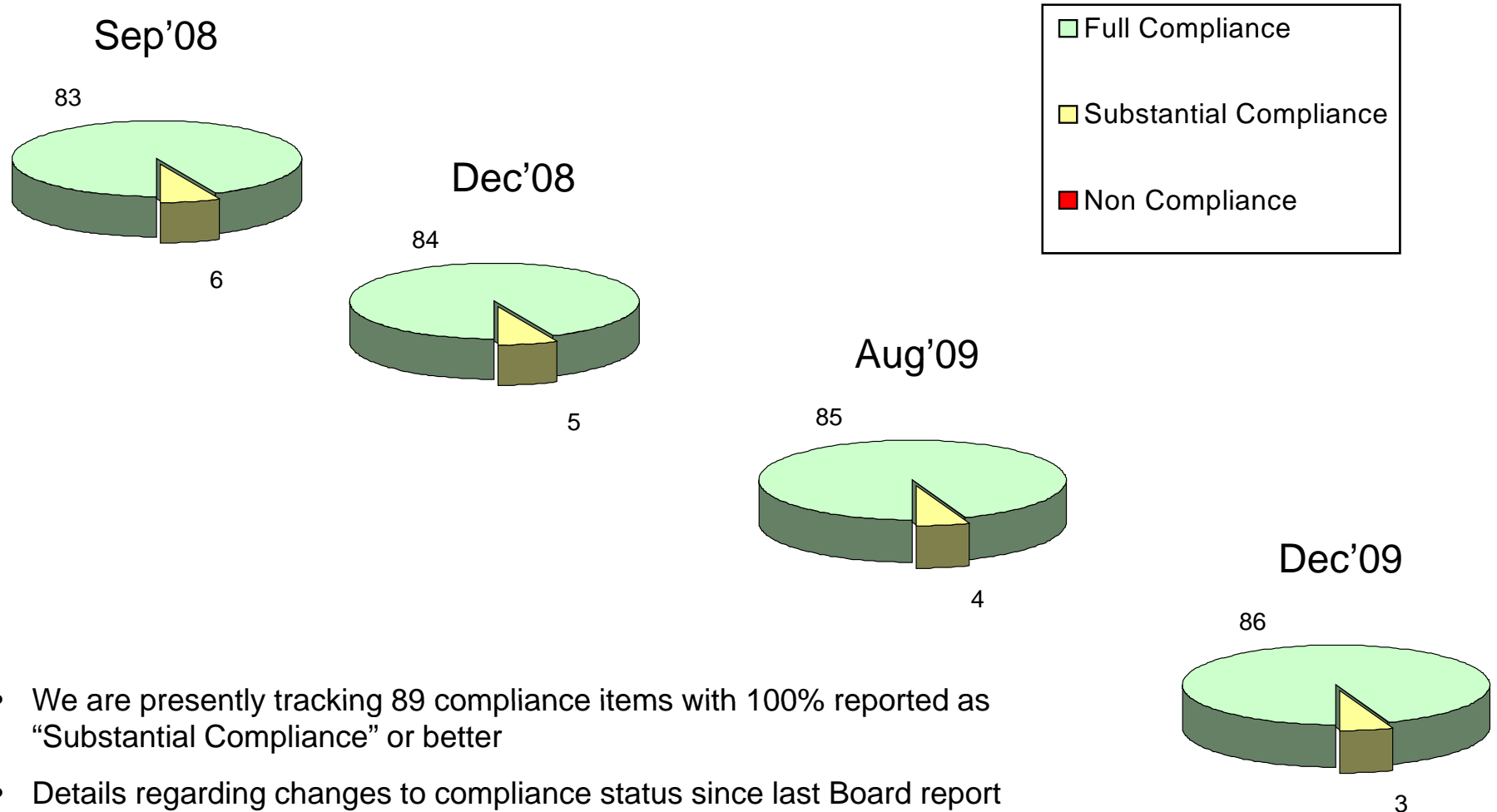
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Management Compliance “Self Assessment”

- 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
 - May 15, 2009 to August 15, 2009
 - August 15, 2009 to December 31, 2009

Management Compliance Status Update



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

Questions