



**ERCOT Finance & Audit Committee Meeting**  
**7620 Metro Center Drive, Austin, Texas**  
**Met Center, Conference Room 206**  
**April 20, 2010; 8:00am – 9:45am\***

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order Executive Session	M. Espinosa	8:00am
2.		2a. Announcement of proxies	M. Espinosa	8:01am
	Decision required	2b. Approval of executive session minutes (Vote) (02/16/10) (3/23/10)	M. Espinosa	8:02am
	For discussion	2c. Discussion of business continuity plan	S. Grendel	8:05am
	For discussion	2d. Review of Internal Audit department charter	B. Wullenjohn	8:15am
	For discussion	2e. Internal Audit status report	B. Wullenjohn	8:20am
	Informative	2f. EthicsPoint update	B. Wullenjohn	8:25am
	For discussion	2g. Quarterly private discussion with Chief Audit Executive	B. Wullenjohn	8:30am
3.	For discussion	Annual audit and significant issues – discussion with auditors	Ernst & Young	8:40am
4.	Informative	Contracts, personnel, litigation and security	Various	8:45am
		Recess Executive Session		8:50am
		<b>Convene General Session</b>		
5.	Decision required	Approval of general session minutes (Vote) (03/23/10)	M. Espinosa	8:50am
6.	For discussion	Quarterly investment review	L. Swanson	8:52am
7.	Decision required	Review procedure for setting DAM auction credit requirement parameters (Vote) - Summary of terms - CWG report	C. Yager T. Nikazm	8:55am
8.	Decision required	Review and accept results of the annual financial statement audit (Vote)	Ernst & Young	9:15am
9.	Informative	Receive information on new developments and best practices for audit committee	Ernst & Young	9:25am
10.	Informative	Committee Briefs (Q&A only)	All	9:40am
11.	Informative	Future agenda items	R. Bowman	9:45am
12.		Other business	R. Bowman	9:50am
		Adjourn ISO meeting	M. Espinosa	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, May 18, 2010, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 206.*

Decision required
For discussion

## 5. Approval of General Session Minutes Miguel Espinosa

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### **Approval of General Session Minutes**

- Vote 03/23/10

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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744  
March 23, 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. Committee Chairman Clifton Karnei confirmed that a quorum was present and called the meeting to order at approximately **8:18 a.m.** The Committee immediately went into Executive Session, where it remained until it recessed, and then reconvened to General Session at **9:06 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	Present
Zlotnik, Marcie	StarTex Power	Independent REP	Present

**Other Board Members and Segment Alternates:**

Prochazka, Scott	CenterPoint Houston Energy	Segment Alternate	Present
Walker, Mark	NRG Texas	Independent Generator	Present

**ERCOT Staff and Guests:**

Adams, Jack	ERCOT – Manager of Retail Client Services & Market Analysis
Baker, Randy	ERCOT – Director of Credit Risk Management
Brown, Jeff	Shell Energy
Brandt, Adrienne	Austin Energy
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
Fox, Kip	American Electric Power Company
Gillmore, Gina	ERCOT – Senior Financial Analyst
Headrick, Bridget	Public Utility Commission of Texas
Jones, Brad	Luminant

Jones, Liz	Oncor
Manning, Chuck	ERCOT – Vice President and Chief Compliance Officer
Medina, Eric	ERCOT – Opportune Consultant
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Morgan, Richard	ERCOT – Chief Information Officer
Petterson, Michael	ERCOT – Controller
Schwertner, Ray	Garland Power & Light
Swanson, Leslie	ERCOT – Treasury Management Contractor
Walker, DeAnn	CenterPoint Energy
Wullenjohn, Bill	ERCOT – Director of Internal Audit
Yager, Cheryl	ERCOT – Treasurer

### **Approval of Prior Meeting General Session Minutes**

**Mr. Fehrenbach moved to approve the minutes for the General Session of the Committee meeting held on February 16, 2010. Mr. Espinosa seconded the motion. The motion passed unanimously with no abstentions.**

### **Financing Update**

Cheryl Yager directed the Committee to materials provided them prior to the meeting concerning ERCOT's Financing Update.

Ms. Yager presented the Committee with a brief overview of ERCOT's debt from 2005 to its projected debt balance for 2010 at year-end, and an explanation of ERCOT's current and projected debt by source.

Ms. Yager identified the following sources of ERCOT's debt: (a) Nodal; (b) Market Start-Up; and (c) Other.

Ms. Yager noted that of the projected \$359M for 2010, the largest portion of debt, \$234M, was debt attributed to the Nodal program. In addition to Nodal debt, ERCOT was expected to have \$54M of debt remaining under senior notes, mainly related to market start-up in the early 2000s. Ms. Yager explained that the remaining \$70M of projected debt was categorized as "Other", and primarily resulted from base capital expenditures from ongoing business operations: (a) \$39M from building the TCC3 and Bastrop facilities, and (b) the remainder arising from other capital projects related to system upgrades, and the like (i.e., the 60% of capital expenditures ERCOT funds with debt).

Ms. Yager advised the Committee that a) Market Start-Up debt was set up to amortize at the start of the market, and would continue to pay out \$13.7M per year through 2014, at which point it would be paid off, and b) Nodal debt was expected to be paid in full by 2013, and the Other debt by 2015. All such debt was based on current levels of revenue available for debt reduction.

Ms. Yager then highlighted key factors considered in proposing a revenue/debt mix, including the need to match the cost of debt with its benefits (i.e., demonstrated revenue streams), and the desire to "smooth" the impact on the System Administration Fee. Mr. Espinosa asked whether ERCOT expected to see debt levels decrease in the upcoming years, to which Ms. Yager replied in the affirmative. Mr. Espinosa reiterated the need for ERCOT to determine

whether it could become a 501(c)(3) organization. Ms. Yager advised the Committee that the ERCOT Legal Department was working with outside counsel on that issue.

Ms. Yager began a discussion concerning two projections of ERCOT debt, and assumptions that were used to arrive at those projections. The two projections included: (1) a projection of debt based on the five-year plan; and (2) a projection of debt that would assume a level of debt repayment higher than that in the five-year plan.

Assumptions included:

1. Capital expenditures from the five-year plan prepared with the 2010 budget were used in the projections.
2. Capital expenditures were 40% revenue funded in the year of purchase/development, which was consistent with requirements in the Financial Corporate Standard.
3. 2011 was considered a stabilization year for ERCOT in that no significant enhancements would be made for the Nodal project.
4. Market projects would be funded through the System Administration Fee after 2010.
5. The Nodal surcharge would be discontinued after current Nodal projects were paid for, and all other fees would be funded by the System Administration Fee.
6. The revenue requirement impact from the combination of (a) the 40% revenue contribution from capital expenditures, and (b) the debt reduction per year will be relatively flat.

Mr. Crowder noted that the assumption of no new Nodal enhancements in and following 2011 was a "big assumption." Ms. Yager responded that in preparing the forecasts, it was assumed that any major Nodal outlay following Nodal go-live would be funded through the System Administration Fee and reiterated that 2011 was expected to be a stabilization year. Mr. Cleary added that (a) the inherent nature of maintaining Nodal systems would cause future Nodal operation and maintenance expenses to be higher than current Zonal expenses, and (b) there would be additional capital expenditures for base load maintenance on Nodal applications.

Ms. Yager then sought input from the Committee on how it wanted to approach debt reduction over the upcoming years based on the information provided in the two projections. In the first scenario, the combined impact on revenue requirements from a) the 40% revenue contribution from capital expenditures, and b) debt reduction, was held relatively constant over the years with a gradual increase from that which was approved in 2010. Alternatively, in the second scenario, revenue requirements were ramped up to speed debt reduction per year. She noted that, ultimately, the approach used should produce a level of debt that interested parties were comfortable with over the time horizons, and one for which a reasonable revenue stream was available for debt reduction.

Mr. Dreyfus inquired about the Board Contingency Fund. Ms. Yager responded that the Fund was a reserved budget amount that had not been approved for use at that time. Mr. Espinosa and Ms. Yager discussed that the projections under discussion were based on the projected spend (excluding contingency) and the related recovery of those costs through the Nodal surcharge. Mr. Karnei asked whether Ms. Yager included revenue in the projections consistent with the \$0.375 per GWh determined in the PUC order, to which Ms. Yager answered in the affirmative. Ms. Yager noted that if ERCOT was authorized to spend the contingency, the projections would need to be updated for a) an increase in total spend, and b) an increase in the total revenue from the \$0.375 per MWh approved Nodal Surcharge. Ms. Yager further noted that, based on current projections and assuming that ERCOT renewed or replaced maturing facilities due in 2010, ERCOT expected to have adequate capacity through 2012.

In discussing the liquidity requirement portion of the projections, Mr. Karnei suggested that a term such as “liquidity reserve” or “estimated liquidity reserve” be used. Mr. Karnei then reintroduced Ms. Yager’s question as to whether the Committee would like ERCOT to pursue a revenue requirement that would speed debt reduction as quantified on page 17, rather than the projections as presented on page 15, of the materials. Ms. Yager expressed that a range was available, but that some additional level of revenue requirement for debt reduction between that which was projected on pages 15 and 17 would be appropriate. Mr. Karnei commented that as long as a financing order from the PUC was in effect, and ERCOT could recover its costs, he did not feel there was a significant need for additional debt reduction. Mr. Crowder mentioned that there could be opportunities to pay off some debt without increasing revenue requirements by increasing revenue related to debt reduction after Nodal costs were fully recovered. Mr. Karnei agreed and suggested that the Committee wait to address such issues in 2013 or 2014, after the Nodal surcharge was eliminated. Mr. Feherenbach agreed with Mr. Karnei, and pointed out that that might be a good time to consider adjusting the 60/40 debt-to-capital ratio.

Ms. Yager then switched gears to discuss ERCOT’s debt facility maturation. She informed the Committee that one debt facility would be maturing in November 2010 and another December 31, 2010. She noted that floating rate credit spreads were coming down from 2009 year-end, and banks seemed to be more willing to consider longer-term agreements. She mentioned that ERCOT was planning to prepare an RFP/RFI to more formally price the market.

In summation, Mr. Karnei noted/suggested the following:

1. Based on the information available, the Committee was not in favor of pursuing a revenue requirement for additional debt reduction.
2. The Committee would continue to monitor pricing in the market place following the associated RFP/RFI, and revisit options later in 2010.
3. Due to repeated questions about the level of ERCOT debt, Ms. Yager was asked to update the full Board on debt using Slides 8, 9, 15 (updated), 17, and 19 from the presentation materials. .

### **Committee Briefs**

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

1. Financing Update

### **Future Agenda Items**

The following items were identified as future agenda items:

1. Standing Internal Audit – Have a representative from ERCOT’s independent auditor present
2. Review of Internal Audit Department Charter
3. Review of Audit Report – Significant Issues & Best Practices
4. Quarterly Investment Review
5. Committee briefs
6. Future agenda items

### **Other Business**

None.

**Adjournment**

Mr. Karnei adjourned the meeting at approximately **9:57 a.m.**

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Juliana Morehead  
Associate Corporate Counsel

DRAFT

## 6. Quarterly Investment Review

Leslie Swanson

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- **Summary of investment results attached as separate document**
- **Detailed listing of holdings to follow once they become available in supplemental distribution at Committee meeting**



**Electric Reliability Council of Texas, Inc.**  
**Summary of Investment Results**  
**First Quarter 2010**  
(in 000's)

<b>Investment Funds</b>	<b>Balance at March 31</b>	<b>Average Bal for Qtr</b>	<b>Interest 1st Qtr</b>	<b>Yield 1st Qtr Avg</b>	<b>Yield End of 1st Qtr</b>	<b>% of portfolio at March 31</b>
BlackRock Institutional T-Fund (60) MMF (Note 1)	30,543	34,407	1	0.01%	0.01%	19%
Evergreen Fund 497 Institutional Treasury MMF (Note 1)	36,186	20,182	0	0.01%	0.01%	22%
Federated Fund 068 Treasury Obligations Fund (Note 1)	22,552	21,331	1	0.01%	0.00%	14%
Federated Fund 0125 US Treasury Cash Reserves Fund (Note 1)	11,016	15,747	0	0.00%	0.00%	7%
Invesco Institutional Treasury Portfolio (Note 1)	31,521	34,633	2	0.02%	0.02%	19%
JP Morgan Chase US Treasury Plus MM Fund (Note 1)	30,822	30,189	0	0.00%	0.01%	19%
<b>Sub-Total</b>	<b>162,641</b>	<b>156,489</b>	<b>4</b>			<b>100%</b>
Other cash net of outstanding checks (Note 2)	(3,244)					
<b>Total cash and cash equivalents (est)</b>	<b>159,397</b>	<b>156,489</b>	<b>4</b>			<b>100%</b>
The Reserve Primary Fund (Note 3)	-	-	-			0.0%
<b>Sub-Total Other Current Assets (est)</b>	<b>-</b>	<b>-</b>	<b>-</b>			<b>0.0%</b>

**Benchmark data** (Note 4)

Four Week T-Bill:	0.15%
Other open relevant Treasury MM	0.02% (Range: 0.00% - 0.3%)

**Notes**

- Note 1: In January 2009, the BOD adopted changes to the Investment Corporate Standard that limit investments to securities of or guaranteed by the U.S. government, which has resulted in ERCOT investing in money market funds that invest solely in Treasury or Treasury-backed securities.
- Note 2: All other cash, net of outstanding checks, held by ERCOT in bank accounts as of March 31, 2010. The balance is negative due to outstanding checks that have not yet been funded.
- Note 3: Investments in The Reserve Primary Fund were reclassified from Cash and Cash Equivalents to Other Current Assets as of December 31, 2008. The Reserve is liquidating this fund. ERCOT received \$3.2 million on January 29, 2010. With this return of funds, ERCOT's overall net loss from investments at The Reserve drops to around \$584 thousand. This represents the bulk of the balance expected to be returned from The Reserve. While additional returns may be received, any additional returns are expected to be fairly modest and are not expected in the foreseeable future.
- Note 4: Benchmark data obtained as of March 31, 2010 for T-Bills and for comparable funds for which quotes are periodically obtained. Funds not currently open for investment are not included in range. Note that due diligence has not been performed on funds these in benchmark and included funds may not meet ERCOT investment standards.
- Note 5: No individual securities held as of March 31, 2010.

**Statement of Compliance**

Upon a review of the investment activity for the 3 month period ended March 31, 2010, I have no knowledge of any ERCOT action that does not comply with that required by the Investment Corporate Standard. However, investments in The Reserve Primary fund do not comply with the objectives in the ERCOT Investment Corporate Standard for the period from September 16, 2008 to March 31, 2010. ERCOT has issued valid redemption requests for all investments held in these funds but has not yet received the full proceeds. This out of compliance condition is expected to continue until final distributions are received from the The Reserve Primary Fund.

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Signature on File  
Cheryl Yager, Treasurer

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Signature on File  
Roy Bowman, Interim Chief Financial Officer

## 7. Review Procedure for Setting DAM Auction Credit Requirement Parameters (Vote): Summary – Cheryl Yager

- **NPRR 206 and the related Procedure for Setting DAM Auction Credit Requirement Parameters**
  - Revises credit requirements for the DAM auction
    - “Core” collateral valuations in Section 16 are not impacted
    - Parameters are set conservatively during the first 60 days of the market
  - Seeks to balance the need for greater market liquidity with the need to ensure that DAM activity can be paid for and does not negatively impact a Counter-Party’s (CP) overall financial position in the ERCOT market
  - Generally, the “e” factors:
    - Allow bids to be valued somewhere between recent historical values and full bid price (based on recent DAM activity)
      - ERCOT will monitor for significant changes in awarded bids and offers to identify potentially risky or aggressive behavior and may require collateral for full bid price if needed.

## 7. Review Procedure for Setting DAM Auction Credit Requirement Parameters (Vote): Summary – Cheryl Yager

- Under certain circumstances, allows a level of credit for Energy Only Offers (EOOs). (There was considerable discussion on this point)
  - Reasonable practice for “normal” activity
  - Risk: The potential for under-collateralization exists when current activity is not consistent with historical activity. In a worse case scenario, there is risk that this factor could be manipulated to “create” credit.
    - » Mitigation:
      - » Credit is granted only when CP consistently provides information about activity in advance.
      - » Even when credit is granted, collateral will be held for EOOs at the difference between the DAM and Real Time prices (at the 95<sup>th</sup> percentile).
      - » ERCOT will monitor for significant changes in awarded bids and offers and will eliminate credit if needed.
  - Note: Three Part Offers (TPOs) also receive credit based on the fact that physical assets back up these offers (no “e” factor customization).

## 7. Review Procedure for Setting DAM Auction Credit Requirement Parameters (Vote): Highlights of Procedure

- **Establishes values for the variables defined in NPRR 206**

(d, a, b, y, z, u, t)

- Variables relate to the percentile of 30-day historical pricing that will be used to value various bids and offers (e.g. 95<sup>th</sup> percentile of the past 30-day historical pricing would use the 3<sup>rd</sup> highest price in the past 30 days)

- **Establishes procedure for determining individual “e” factors**

- Tailored to each CP by way of CP’s historical DAM activity
- General treatment – “e” factors set conservatively
- Optional treatment
  - Allows for more favorable “e” factor settings
  - Requirement – CP provides ERCOT advance notice of changes in “e” factors and their components
    - Demonstrates CP’s control over their activity
    - Provides ERCOT with an opportunity to gain an understanding (prior to activity) of what a CP is doing and why
  - If ERCOT believes the level of disclosure is adequate and the risk is acceptable, ERCOT may allow more favorable “e” factor settings

## 7. Review Procedure for Setting DAM Auction Credit Requirement Parameters (Vote): Highlights of Procedure

- **ERCOT retains flexibility to adjust any “e” factor if ERCOT determines that the calculated “e” factor does not adequately match the financial risk created by that CPs activities in the market**
  - May be done immediately, if needed
- **ERCOT will review “e” factors**
  - At least once every two weeks
    - Will update based on recent DAM activity
  - More often as needed
    - When DAM activity warrants (e.g. EOOs suddenly and/or significantly increase or decrease)
    - Due to other credit factors (e.g. changed financial circumstances, etc.)
  - If “e” factors are to be changed
    - Generally with 2 bank business days notice
    - May be done immediately, if needed

## 7. Review Procedure for Setting DAM Auction Credit Requirement Parameters (Vote): Highlights of Procedure

- **ERCOT supports the procedure approved by the market**
  - For effective management of risk, ERCOT will need to monitor for unusual DAM activity and adjust “e” factors when needed
  - When NPRR 206 was considered, ERCOT estimated an ongoing need for .2 FTE to manage this process. With the currently proposed procedure, ERCOT now estimates that it will require up to .5 FTE to manage this process.

## 7. CWG Comments: Procedures for Setting Day Ahead Market Auction Credit Requirement Parameters – Tamila Nikazm

**The Credit Work Group (“CWG”) has reviewed and endorses NPPRR 206 and the TAC-recommended Procedures for Setting Day Ahead Market Auction Credit Requirement Parameters. CWG has actively participated in developing these procedures and believes they provide adequate credit protection to the market for the following reasons:**

- Gives ERCOT sufficient flexibility to adjust counter-party collateral requirements close to pre-NPPRR 206 levels, if necessary.
- Requires that any counter-party seeking “favorable treatment” to provide advanced notice to ERCOT of changes in DAM trading activity that would allow ERCOT to proactively adjust its collateral requirement, if needed.
- Allows ERCOT to require additional disclosure, if needed, for counter-parties to receive “favorable treatment”.

## 7. CWG Comments: Procedures for Setting Day Ahead Market Auction Credit Requirement Parameters – Tamila Nikazm

(continued)

- Allows ERCOT to adjust any counter-party's DAM collateral requirement if ERCOT becomes aware of counter-party's changed financial circumstances or failure to meet its obligations required for "favorable treatment".
- Recognizes that reasonable offsetting bids and offers from a counter-party may reduce that counter-party's credit risk and thus allows for a reduced collateral requirement.
- Is more conservative for the first sixty days of the DAM.
- Allows for the Board to change these parameters when appropriate without requiring a protocol revision.



## 8. Review and Accept Results of the Annual Financial Statement Audit (Vote): Ernst & Young

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- **<Vote>**
  - **See Board agenda item 15a for decision template**
  - **Materials to be provided in supplemental distribution**

## 9. Receive Information on New Developments and Best Practices for Audit Committee: Ernst & Young

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- **Informative**
- **Materials to be provided in supplemental distribution**

**Q&A only**

## ERCOT Market Credit Status

as of February 28, 2010

as of March 31, 2010

### 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	
<b>Exposure in the ERCOT Market (owed to ERCOT)</b>										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	8	28,826,681	10%	110,508,221	U	9	39,174,190	10%	138,336,431	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	52	137,118,945	47%	285,181,456	S	50	208,736,940	52%	330,246,176	S
Guarantee Agreements	17	123,398,976	43%	388,299,572	S	19	155,712,204	39%	446,612,278	S
<b>Total Exposure</b>	<b>77</b>	<b>289,344,602</b>	<b>100%</b>			<b>78</b>	<b>403,623,334</b>	<b>100%</b>		
<b>Other QSEs in the ERCOT Market (ERCOT owes)</b>										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	7	(7,425,412)	-11%	101,000,000	U	6	(2,757,733)	-6%	73,171,790	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	68	(43,373,048)	-64%	52,448,046	S	69	(29,219,476)	-59%	28,784,763	S
Guarantee Agreements	12	(17,234,644)	-25%	166,661,700	S	11	(17,787,235)	-36%	105,052,000	S
<b>Total</b>	<b>87</b>	<b>(68,033,104)</b>	<b>-100%</b>			<b>86</b>	<b>(49,764,444)</b>	<b>-100%</b>		

Total

164

164

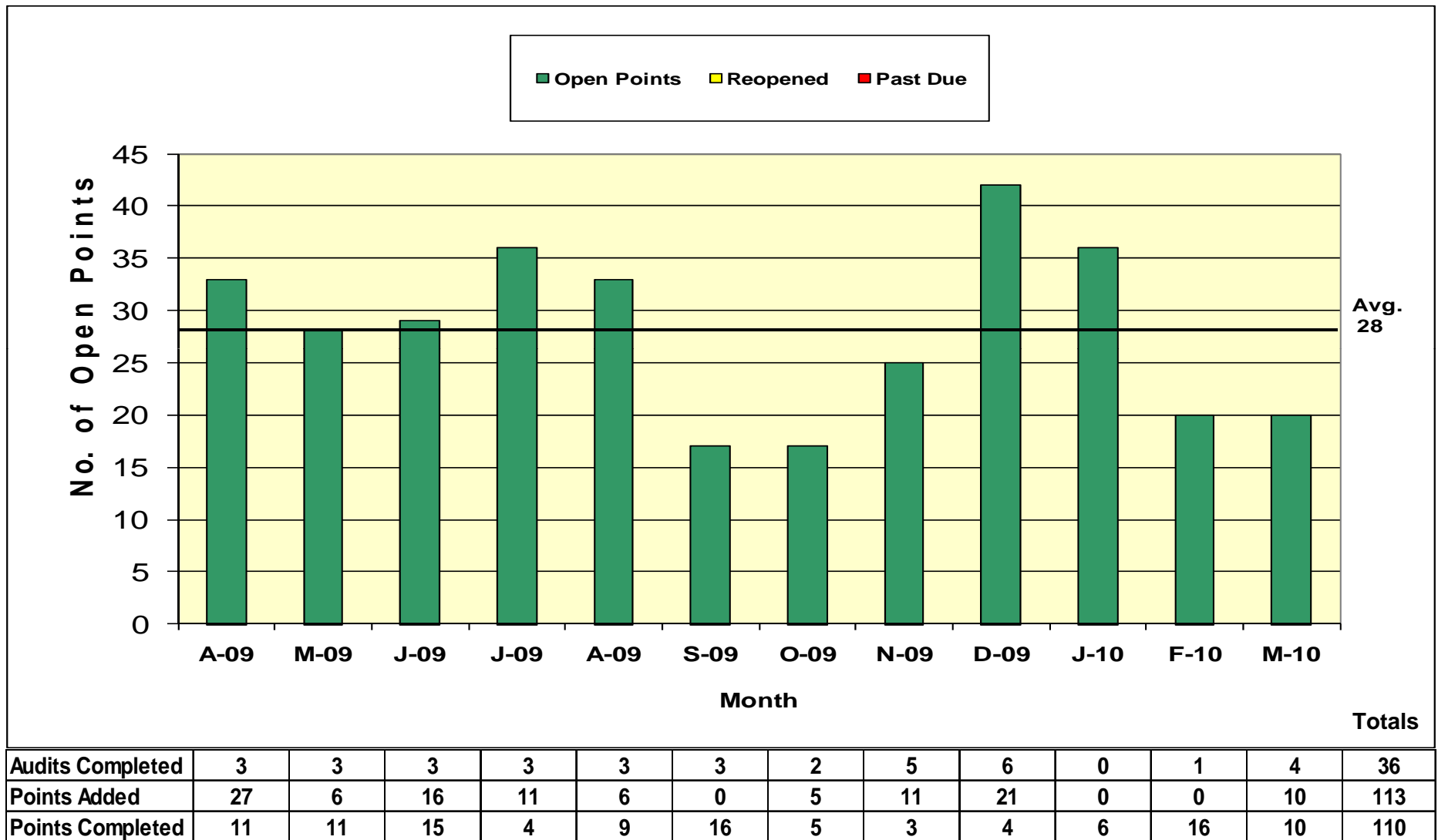
U: For QSEs that meet ERCOT's Creditworthiness Standards, amount of unsecured credit granted.

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.

# 10. Committee Brief ICMP - Status of Open Audit Points

## Cheryl Moseley



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



# 10. Committee Brief: ICMP - Audits

## Cheryl Moseley

### Audits Completed

(last 3 months)

#### Internal Audits

- FY2009 Fraud Auditing Program
- Taylor Data Center Expansion (Special Request)
- New Data Center & Control Center (Special Request)
- System Operators' Compliance with Operating Procedures (Limited Scope)
- Business Continuity Plan

#### External Audits

- None

### Open Audits

#### Internal Audits

- 2010 Nodal Budget-to-Actual Mgmt. (Special Request – Follow-up)
- Renewable Energy Credits System – IT & Program Admin.
- Oracle Software License Compliance (Special Request)
- Protocol 1.4 Required Audit – Confidentiality
- Payables/Procurement Card
- Q1 2010 Fraud Auditing

#### External Audits

- 2009 Financial Audit (Ernst & Young, LLP)

### Planned Audits

(next 3 months)

#### Internal Audits

- Nodal Program Spending (Part 1 of 2)
- Q2 2010 Fraud Auditing
- Protocol 1.4 Required Audit – Independence Verification
- Vendor Assessments (Targeted Review)
- Payroll
- Cash and Investments

#### External Audits

- 2010 Zonal SAS70 Audit (SAS70 Solutions, Inc.)

# 10. Committee Brief: ICMP - Security Assessments

## Cheryl Moseley

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### **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 April 1, 2010)**

 <b>Strategic</b>	 <b>Operational Excellence</b>	 <b>Market Facilitation</b>	 <b>Grid Reliability</b>	 <b>Reporting</b>	 <b>Legal and Regulatory Compliance</b>
 <b>Strategy Development</b> Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.	 <b>Performance Monitoring</b> Clearly defined and actively monitored performance metrics linked to mission and goals- Performance status communicated and corrective action taken.	 <b>Customer Choice</b> Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.	 <b>Grid Operations</b> Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.  ERCOT experienced no significant operational difficulties during record output from Wind generators in February and March.	 <b>Review Practices</b> Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.	 <b>Legal &amp; Legislative</b> Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.
 <b>Mission and Goals</b> Corporate objectives and performance standards are understood and followed.  Strong progress made in finalizing the 5 year strategic plan. The business owners have identified initiatives that will be included in their 2010 key objectives, and are driving those initiatives into actionable items.	 <b>Business Practices</b> Business planning, processes and management standards are effective and efficient.	 <b>Nodal Implementation Project</b> Nodal Implementation on budget on schedule, and within defined scope.  Two monthly CRR auction completed and settled successfully. DAM/RUC market trials began April 1 on schedule with strong market participation. Phase 5 testing has been brought back on schedule to begin May 3 <sup>rd</sup> . Market readiness outreach sessions have been completed.	 <b>Planning</b> Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.  Demand for planning studies exceeds ERCOT's ability to perform them. A list of studies 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.	 <b>Disclosure</b> Reporting and other disclosures to intended parties is timely, accurate and effective.	 <b>Internal Control Compliance</b> Internal Control Compliance processes and management standards are effective, efficient, and provide stakeholders with required assurances of quality.  ERCOT is developing processes to institutionalize the ongoing training on current policies and procedures for all ERCOT staff and contract workers.
 <b>Reputation</b> Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.  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.	 <b>Workforce</b> Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.  The 2010 voluntary turnover rate is 1.3%. As of the end of March ERCOT seeking to fill 19 full-time positions, and 3 summer intern positions. 10 summer intern positions have been filled with anticipated start dates in May.	 <b>Counterparty Credit</b> Maintain credit risk exposure for overall market within acceptable limits.  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.	 <b>Bulk System Resources</b> Market Participants construct and make available adequate bulk electric grid resources.  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. Reserve margin forecast is scheduled to be updated in May.	 <b>Communication</b> Internal & external communications are timely and effective.	 <b>Industry Standards</b> Business and operational activities are in compliance with all applicable regulatory, financial and accounting requirements, standards and directives.  ERCOT has yet to receive the confidential draft for the second part of the 2009 NERC audit. The initial TRE protocol audit report (covering Jun-07 through Feb-10 time period) revealed no protocol violations. We expect the final report in approximately 30 days.
 <b>Fiscal Management</b> ISO design requires competent, prudent and cost effective provision of services.  Stronger than expected energy consumption has resulted in a \$1.2 million positive revenue variance through 4/4. ▼ 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 year. ▲ However, because of the recovery of an additional \$3.2 million from The Reserve, a year-end positive variance of \$4.2 million is currently forecasted. ▼	 <b>Technology Infrastructure</b> Information systems, supporting facilities and data are effectively managed and are reliable.  Systems remain stable in all areas. Sufficient computer room capacity for Nodal go-live and for the start of advanced metering 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 under construction; building availability by end of Q3-10, occupancy and equipment relocations in 2011.	 <b>Administration, Settlement &amp; Billing</b> Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.	 <b>Operational Responsibility</b> Market participant conduct their operations in a manner which facilitates consistent grid reliability.  There is still a lack of consensus over reactive power and frequency response requirements to existing wind generation resources. However, RTWG is planning to bring a draft of the Texas Renewables Integration Plan (TRIP) to TAC in May or June.	 <b>Adequacy and Integrity</b> Robust processes exist to support management assertions embodied within financial reports.	 <b>Regulatory Filings</b> Evidence, testimony and other supporting materials are compelling and successful.

Legend:  Elevated Risk Level  Reduced Risk Level

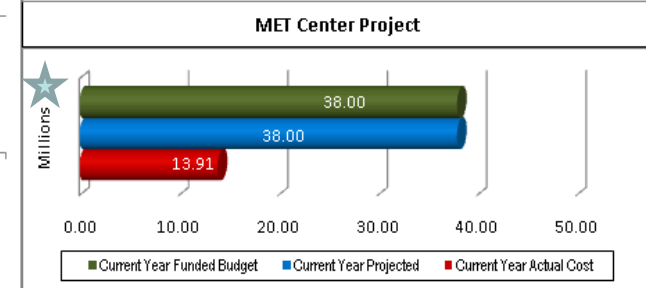
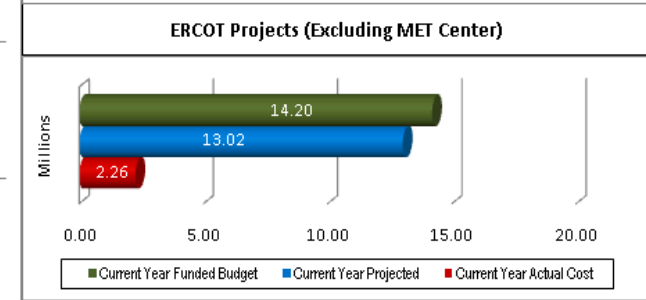
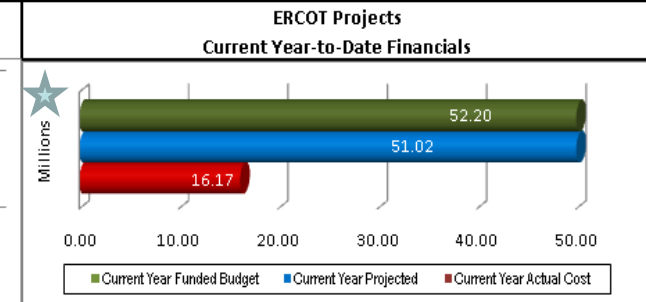
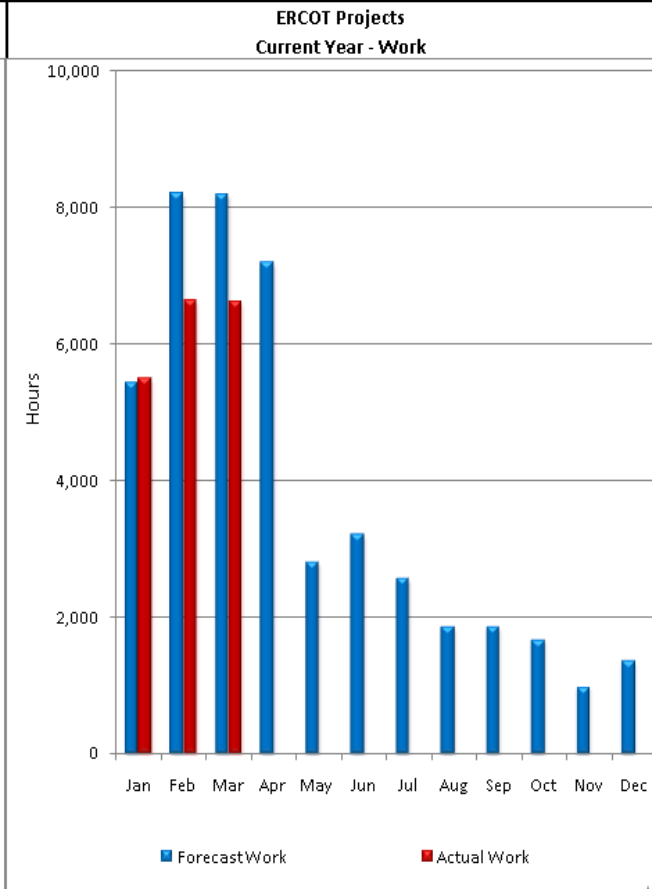
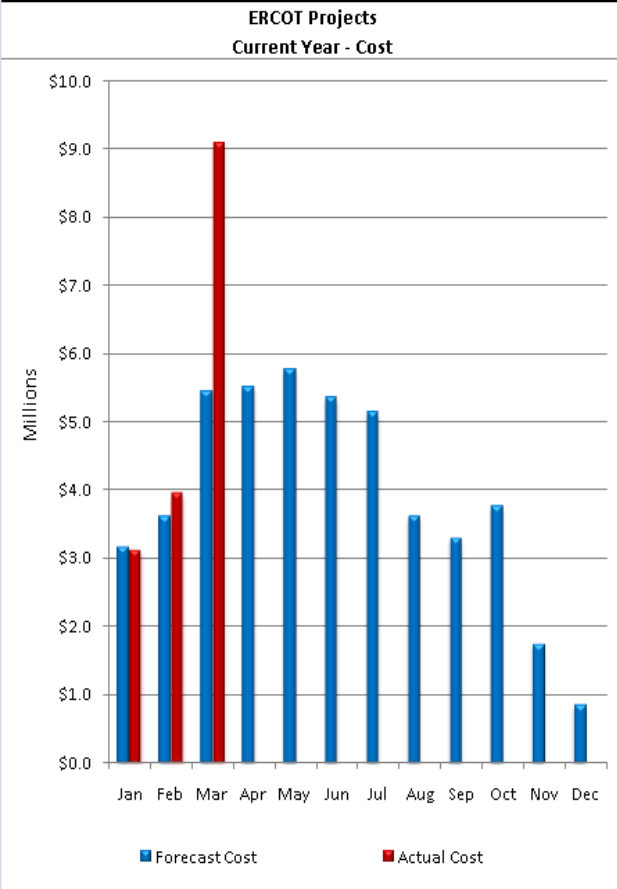
(New Risk Categories / Descriptions Indicated in Green)



# 10. Committee Brief: PMO David Troxtell

## ERCOT Enterprise Projects Summary Report

ERCOT		Overall Projects Report					Reporting Period: 3/31/2010	
Projects in Ercot's Portfolio							Portfolio Performance	
Deferred	Concept	On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget
0	0	0	4	4	17	3	Green	Green
			Closed	Total Active		28		
			Cancelled	Projects Not Started		3	Current Year Funded Budget: \$52,200,000	



★ Includes \$5.9M carry-over funds from 2009 MET Center. Page 16 of 29



**ERCOT**  
**Summary of Investments**  
**March 31, 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	\$ 2,913	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 2,918
TRE	1,685	1,267	-	-	-	-	\$ 2,953
Market	13,406	3,130	15	12,585	515	5	\$ 29,656
Deposit/Restricted	12,818	18,150	11,001	23,601	31,006	30,538	\$ 127,114
							-
							-
<b>Total</b>	<b><u>\$ 30,822</u></b>	<b><u>\$ 22,552</u></b>	<b><u>\$ 11,016</u></b>	<b><u>\$ 36,186</u></b>	<b><u>\$ 31,521</u></b>	<b><u>\$ 30,543</u></b>	<b><u>\$ 162,641</u></b>
% Investments:	19%	14%	7%	22%	19%	19%	100%
Other cash net of outstanding checks							\$ (3,244)
Total cash and cash equivalents							<u><u>\$ 159,397</u></u>

## **Future Agenda Items – May 2010**

- **Standing Internal Audit agenda items**
- **Vote to approve Internal Audit Department Charter**
- **Review the procedures for handling Reporting violations**
- **Review operating plan and budget assumptions**
- **Preapproval of non-audit services from the independent auditor**
- **Conduct annual review of insurance coverage(s)**
- **Review the Company's dealings with any financial institutions that are also market participants**
- **Review ERCOT Annual Report**
- **Committee briefs**
- **Future agenda items**

# 11. 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

# 12. Other Business

## Roy Bowman

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