



ERCOT Finance & Audit Committee Meeting

7620 Metro Center Drive, Austin, Texas

Met Center, Conference Room 206

March 23, 2010; 8:15am – 9:30am*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order Executive Session	C. Karnei	8:15am
2.		2a. Announcement of proxies	C. Karnei	8:15am
	Decision required	2b. Approval of executive session minutes (Vote) (2/16/10)	C. Karnei	8:16am
	For discussion	2c. Internal Audit status report	B. Wullenjohn	8:17am
	Informative	2d. Internal Audit staffing update	B. Wullenjohn	8:25am
	Informative	2e. EthicsPoint update	B. Wullenjohn	8:30am
	For discussion	2f. Chief Audit Executive compensation and salary adjustment	T. Doggett	8:35am
3.	Informative	Contracts, personnel, litigation and security	Various	8:40am
		Recess Executive Session		8:45am
		Convene General Session		
4.	Decision required	Approval of general session minutes (Vote) (2/16/10)	C. Karnei	8:50am
5.	For discussion	Financing update	C. Yager	8:51am
6.	Informative	Committee Briefs (Q&A only)	All	9:15am
7.	Informative	Future agenda items	R. Bowman	9:20am
8.		Other business	R. Bowman	9:25am
		Adjourn ISO meeting	C. Karnei	9:30am

* 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, April 20, 2010, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 206.

Decision required
For discussion

4. Approval of General Session Minutes Clifton Karnei

Approval of General Session Minutes

- Vote 02/16/10

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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744
February 16, 2010

Pursuant to notice duly given, the Finance & Audit Committee (“Committee”) of Electric Reliability Council of Texas, Inc. (“ERCOT”) convened on the above-referenced date. In the Committee Chairman’s absence, Vice Chairman, Miguel Espinosa confirmed that a quorum was present and called the meeting to order at approximately **8:03 a.m.** The Committee immediately went into Executive Session, where it remained until it recessed to General Session at approximately **8:55 a.m.**

General Session Attendance

Committee members:

Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility	Present
Dreyfus, Mark	Austin Energy	Municipal	Present
Espinosa, Miguel (Vice Chair)	Unaffiliated Board Member	Unaffiliated Board Member	Present
Fehrenbach, Nick	City of Dallas	Commercial Consumers	Present
Gent, Michehl	Unaffiliated Board Member	Unaffiliated Board Member	Present
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative	Not Present
Zlotnik, Marcie	StarTex Power	Independent REP	Present

Other Board Members and Segment Alternates:

Walker, Mark	NRG Texas	Independent Generator	Present
Whittle, Brandon	DB Energy Trading, LLC	Independent Power Marketer	Present

ERCOT Staff and Guests:

Adams, Jack	ERCOT – Manager of Retail Client Services & Market Analysis
Baker, Randy	ERCOT – Director, Credit Risk Management
Bohart, Jim	ERCOT – Senior Communications Strategist
Bowman, Roy	ERCOT – Interim VP and Chief Financial Officer (CFO)
Brenton, Jim	ERCOT – Director, CIP Standards Development
Burke, Tom	Luminant
Cleary, Mike	ERCOT – Senior Vice President and Chief Technology Officer
Day, Betty	ERCOT – Director of Markets
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doggett, Trip	ERCOT – Interim Chief Executive Officer
Doolin, Estrellita	ERCOT – Assistant General Counsel
Forfia, David	ERCOT – Director, IT Infrastructure
Gillmore, Gina	ERCOT – Senior Financial Analyst
Goff, Eric	Reliant Energy
Grable, Mike	ERCOT – Vice President and General Counsel

Grendel, Steve	ERCOT – Director of Texas Nodal Integrated Release Strategy
Harrell, Patty	DC Energy
Hobbs, Kristi	ERCOT – Manager, Market Rules & Stakeholder Support
Iacobucci, Jason	ERCOT – EDS Market Trials Project Manager
Ierullo, Bruno	ERCOT – Director of Human Resources
Jefferis, Don	Opportune
Jones, Brad	Luminant
Jones, Randy	Calpine
Kimbrough, Todd	Next Era Energy
Medina, Eric	ERCOT – Opportune Consultant
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Morgan, Richard	ERCOT – Chief Information Officer
Morris, Sandy	LCRA
Nikazm, Tamila	Austin Energy
Oldham, Phillip	Andrews Kurth LLP
Petterson, Mike	ERCOT – Controller
Schwertner, Ray	Garland Power & Light
Stauffer, Tarra	ERCOT – Legal Assistant
Swanson, Leslie	Treasury Manager (ERCOT Contractor)
Walker, DeAnn	CenterPoint Energy
Wullenjohn, Bill	ERCOT – Director of Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of Prior Meeting General Session Minutes

Mr. Gent moved to approve the minutes for the General Session of the Committee meeting held on January 19, 2010. Mr. Crowder seconded the motion. The motion passed unanimously with no abstentions.

Confirmation of Credit Work Group (CWG) Chair and Vice-Chair

Randy Baker, ERCOT Director of Credit Risk Management, informed the Committee that the Credit Working Group nominated Arlene Spangler as Chair, and Tamila Nikazm as Vice Chair.

Mr. Dreyfus moved to confirm Arlene Spangler as Chair of the Credit Work Group and Mr. Crowder seconded the motion. The motion passed unanimously with no abstentions.

Mr. Dreyfus moved to confirm Tamila Nikazm as Vice-Chair of the Credit Work Group and Mr. Crowder seconded the motion. The motion passed unanimously with no abstentions.

Discussion of NPRR 206 (Background – Day Ahead Market)

Cheryl Yager provided the Committee with background information concerning NPRR 206 (206), which was to be voted on later that afternoon in the Board meeting. Ms. Yager noted that 206 involved the clearing mechanism in the day ahead market (DAM), and thus, did not notably impact base level collateral calculation. She discussed the two major components for clearing in the DAM under current Nodal protocols: bids and offers. Further, she stated that existing protocols collateralize at a very high level, which could lower market participation in the DAM, potentially causing a lack of market liquidity.

Mr. Crowder asked Ms. Yager: (a) whether ERCOT supported 206; and (b) how ERCOT's current requirements compared to those of other Regional Transmission Organizations (RTOs).

Ms. Yager noted that ERCOT supported 206 as being beneficial to the market. Ms. Yager also noted that she believed ERCOT's current requirements to be consistent with some, but generally more conservative than other RTOs and Independent System Operators (ISOs).

Ms. Yager then discussed how ERCOT would monitor an entity engaged in arbitrage between the DAM and Real-Time (RT) markets (by selling in the DAM and buying in the RT). She then gave the Committee an overview of 206 and its effect on bids, offers, and e-factors.

Ms. Yager pointed out that although current protocols attempt to reach a near zero loss level, losses cannot always be precluded.

In summary, Ms. Yager reiterated the following:

1. With 206, ERCOT will move from a near zero loss level approach to a more moderate approach to clearing transactions, that does increase, to some extent, risk of loss;
2. 206 addresses one to four days of exposure in the DAM;
3. Variables, and processes around e-factors are to be determined;
4. As far as DAM energy bids and in-the-money DAM energy-only offers are concerned, 206 provides for flexibility to ease or tighten credit (e.g. if risky behavior is identified or mitigated);
5. ERCOT identified three options to address the concern involving exposure reduction for out-of-the-money DAM energy-only offers and three-part offers: (a) leave 206 as is and monitor activity; (b) develop a mechanism to address specific risks; and (c) expand the E3 factor [offer risk in excess of bid risk] currently used for in-the-money DAM energy-only offers and apply it to out-of-the-money offers as well in the event of risky behavior. Ms. Yager stated that, of these three options, the last option was the most easily implementable, because it is ERCOT's belief that the "e3" mechanism could be expanded without material increase in cost, and within existing timeframes.

Tamila Nikazm, with Austin Energy and Vice Chair of Credit Work Group (CWG), informed the Committee that CWG reviewed and discussed 206 on two occasions in February 2010. She commented that 206 had a credit impact that cannot be fully quantified at that time, but that it established the framework for ERCOT credit staff to determine appropriate day ahead market collateral requirements for market participants. The Committee then discussed the roles of the Credit Work Group and the Market Credit Working Group in relation to the 206 processes. Messrs. Crowder and Gent inquired about the late email notifications and appearance of urgency regarding the implementation of 206. Ms. Yager responded that ERCOT had a small window of opportunity to move forward with 206 and address the system changes that drove the opportunity timeline. Phillip Oldham, on behalf of Texas Industrial Energy Consumers (TIEC), noted the importance of Board understanding of the critical nature of the issue for ERCOT credit, market participants, and load reliability. Further, Mr. Cleary expressed the urgency in making a timely decision on 206 to ensure that system changes could be made to meet the December 2010 Nodal go-live date. Following a brief discussion of these issues, Mr. Espinosa suggested that the Committee continue discussion thereof at the Board meeting later that afternoon.

Review of the Enterprise Risk Management (ERM) Standard

Ms. Yager provided the Committee with an overview of the updated ERM Standard. She noted the following changes to the Standard:

1. Revised purpose statement for conformity with the body of the document;
2. Expanded definition section to clarify and expand certain terms;
3. Added details regarding responsibilities and provided for annual self-evaluation of the Risk Management Committee; and

4. Updated the oversight chart.

No comments or questions were made by the Committee.

Committee Briefs

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

1. Market Credit
2. Internal Control Management Program ("ICMP")
3. Risk Management
4. Project Management Organization ("PMO")
5. Investment Update

Ms. Yager reminded the Committee of Commissioner Smitherman's question at the January 2010 Committee meeting: What would be the impact if ERCOT had a quadrupling escalation of natural gas prices? (The question as presented was made in reference to a stress case scenario presented at the previous Committee meeting). Mr. Baker thereafter stated that rerunning the stress case model with an increase in gas prices yielded higher potential exposure, as expected and pointed the Committee to the results noted in Committee Briefs.

In summation, Ms. Yager reminded the Committee that ERCOT had a risk management update for the Board that would be presented later that afternoon.

Future Agenda Items

The following items were identified as future agenda items:

1. Standing Internal Audit agenda item
2. Committee briefs
3. Future agenda items

Adjournment

Mr. Crowder moved to adjourn the meeting. Mr. Gent seconded the motion. The motion passed unanimously with no abstentions. Miguel Espinosa adjourned the meeting at approximately **9:51 a.m.**

Juliana Morehead
Associate Corporate Counsel

5. Financing Update – Overview

Cheryl Yager

- **Debt summary - 2005 – 2010**
- **Plan for repayment of existing debt (excludes any new debt)**
- **Looking forward**
- **Factors to consider when determining revenue / debt funding mix**
- **Variables impacting debt level**
- **Debt projection assumptions**
- **Projected debt based on assumptions in 2010 five year plan**
- **Projected availability through 2012**
- **Projected debt with faster pay down of debt**
- **Market update**
- **Next steps**

5. Financing Update – Debt summary: 2005 – 2010

Cheryl Yager

	A <u>2005</u>	A <u>2006</u>	A <u>2007</u>	A <u>2008</u>	E <u>2009</u>	P <u>2010</u>
Debt by instrument	(in millions)					
Senior notes	122.7	109.1	95.5	81.8	68.2	54.5
Term loan	37.5	25.0	112.5	212.5	212.5	141.7
Revolving credit facilities	-	47.0	51.0	46.6	84.0	163.1
Total	<u>160.2</u>	<u>181.1</u>	<u>259.0</u>	<u>340.9</u>	<u>364.7</u>	<u>359.3</u>
Debt by source						
Start up debt being amortized	122.7	109.1	95.5	81.8	68.2	54.5
Nodal debt		38.6	135.5	212.3	257.4	234.0
Other	37.5	33.4	28.0	46.8	39.1	70.8
Total	<u>160.2</u>	<u>181.1</u>	<u>259.0</u>	<u>340.9</u>	<u>364.7</u>	<u>359.3</u>

Notes

A Actuals

E Unaudited estimate as of December 31, 2009

P Projected debt based on 2010 budget (includes approximately \$39 million of debt for Met Center disposition and TCC1 Data Center expansion)

5. Financing Update – Plan for repayment of existing debt (excludes any new debt) - Cheryl Yager

	E <u>2009</u>	P <u>2010</u>	P <u>2011</u>	P <u>2012</u>	P <u>2013</u>	P <u>2014</u>	P <u>2015</u>
Debt by instrument							
Senior notes	68.2	54.5	40.9	27.3	13.6		
Term loan	212.5	141.7	70.8	-	-	-	-
Revolving credit facilities	84.0	163.1	110.9	48.9	33.3	20.8	0.0
Total	<u>364.7</u>	<u>359.3</u>	<u>222.7</u>	<u>76.1</u>	<u>46.9</u>	<u>20.8</u>	<u>0.0</u>
Debt by source							
Start up debt being amortized	68.2	54.5	40.9	27.3	13.6	-	-
Nodal debt	257.4	234.0	123.5	3.1	-	-	-
Other	39.1	70.8	58.3	45.8	33.3	20.8	0.0
Total	<u>364.7</u>	<u>359.3</u>	<u>222.7</u>	<u>76.1</u>	<u>46.9</u>	<u>20.8</u>	<u>0.0</u>

Note 1

E Unaudited estimate as of December 31, 2009

P Projected debt based on 2010 budget and assuming no new debt beyond 2010

Note 2

Existing revenue allocated to debt reduction is sufficient to pay off debt incurred through 2010 by 2015 if no new debt is incurred beyond 2010

5. Financing Update – Looking forward

Cheryl Yager

- **By December 31, 2010**

- Two major projects will be completed with substantially all costs incurred and funded
 - Nodal program
 - Met Center disposition (completed construction of Bastrop and TCC3 facilities)

- **2011 through 2015**

- Capital expenditures are expected to continue to be higher than “maintenance mode” for at least a portion of this timeframe
 - Consider additional Nodal market related projects (parking deck, etc)
 - Equipment for Bastrop and TCC3 facilities
 - Other?
- *Financing approach for 2011-2015 needs to be defined*

5. Financing Update – Factors to consider when determining revenue / debt funding mix

- **Factors to consider when evaluating what blend of revenue (System Administration Fee or SAF) and debt to use to fund capital expenditures:**
 - Impact on ERCOT's financial position. Higher debt levels can negatively impact ERCOT's balance sheet. Higher levels of revenue funding strengthen ERCOT's balance sheet (but raise other concerns)
 - Overall cost. The more debt incurred, the more interest cost must be paid and thus the higher the overall cost to ERCOT.
 - Matching cost with benefit. Matching of the payment for capital expenditures with the benefit from those assets once they are in place.
 - Desire to minimize "spiking" in the SAF. The need or desire to have a consistent, predictable fee that will not fluctuate significantly.

5. Financing Update – Variables impacting debt level

Cheryl Yager

- 1. Overall spending on capital projects by year**
- 2. Initial revenue contribution for capital expenditures (currently 40%)**
- 3. Amount of revenue requirement dedicated to debt reduction**

5. Financing Update – Debt projection assumptions

Cheryl Yager

- **Capital expenditures are from the five year plan prepared in conjunction with the 2010 budget**
 - ERCOT (along with the market) is reevaluating needs and will propose changes in conjunction with the 2011 budget
- **Capital expenditures are 40% revenue funded in year of purchase / development**
- **Market projects (including “Nodal 2”) are funded through the SAF after 2010; the Nodal Surcharge is discontinued when Nodal is fully funded in early 2013**

- **Revenue requirement impact from the combination of 1) the initial 40% revenue contribution for capital expenditures and 2) the debt reduction per year will be relatively flat**
 - 2010 five year plan - Pending the financial planning currently underway, the 2010 five year plan held these costs relatively flat to 2010 levels (with a gradual increase)
 - Faster pay down of debt scenario – provides one example of how debt can be repaid more quickly

Note: The final approach for debt management must

- Ensure that the level of debt outstanding throughout the five year time horizon meets expectations of interested parties
- Provide a predictable revenue stream for debt reduction for planning purposes

5. Financing Update – Projected debt based on assumptions in the 2010 five year plan - Cheryl Yager

(in \$ millions)	2010	2011	2012	2013	2014	2015
<u>Outstanding debt (estimated)</u>						
Beginning Balance	364.7	359.3	287.9	168.2	152.9	129.1
Capital expenditures funded with debt	122.8	55.0	30.3	23.7	18.2	32.9
Revenue available for debt reduction	(128.2)	(126.4)	(150.0)	(39.0)	(42.0)	(34.0)
Ending Balance	359.3	287.9	168.2	152.9	129.1	128.0
<u>Capital expenditures funded with debt - Base and Nodal</u>						
Base capital expenditures per 2010 five year plan	46.3	83.3	50.5	39.5	30.3	54.9
Debt Funding %	0.6	0.6	0.6	0.6	0.6	0.6
Borrowing for base capital expenditures	27.8	50.0	30.3	23.7	18.2	32.9
One time benefit - Impact of sales tax refund	12.8	5.0	-	-	-	-
Met center replacement - transfer from 2009 to 2010	3.6	-	-	-	-	-
New borrowing - base	44.2	55.0	30.3	23.7	18.2	32.9
Nodal expenditures (excl contingency and interest)	78.6	-	-	-	-	-
Total - New Borrowing	122.8	55.0	30.3	23.7	18.2	32.9
<u>Revenue available for debt reduction</u>						
System Administration Fee - debt reduction per 2010 five year plan	26.2	15.9	29.6	35.9	42.0	34.0
System Administration Fee - additional provision for debt reduction	-	-	-	-	-	-
Nodal Surcharge (excl int)	102.0	110.5	120.4	3.1	-	-
Total revenue available for debt reduction	128.2	126.4	150.0	39.0	42.0	34.0
Net increase / (decrease) in debt	(5.4)	(71.4)	(119.7)	(15.3)	(23.8)	(1.1)
<u>Impact on System Administration Fee</u>						
Revenue portion of capital expenditures	18.5	33.3	20.2	15.8	12.1	22.0
Debt reduction - per 2010 five year plan	26.2	15.9	29.6	35.9	42.0	34.0
Debt reduction - additional provision	-	14.8	16.6	16.1	15.2	14.7
Total \$\$ impact on fees	44.7	64.0	66.4	67.8	69.3	70.7
GWh	312.9	319.8	330.0	339.0	346.4	353.4
Estimated impact on SAF / GWh	0.14	0.20	0.20	0.20	0.20	0.20
Estimated SAF per 2010 five year plan	0.4171	0.5283	0.5481	0.5504	0.5574	0.5560
Incremental impact of additional debt reduction						
Other revenues and NERC ERO fee	0.0182	0.0198	0.0197	0.0196	0.0196	0.0196
Approved Nodal Surcharge	0.3750	0.3750	0.3750	0.3750	-	-
Total	0.8103	0.9231	0.9428	0.9450	0.5770	0.5756

5. Financing Update – Projected availability through 2012

Cheryl Yager

(in \$ millions)

Debt summary	As of December 31, 2010			As of December 31, 2011			As of December 31, 2012		
	Debt Cap	Debt O/S	Avail	Debt Cap	Debt O/S	Avail	Debt Cap	Debt O/S	Avail
Senior Notes	54.5	54.5	-	40.8	40.8	-	27.1	27.1	-
Term Loan	141.7	141.7	-	70.9	70.9	-	-	-	-
Existing Revolver capacity	225.0	163.1	61.9	225.0	176.2	48.8	225.0	141.1	83.9
New facility			-			-			-
Total	<u>421.2</u>	<u>359.3</u>	61.9	<u>336.7</u>	<u>287.9</u>	48.8	<u>252.1</u>	<u>168.2</u>	83.9
Required (estimated)			50.0			50.0			50.0
Excess availability			<u>11.9</u>			<u>(1.2)</u>			<u>33.9</u>

Assumptions:

Debt capacity outstanding at December 31, 2009 can be maintained (e.g. maturing facilities can be extended or replaced).

Note:

Based on the spend anticipated under the 2010 five year plan, ERCOT expects that it will have sufficient capacity to meet its financing needs through 2012.

5. Financing Update – Projected debt with faster pay down of debt

Cheryl Yager

(in \$ millions)

	2011	2012	2013	2014	2015
<u>Outstanding debt (estimated)</u>					
Beginning Balance	364.7	359.3	273.1	136.8	105.4
Capital expenditures funded with debt	122.8	55.0	30.3	23.7	18.2
Revenue available for debt reduction	(128.2)	(141.2)	(166.6)	(57.2)	(48.7)
Ending Balance	<u>359.3</u>	<u>273.1</u>	<u>136.8</u>	<u>105.4</u>	<u>66.4</u>
<u>Capital expenditures funded with debt - Base and Nodal</u>					
Base capital expenditures per 2010 five year plan	46.3	83.3	50.5	39.5	30.3
Debt Funding %	0.6	0.6	0.6	0.6	0.6
Borrowing for base capital expenditures	27.8	50.0	30.3	23.7	18.2
One time benefit - Impact of sales tax refund	12.8	5.0	-	-	-
Met center replacement - transfer from 2009 to 2010	3.6	-	-	-	-
New borrowing - base	44.2	55.0	30.3	23.7	18.2
Nodal expenditures (excl contingency and interest)	78.6	-	-	-	-
Total - New Borrowing	<u>122.8</u>	<u>55.0</u>	<u>30.3</u>	<u>23.7</u>	<u>32.9</u>
<u>Revenue available for debt reduction</u>					
System Administration Fee - debt reduction per 2010 five year plan	26.2	15.9	29.6	35.9	42.0
System Administration Fee - additional provision for debt reduction		14.8	16.6	16.1	15.2
Nodal Surcharge (excl int)	102.0	110.5	120.4	3.1	
Total revenue available for debt reduction	<u>128.2</u>	<u>141.2</u>	<u>166.6</u>	<u>55.1</u>	<u>48.7</u>
Net increase / (decrease) in debt	<u>(5.4)</u>	<u>(86.2)</u>	<u>(136.3)</u>	<u>(31.4)</u>	<u>(15.8)</u>
<u>Impact on System Administration Fee</u>					
Revenue portion of capital expenditures	18.5	33.3	20.2	15.8	12.1
Debt reduction - per 2010 five year plan	26.2	15.9	29.6	35.9	42.0
Debt reduction - additional provision		14.8	16.6	16.1	15.2
Total \$\$ impact on fees	<u>44.7</u>	<u>64.0</u>	<u>66.4</u>	<u>67.8</u>	<u>69.3</u>
GWh	312.9	319.8	330.0	339.0	346.4
Estimated impact on SAF / GWh	0.14	0.20	0.20	0.20	0.20
Estimated SAF per 2010 five year plan	0.4171	0.5283	0.5481	0.5504	0.5574
Incremental impact of additional debt reduction		0.0463	0.0503	0.0475	0.0439
Other revenues and NERC ERO fee	0.0182	0.0198	0.0197	0.0196	0.0196
Approved Nodal Surcharge	0.3750	0.3750	0.3750	0.3750	
Total	0.8103	0.9694	0.9931	0.9925	0.6172

5. Financing Update – Market update

Cheryl Yager

- **While the economy is still sluggish, banks see positive signs that the economy is continuing on a broad-based recovery track**
- **In talks with lenders, both the bank and private placement markets are becoming more liquid**
 - Floating rate spreads are coming down from year end 2009 levels
 - Fixed rates, while low, may still be impacted by minimum requirements by lenders
 - Banks are willing to consider
 - Longer term deals (2-3 years rather than 365-day only)
 - Increased hold levels

5. Financing Update – Next steps

Cheryl Yager

- **Obtain input from interested parties on**
 - Appropriate level of debt for ERCOT to carry prospectively
 - Approach seeking to keep the combination impact on the SAF revenue requirement of a) the 40% of revenue funding for capital expenditures in the year of development and b) debt reduction relatively flat.
 - Other?
- **Issue RFP to confirm understanding of where pricing is in the markets**
- **Bring options to F&A and the Board to consider**
 - to extend or replace facilities maturing in 2010 based on results of RFP
 - whether to increase debt capacity by up to \$50 million

6. Committee Briefs

Q&A only

ERCOT Market Credit Status

as of January 31, 2010					as of February 28, 2010				
	# 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	21,372,023	8%	144,508,221 U		8	28,826,681	10%	110,508,221 U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>									
Ratings below BBB- or not rated	52	139,169,848	54%	252,383,918 S		52	137,118,945	47%	285,181,456 S
Cash & Letters of Credit	17	99,201,751	38%	372,762,172 S		17	123,398,976	43%	388,299,572 S
Guarantee Agreements									
Total Exposure	78	259,743,622	100%			77	289,344,602	100%	
Other QSEs in the ERCOT Market (ERCOT owes)									
<u>QSEs that meet ERCOT Creditworthiness Standards</u>									
Ratings over BBB-	7	(6,201,398)	-9%	70,000,000 U		7	(7,425,412)	-11%	101,000,000 U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>									
Ratings below BBB- or not rated	68	(43,691,543)	-61%	81,855,070 S		68	(43,373,048)	-64%	52,448,046 S
Cash & Letters of Credit	13	(22,366,709)	-31%	182,199,100 S		12	(17,234,644)	-25%	166,661,700 S
Guarantee Agreements									
Total	88	(72,259,650)	-100%			87	(68,033,104)	-100%	
Total	166					164			

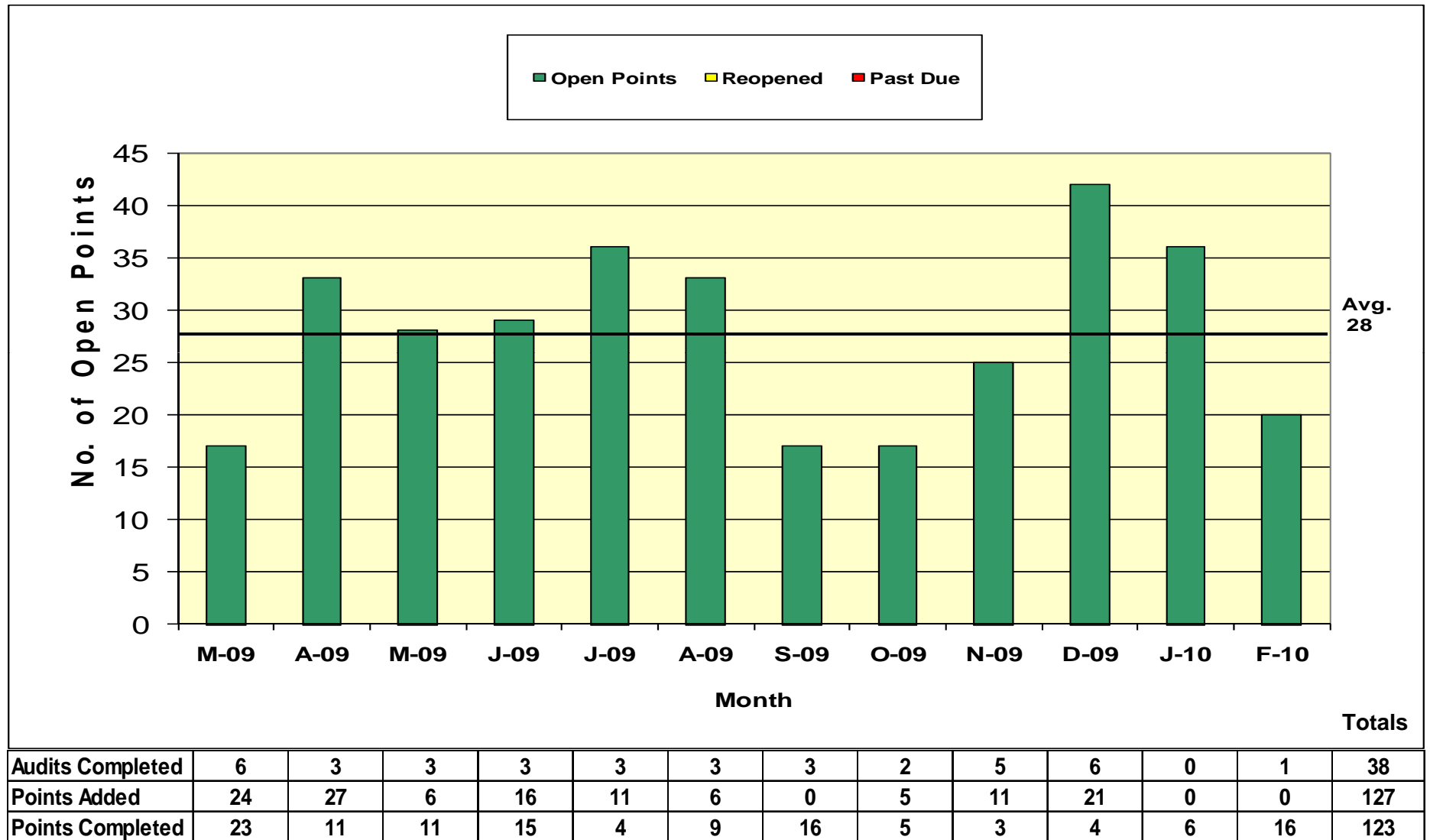
U: For QSEs that meet ERCOT's Creditworthiness Standards, amount of unsecured credit granted.

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.

6. Committee Brief: ICMP - Status of Open Audit Point

Cheryl Moseley



All audit points except 2 are expected to be complete by 7/31/10.

6. Committee Brief: ICMP - Audits

Cheryl Moseley

Audits Completed

(last 3 months)

Internal Audits

- IT Disaster Recovery (Special Request)
- Nodal Contract Management (Special Request)
- Incident/Problem Management REMEDY System
- 2009 Nodal Budget-to-Actual Mgmt. (Special Request – Follow-up)
- FY 2009 Fraud Auditing Program

External Audits

Open Audits

Internal Audits

- Taylor Data Center Expansion (Special Request)
- New Data Center & Control Center (Special Request)
- System Operators' Compliance with Operating Procedures (Limited Scope)
- Business Continuity Plan
- 2010 Nodal Budget-to-Actual Mgmt. (Special Request – Follow-up)
- Renewable Energy Credits System – IT & Program Admin.
- Oracle Software License Compliance (Special Request)

External Audits

- 2009 Financial Audit (Ernst & Young, LLP)

Planned Audits

(next 3 months)

Internal Audits

- Nodal Program Spending
- Q1 2010 Fraud Auditing Program
- Protocol 1.4 Required Audit – Independence Verification
- Protocol 1.4 Required Audit – Confidentiality Compliance
- Vendor Assessments (Targeted Review)
- Payroll
- Payables/Procurement Card

External Audits

- 2010 SAS70 Audit (SAS70 Solutions, Inc.)

6. Committee Brief: ICMP - Security Assessments

Cheryl Moseley

Consultation/Analysis Reports Completed

(last 3 months)

External Assessments

- Assessment of Nodal Systems

Open Consultation/ Analysis Reviews

External Assessments































Planned Consultation/ Analysis Reviews

(next 3 months)

External Assessments

- 1 Security Assessment planned (Internal)

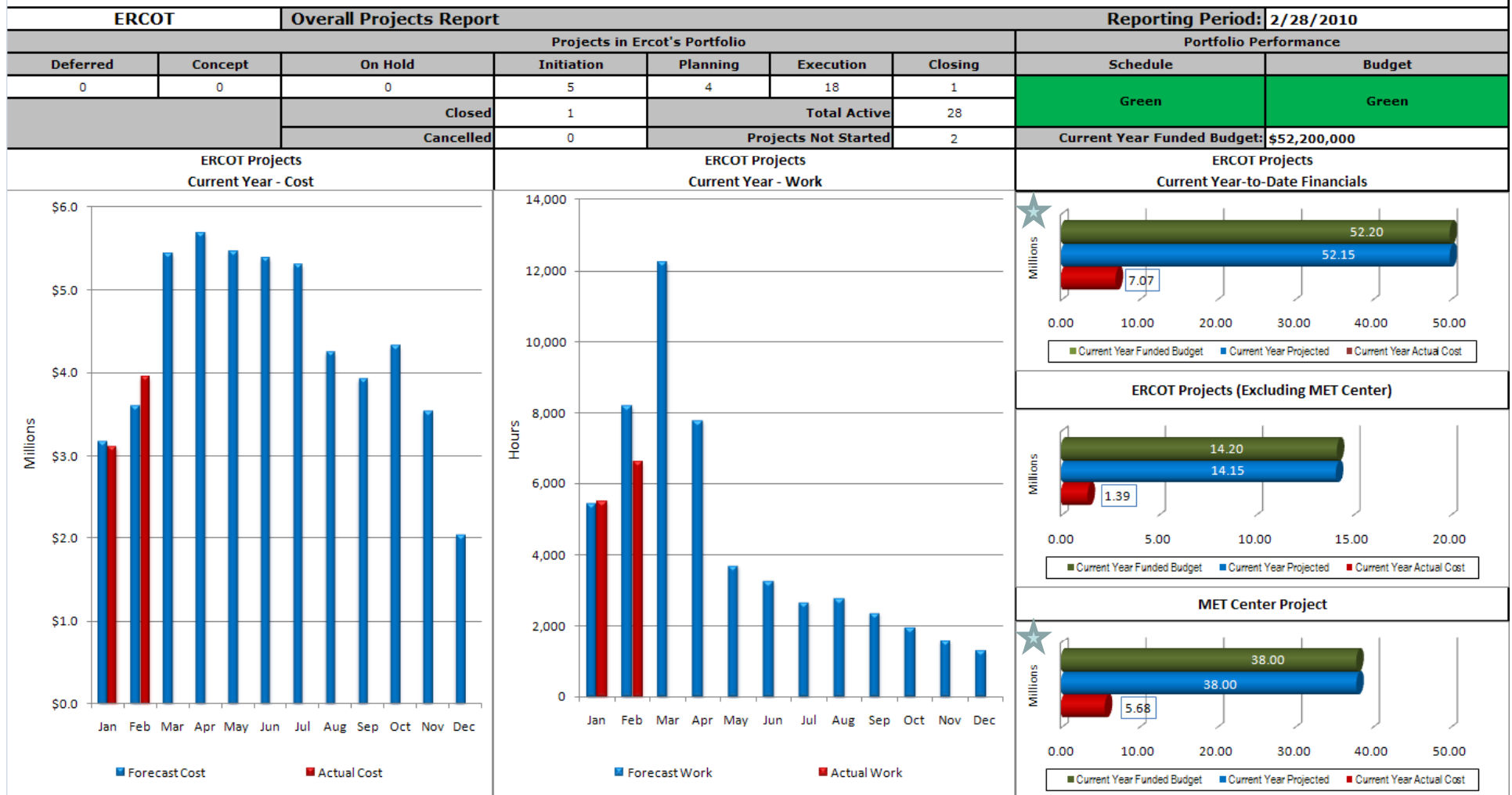
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of March 1, 2010)

 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, efficient, and provide stakeholders with required assurances of quality.
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.		First monthly CRR auction completed and settled successfully. DAM/RUC market trials on schedule to start April 1. 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 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 and operational activities are in compliance with all applicable regulatory, financial and accounting requirements, standards and directives.
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 rose slightly to 3.0%. voluntary and involuntary terminations are up due to our annual performance management cycle. 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 14 full-time positions, and 12 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 Nodal market requested by F&A.	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 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.
Stronger than expected energy consumption has resulted in a \$1.4 million positive revenue variance through 2/21. ▼ Loads for the balance of the year are expected to be below the 2010 budget forecast, resulting in a projected revenue shortfall of \$2.6 million by end of the year. ▲ However, because of the recovery of an additional \$3.2 million from The Reserve, a year-end positive variance of \$2.5 million is currently forecasted. ▼	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 2011.		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**)

6. Committee Brief: PMO David Troxtell

ERCOT Enterprise Projects Summary Report



★ Includes \$5.9M carry-over funds from 2009 for MET Center.



March 23, 2010

Finance & Audit Committee Meeting

ERCOT
Summary of Investments
February 28, 2010

(in 000's)

<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> <i>Treasury and Repo</i>	<u>Subtotal</u>
Operating	\$ 4,556	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 4,561
TRE	2,220	1,267	-	-	-	-	\$ 3,487
Market	2,210	204	15	7,393	15	5	\$ 9,843
Deposit/Restricted	19,167	20,737	11,001	24,001	28,006	28,006	\$ 130,917
Total	<u>\$ 28,153</u>	<u>\$ 22,214</u>	<u>\$ 11,016</u>	<u>\$ 31,394</u>	<u>\$ 28,021</u>	<u>\$ 28,011</u>	\$ 148,809
% Investments:	18.9%	14.9%	7.4%	21.1%	18.8%	18.8%	100%

Future Agenda Items – April 2010

- **Standing Internal Audit agenda items**
- **Review of Internal Audit Department Charter**
- **Review Audit Report - Significant Issues & Best Practices**
- **Quarterly Investment Review**
- **Committee briefs**
- **Future agenda items**

7. Future Agenda Items: F&A 2010 Yearly Schedule

Roy Bowman

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)
- 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

8. Other Business

Roy Bowman
