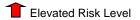
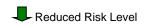
| ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. | | | | | | | | |
|--|---|---|---|---|--|--|--|--|
| Strategic | Operational Excellence | Market Facilitation | ILE MATRIX (as of October Grid Reliability | 1, 2010) Reporting | Legal and Regulatory Compliance | | | |
| incorporates informed stakeholder input, | 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 | Business Practices | Nodal Implementation Project | Planning | Disclosure | Internal Control Compliance | | | |
| Corporate objectives and performance standards are understood and followed. | Business planning, processes and management standards are effective and efficient. | Nodal Implementation on budget on schedule, and within defined scope. | Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards. | Reporting and other disclosures to intended parties is timely, accurate and effective. | Internal Control Compliance processes and management standards are effective, efficient, and provide stakeholders with required assurances of quality. | | | |
| 2011 budget is completed and ready for submission and discussion with the board. Efforts to transform the Project Management Organization into the Business Integration Organization are complete. | | Full market trials functionality testing continues. 168-hour testing completed in September. TAC approved Certification for Full Nodal operations Go-Live on Oct 6. Reporting support for DAM / RUC / SASM continues to be upgraded. | Demand for planning studies continues to grow. 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. | | 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. | | | |
| 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 in compliance with all applicable regulatory, financial & accounting requirements, standards, & directives. | | | |
| 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. | Initial organizational alignment of capabilities and employee skill sets required in a Nodal stabilized environment resulted in the reduction of 37 employees. Ready to move forward with succession planning and training initiatives once the new organization is put in place. | Color remains yellow pending the review of risk factors in the Nodal market requested by F&A. Agreement reached on nodal CRR credit parameters at October TAC meeting. Assessment of each CPs creditworthiness for the December monthly CRR auction in progress, with daily ACL postings to begin on 10/28. | | | 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 | | | |
| 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. | | | |
| | Systems stable. Sufficient system and computer room capacity exist for Nodal 'golive'. 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. | | There are still uncertainties involved regarding operational impacts of existing and continually increasing amount of intermittent renewable generation on the system. RTWG brought a draft of the Texas Renewables Integration Plan (TRIP) to TAC in August that will provide additional guidance on what those uncertainties are and how to address them. | | | | | |

Legend:





(New Risk Categories / Descriptions Indicated in Green)

| ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. EVENT PROFILE MATRIX DEFINITIONS | | | | | | | | |
|--|--|---|---|---|--|--|--|--|
| Stratagia Diaka | | Operational Risks | 2 | Legal and Regulatory Compliance | | | | |
| Strategic Risks | Operational Excellence | Market Facilitation | Grid Reliability | Reporting Risks | Risks | | | |
| 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. | | | |
| Calibrated to Business Climate | Capital Project Program Management | Effective Response to Change Requests Operator Readiness | | Hierarchy of Internal Reviews | Contract Administration | | | |
| Risk-Based Resource Allocation Execution Risk Identified & Managed On-Going Event Monitoring Adaptive to Change | Effective Use of Dashboards Metrics Linked to Mission and Goals Effective Status Reporting Clear Standards and Expectations Quantifiable Key Performance Indicators | Timely Communication to Participants | Communications with MP Data Availability & Accuracy Robust Models and Tools are Utilized Operating Assumptions & Judgment Scheduling Process (Congestion Mgt) Adherence to Standards & Rules | Auditor Review Board of Directors Review Notification and Escalation of Emerging Items Management Signoff | 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 | | | |
| 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 and efficient. | | | |
| Clear Governance and Oversight | Internal Controls are Effectively Designed & | Project Timeframe on Schedule | Stakeholder Support | Prepared in Accordance with Relevant Standards | Internal Control Management | | | |
| Comprehensive Policies/Procedures | Business Practices are Cost Effective | Project Progressing within Budget | Planning Assumptions and Processes | Effective Management Reporting | Internal Audit Analysis and Findings | | | |
| Clarity of Fiduciary Responsibility | Responsive to Change | Identified staffing positions filled with appropriate resources | Data Availability & Accuracy | Reports are Transparent and Useful | External Audit Reviews | | | |
| Stakeholder Management Practices | | Scope of project fully identified | Sufficiency of Models, Forecast and Tools | | | | | |
| Clear Mission and Synchronized Cross Divisional Prioritization | Documentation and Record Keeping | Project interdependencies identified | Adherence to Standards & Rules | | | | | |
| Ethical Practices | Business Continuity & Disaster Recovery | | | | | | | |
| Portfolio View of Risks (ERM) | Physical Security Standards Safety Practices Adequate Physical Facilities (non-IT) SAS 70 Audits | | | | | | | |
| 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 and external communications are timely and effective. | Industry Standards Business practices provide stakeholders with required assurances of quality. | | | |
| Publicity Management | Priorities Linked to Mission/Objectives | MP Credit Worthiness Standards | Generation Resource Adequacy & Availability | Methods are Appropriate for Audience | NERC Reliability Standards | | | |
| Political Position | Compensation Programs Aligned w/ Objectives and Priorities | Measurement of exposure | Transmission Adequacy & Availability | Message Achieves Desired Purpose | ERCOT Operating Guidelines & Protocols | | | |
| High Public Confidence and Trust | Employee Training and Development | QSE Certification/De-certification Process | Reactive Resource Adequacy & Availability | Effective Delivery Mechanisms | | | | |
| Management/Employee Creditability | Workforce Planning | Risk to Market from Sustained/Large Uplifts | Timeliness of Additions / Modifications | Timeliness and Accuracy | | | | |
| Employee Values and Corporate Culture Good Neighbor Practices | Adequacy and Competency of Staff Organizational Structure Performance Management | Proactive identification of risk factors | Fuel Diversity and Availability | Message Consistency over time and audiences Responsiveness to Data Request Employee Opinions and Feedback Open Meetings | | | | |
| 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. | Admin, 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. | | | |
| Cash and Liquidity Management | Accessibility of Systems | Data Management | Preparation for Weather Events | Completeness | Advocacy Effectiveness | | | |
| Efficient and Defensible Cost Structure Effective Use of Leverage Insurance and Liability Management Fraud Prevention and Detection Robust Financial Projections Effective Budget Analysis | | Dispute Resolution Transparent and Defensible Rules Transaction Processing Efficiency Efficient Customer Switching Effective Market Monitoring Error Rates Within Tolerance Billing Dates Consistently Achieved | Prudent Maintenance Practices Sufficient Operating Resources Standard Compliance Norms | Verification methods Valuation and Estimation methods Costs & revenues booked in proper period | Responsive to Requests Compliance w/ Current Rules Relationship w/ Commission Positions are Supported by Facts | | | |

Color Code Methodology for Ranking Residual Risk

| Risk | Risk | | Mitigation Plan | | |
|--------------|-----------------------|---------------|----------------------------|--|---------------|
| Rating | Tolerance | Impact | Likelihood | Threat (impact x Likelihood) | Effectiveness |
| 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 |