

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of August 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, efficient, and provide stakeholders with required assurances of quality.</i>
<p>Efforts to define the planning process for completing the 2011 budget are underway. Using the Market Reform assessment, we are reviewing the competencies needed to operate ERCOT through 3 different stages, readiness/go live, stabilization, steady state. This analysis will define the organization requirements and associated budgets needed for 2011 and 2012.</p>		<p>Full market trials functionality testing continues. 24-hr LFC test completed in early August. TAC has signed off on 30-day readiness notices for Outage Scheduling and CRR market. Metrics for evaluating September 168-hr test to be presented to Board in August. Reporting support for DAM / RUC / SASM continues to be upgraded.</p>	<p>Demand for planning studies exceeds ERCOT's ability to perform them. ERCOT has received two awards totaling \$3.5 million to produce long-term resource and transmission planning studies in 2011. Hiring is completed. In the scoping phase of the studies. Project completion 2013.</p>		<p>Efforts underway to streamline and increase the effectiveness of ERCOT's internal controls program and integrate it with the company's Enterprise Risk Management program.</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 and operational activities are in compliance with all applicable regulatory, financial and accounting requirements, standards and directives.</i>
<p>ERCOT addressing reputation issues by 1) refocusing communication efforts, 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>Moving forward with Skillsoft to provide web based e-learning programs, with the goal to have the on line services available to all ERCOT employees in Q4. Talent Management identification has been completed. We are ready to move forward with succession planning and training initiatives once the new organization is put in place.</p>	<p>Credit risk reflected by the PFE model has been fairly consistent over the past year. 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.</p>	<p>In its State of the Market report, the IMM concludes that 2009 wholesale prices were substantially below the levels required to support new natural gas generation resources within ERCOT▲, but expects improved long-term pricing signals from the nodal market▼.</p>		<p>Still waiting for the final 2009 NERC audit report for the Critical Infrastructure Protection (CIP) portion. For 2010 NERC Audit, ERCOT was found to be fully compliant on the 693 (O/P) standards. CIP status is not determined at this point</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>ERCOT is currently forecasting a year-end positive budget variance around \$9.0 million.</p>	<p>Systems stable. Sufficient system and computer room capacity exist for Nodal 'go-live'. 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.</p>		<p>There is still a lack of consensus over reactive power and frequency response requirements to existing wind generation resources. However, RTWG brought a draft of the Texas Renewables Integration Plan (TRIP) to TAC in August.</p>		

Legend: Elevated Risk Level Reduced Risk Level

(New Risk Categories / Descriptions Indicated in Green)

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
EVENT PROFILE MATRIX DEFINITIONS**

Strategic Risks	Operational Risks			Reporting Risks	Legal and Regulatory Compliance Risks
	Operational Excellence	Market Facilitation	Grid Reliability		
<p>Strategy Development <i>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</i></p> <p>Calibrated to Business Climate Risk-Based Resource Allocation</p> <p>Execution Risk Identified & Managed On-Going Event Monitoring Adaptive to Change</p>	<p>Performance Monitoring <i>Clearly defined and actively monitored performance metrics linked to mission and goals - Performance status communicated and corrective action taken.</i></p> <p>Capital Project Program Management Effective Use of Dashboards</p> <p>Metrics Linked to Mission and Goals Effective Status Reporting Clear Standards and Expectations Quantifiable Key Performance Indicators</p>	<p>Customer Choice <i>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</i></p> <p>Effective Response to Change Requests Timely Communication to Participants</p>	<p>Grid Operations <i>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.</i></p> <p>Operator Readiness Communications with MP</p> <p>Data Availability & Accuracy Robust Models and Tools are Utilized Operating Assumptions & Judgment Scheduling Process (Congestion Mgt) Adherence to Standards & Rules</p>	<p>Review Practices <i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</i></p> <p>Hierarchy of Internal Reviews Auditor Review</p> <p>Board of Directors Review Notification and Escalation of Emerging Items Management Signoff</p>	<p>Legal & Legislative <i>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</i></p> <p>Contract Administration Comply w/ Applicable Laws, Rules, Regs, Standards Appropriate Legal Review Liability Related to Conduct Fines or Penalties Astute Politically Advocacy Effectiveness Knowledgeable of Legislative Agenda Proposed Rulemaking Practices</p>
<p>Mission and Goals <i>Corporate objectives and performance standards are understood and followed.</i></p> <p>Clear Governance and Oversight Comprehensive Policies/Procedures Clarity of Fiduciary Responsibility</p> <p>Stakeholder Management Practices Clear Mission and Synchronized Cross Divisional Prioritization Ethical Practices Portfolio View of Risks (ERM)</p>	<p>Business Practices <i>Business planning, processes and management standards are effective and efficient.</i></p> <p>Internal Controls are Effectively Designed & Implemented Business Practices are Cost Effective Responsive to Change</p> <p>Execution Consistency Documentation and Record Keeping</p> <p>Business Continuity & Disaster Recovery Physical Security Standards Safety Practices Adequate Physical Facilities (non-IT) SAS 70 Audits</p>	<p>Nodal Implementation Project <i>Nodal Implementation on budget on schedule, and within defined scope.</i></p> <p>Project Timeframe on Schedule Project Progressing within Budget Identified staffing positions filled with appropriate resources Scope of project fully identified Project interdependencies identified</p>	<p>Planning <i>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</i></p> <p>Stakeholder Support Planning Assumptions and Processes Data Availability & Accuracy</p> <p>Sufficiency of Models, Forecast and Tools Adherence to Standards & Rules</p>	<p>Disclosure <i>Reporting and other disclosures to intended parties is timely, accurate and effective.</i></p> <p>Prepared in Accordance with Relevant Standards Effective Management Reporting Reports are Transparent and Useful</p>	<p>Internal Control Compliance <i>Internal Control Compliance, processes and management standards are effective and efficient.</i></p> <p>Internal Control Management Internal Audit Analysis and Findings External Audit Reviews</p>
<p>Reputation <i>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</i></p> <p>Publicity Management Political Position</p> <p>High Public Confidence and Trust Management/Employee Creditability Employee Values and Corporate Culture Good Neighbor Practices</p>	<p>Workforce <i>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</i></p> <p>Priorities Linked to Mission/Objectives Compensation Programs Aligned w/ Objectives and Priorities Employee Training and Development Workforce Planning</p> <p>Adequacy and Competency of Staff Organizational Structure Performance Management</p>	<p>Counterparty Credit <i>Maintain credit risk exposure for overall market within acceptable limits.</i></p> <p>MP Credit Worthiness Standards Measurement of exposure</p> <p>QSE Certification/De-certification Process Risk to Market from Sustained/Large Uplifts Proactive identification of risk factors</p>	<p>Bulk System Resources <i>Market Participants construct and make available adequate bulk electric grid resources.</i></p> <p>Generation Resource Adequacy & Availability Transmission Adequacy & Availability</p> <p>Reactive Resource Adequacy & Availability Timeliness of Additions / Modifications Fuel Diversity and Availability</p>	<p>Communication <i>Internal and external communications are timely and effective.</i></p> <p>Methods are Appropriate for Audience Message Achieves Desired Purpose</p> <p>Effective Delivery Mechanisms Timeliness and Accuracy Message Consistency over time and audiences Responsiveness to Data Request Employee Opinions and Feedback Open Meetings</p>	<p>Industry Standards <i>Business practices provide stakeholders with required assurances of quality.</i></p> <p>NERC Reliability Standards ERCOT Operating Guidelines & Protocols</p>
<p>Fiscal Management <i>ISO design requires competent, prudent and cost effective provision of services.</i></p> <p>Cash and Liquidity Management Efficient and Defensible Cost Structure Effective Use of Leverage Insurance and Liability Management Fraud Prevention and Detection Robust Financial Projections Effective Budget Analysis</p>	<p>Technology Infrastructure <i>Information systems, supporting facilities and data are effectively managed and are reliable.</i></p> <p>Accessibility of Systems Systems Development/Testing Practices System Maintenance Practices System Redundancy System Reliability and Performance Efficient Technology Architecture Adequate Physical Facilities (for IT) Data Cleansing and Retention Cyber Security (Data and Systems)</p>	<p>Admin, Settlement & Billing <i>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</i></p> <p>Data Management Dispute Resolution Transparent and Defensible Rules Transaction Processing Efficiency Efficient Customer Switching Effective Market Monitoring Error Rates Within Tolerance Billing Dates Consistently Achieved</p>	<p>Operational Responsibility <i>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</i></p> <p>Preparation for Weather Events Prudent Maintenance Practices Sufficient Operating Resources Standard Compliance Norms</p>	<p>Adequacy and Integrity <i>Robust processes exist to support management assertions embodied within financial reports.</i></p> <p>Completeness Verification methods Valuation and Estimation methods Costs & revenues booked in proper period</p>	<p>Regulatory Filings <i>Evidence, testimony and other supporting materials are compelling and successful.</i></p> <p>Advocacy Effectiveness Responsive to Requests Compliance w/ Current Rules Relationship w/ Commission Positions are Supported by Facts</p>

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