



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 206
January 17, 2011; 1:00pm – 3:00pm*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		1a. Call to order General Session	T. Doggett	1:00pm
	Decision required	1b. Elect Chairman and Vice Chairman (Vote)	T. Doggett	1:01pm
2.	For discussion	Confirm financial qualifications and committee membership	Chairman	1:05pm
3.		Recess General Session	Chairman	1:10pm
4.		4a. Call to order Executive Session	Chairman	1:13pm
		4b. Announcement of proxies	Chairman	1:13pm
	Decision required	4c. Approval of executive session minutes (12/13/10) (Vote)	Chairman	1:14pm
	For discussion	4d. Internal Audit status report	B. Wullenjohn	1:15pm
	For discussion	4e. F&A Committee survey on adequacy and effectiveness of Internal Audit	T. Doggett / B. Wullenjohn	1:25pm
	For discussion	4f. Assessment of the adequacy and effectiveness of Internal Audit staff	B. Wullenjohn	1:35pm
	For discussion	4g. Quarterly update on EthicsPoint historical metrics and trends	B. Wullenjohn	1:45pm
	Informative	4h. EthicsPoint update	B. Wullenjohn	1:50pm
	Informative	4i. Quarterly private discussion with Chief Audit Executive	B. Wullenjohn	2:00pm
5.	For discussion	Contracts, personnel, litigation and security	Chairman	2:10pm
		Recess Executive Session		
		Convene General Session		
6.	Decision required	Approval of general session minutes (12/13/10) (Vote)	Chairman	2:15pm
7.	For discussion	Review and assess adequacy of Committee Charter	Chairman	2:16pm
8.	For discussion	Review F&A 2011 yearly schedule	M. Petterson	2:25pm
9.	For discussion	Credit update - CWG - ERCOT	T. Nikazm C. Yager	2:35pm
10.	For discussion	Results of Finance and Audit Committee self assessment	Chairman	2:50pm
11.	Informative	Committee Briefs (Q&A only)	M. Petterson	2:55pm
12.	Informative	Future agenda items	M. Petterson	2:57pm
13.		Other business	M. Petterson	2:58pm
		Adjourn meeting	Chairman	3:00pm

** 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 Monday, February 14, 2011, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 206.*

Decision required
For discussion

1a. Call to Order General Session Trip Doggett

1b. Elect Chairman and Vice Chairman (Vote) Trip Doggett

<Vote>

2. Confirm Financial Qualifications and Committee Membership Chairman

For discussion

6. Approval of General Session Minutes Chairman

Approval of General Session Minutes

- Vote 12/13/10



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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744
December 13, 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 **12:33 p.m.** The Committee immediately went into Executive Session, where it remained until it recessed and reconvened in General Session at **1:47 p.m.**

General Session Attendance

Committee Members:

Bermudez, Jorge	Unaffiliated Board Member	Unaffiliated Board Member	Present
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
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative	Present
Zlotnik, Marcie	StarTex Power	Independent REP	Present

Other Board Members and Segment Alternates:

Dalton, Andrew	Valero Services, Inc.	Consumer/Industrial	Present
Doggett, Trip	ERCOT	Chief Executive Officer	Present
Doll, Laura	Unaffiliated Board Member	Unaffiliated Board Member	Present
Givens, Sheri	Office of Public Utility Counsel	Consumer/Residential	Present
Helton, Bob	International Power America Services	Independent Generator	Present
Patton, AD	Unaffiliated Board Member	Unaffiliated Board Member	Present
Ryall, Jean	Constellation Energy	Independent Power Marketer	Present
Walker, Mark	NRG Texas	Independent Generator	Present



ERCOT Staff and Guests:

Anderson, Ken	Public Utility Commission of Texas - Commissioner
Beckham, Rebecca	ERCOT – Manager, Financial Reporting
Cleary, Mike	ERCOT – Senior Vice President and Chief Operating Officer
Cobos, Lori	ERCOT – Associate Corporate Counsel
Day, Betty	ERCOT – Director, Commercial Market Operations
Ierullo, Bruno	ERCOT – Director, Human Resources
Lloyd, Brian	Public Utility Commission of Texas – Executive Director
Magness, Bill	ERCOT – Vice President and General Counsel
Manning, Chuck	ERCOT – Vice President and Chief Compliance Officer
Moseley, Cheryl	ERCOT – Manager, ICMP
Morgan, Richard	ERCOT – Vice President and Chief Information Officer
Nikazm, Tamila	Austin Energy – Credit Work Group
Petterson, Mike	ERCOT – Controller
Saathoff, Kent	ERCOT – Vice President, Grid Operations and System Planning
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT - Treasurer

Approval of General Session Minutes – November 15, 2010 (Agenda Item 4)

Mr. Karnei entertained a motion to approve the November 15, 2010 General Session F&A Committee meeting minutes (“Minutes”).

Nick Fehrenbach made a motion to approve the Minutes. Mark Dreyfus seconded the motion. The motion passed unanimously by voice vote.

Approval of the 2011 Internal Audit Plan (Agenda Item 3a – moved from Executive Session)

Mr. Karnei called for a motion to approve the 2011 Internal Audit Plan.

Nick Fehrenbach made a motion to approve the 2011 Internal Audit Plan. Jorge Bermudez seconded the motion. The motion passed unanimously by voice vote.

Acceptance of the 2010 SAS70 Audit Report (Agenda Item 5)

Mr. Karnei called for a motion to recommend the acceptance of the 2010 SAS70 Audit Report to the ERCOT Board of Directors (“ERCOT Board”).

Jorge Bermudez made a motion to recommend the acceptance of the 2010 SAS70 Report to the ERCOT Board. Marcie Zlotnik seconded the motion. The motion passed unanimously by voice vote.



Approval of Engagement of SAS70 Solutions, Inc. to Perform ERCOT's 2011 and 2012 SAS70 Audit (Agenda Item 6)

Mr. Karnei called for a motion to approve the engagement of SAS70 Solutions, Inc. ("SAS70 Solutions") to perform ERCOT's 2011 and 2012 SAS70 Audit.

Miguel Espinosa made a motion to approve the engagement of SAS70 Solutions to perform ERCOT's 2011 and 2012 SAS70 Audit. Nick Fehrenbach seconded the motion. The motion passed unanimously by voice vote.

ERCOT Credit Status (Agenda Item 7)

Cheryl Yager provided a status update on ERCOT's credit to the Committee, highlighting the smooth soft nodal launch, an increase in the number of counter-parties, a decrease in credit exposure of approximately \$100 million from October 31, 2010 through November 30, 2010, a significant 143% increase in collateral posting from \$391 million to \$949 million, and a substantial increase in the amount of requested unsecured credit in the ERCOT Market. Ms. Yager noted that the substantial increase in unsecured credit was high for the ERCOT market, but not extraordinarily high when compared to the amount of unsecured credit in the Midwest Independent System Operator ("ISO"). Ms. Yager noted that she was reaching out to other ISOs and planned to bring information regarding the amount of unsecured credit extended by other ISOs to the January Committee Meeting.

Credit Working Group (CWG) Status (Agenda Item 8)

Tamila Nikazm provided a Credit Work Group ("CWG") status update to the Committee, noting that no CWG meeting was held in December due to Nodal Go-Live, a smooth nodal market transition, market clearing prices were in line with expectations, the Nodal soft launch provided clarity to stakeholders on credit calculations, and there were no unexpected credit issues. Ms. Nikazm noted that CWG would include the following items at its next meeting on January 5, 2011: (1) a more detailed look at proposed changes to the Standard Guarantee Form; (2) ongoing analysis of credit calculations in the Nodal market; (3) a detailed analysis of unsecured credit in light of some Market Participant concerns with the large amount of unsecured credit being extended by ERCOT; (4) review of investment parameters for collateral held by ERCOT in light of the large amount of collateral being posted in the ERCOT Market; (5) Nodal Protocol Revision Request ("NPRR") 300, which proposes to make Municipal Owned Utilities' ("MOUs") exempt from submitting first priority security interests to ERCOT for netting; and (6) nominations for Chair and Vice-Chair of CWG.

Commissioner Anderson inquired about the frequency in which ERCOT reviews the credit quality of counter-parties given the large dollar volume in unsecured credit being granted in the ERCOT market. Ms. Yager noted that ERCOT reviews financials on a quarterly basis for entities that receive unsecured credit and monitors public information, such as press releases, on a daily basis to identify entities that may need additional attention between regularly scheduled quarterly reviews. Mr. Gent also suggested that CWG review the cap on unsecured credit to determine if any changes are needed. Ms. Yager noted that ERCOT has currently capped unsecured credit at \$75 million pending CWG's review and that it was a good time to review the cap in light of the Federal Energy Regulatory Commission's ("FERC") Notice of Proposed Rulemaking ("NOPR") that recommends a \$50 million limit.



Quarterly Committee Education on Accounting Developments (Agenda Item 9)

Rebecca Beckham provided a quarterly update on accounting developments to the Committee, highlighting two proposed accounting standards that were pushed back by the Financial Accounting Standards Board (“FASB”) to 2011; new Internal Revenue Service (“IRS”) Form 1099 reporting requirements, the transition of Nodal software assets from “Systems Under Development” to “Property and Equipment” in financial statements so that the assets are placed in service for depreciation purposes as a result of Nodal go-live on December 1, 2010, and current efforts by Finance and Nodal Program Staff to establish groupings of Nodal software assets to facilitate future ERCOT decision making. Ms. Zlotnik confirmed with Ms. Beckham that outside auditors agreed that the proposed Nodal software asset groupings would not impact financial statements and that the finalized Nodal software asset groups would be reviewed by outside auditors.

Results of F&A Committee Self Assessment (Agenda Item 10)

Due to the low response rate from Committee members, Mr. Karnei noted that the Self-Assessment would be re-issued to the Committee members and the results would be discussed at the January Committee meeting.

Committee Briefs (Agenda Item 11)

Ms. Yager reminded the Committee that the investment fund cap per fund had been increased temporarily to \$100 million to provide for volatility around Nodal Go-Live, but noted that as of November 30, 2010, ERCOT was still within \$50 million on all of its investment accounts. Ms. Yager also noted that ERCOT made its November term loan payment, reducing ERCOT’s borrowing capacity, and committed to bring a more thorough borrowing capacity analysis to the January Committee meeting.

Mike Petterson presented a proposed year-at-glance outline of Charter Responsibilities as a Planned Future Agenda Item for the Committee’s consideration. Mr. Petterson asked the Committee to consider the format of this matrix for tracking re-occurring Committee responsibilities, which could be marked once completed, to assist in agenda planning. In addition, Mr. Petterson mentioned the following items for the Committee’s consideration:

- Holding ten instead of twelve Committee meetings each year (excluding June and December);
- Changing the Internal Audit updates, including EthicsPoint updates, from monthly to bi-monthly updates;
- Shifting certain audit review responsibilities, including review of the 401K audit, to the Human Resource and Governance (“HR&G”) Committee; and
- Moving the EthicsPoint update to the HR&G Committee, unless financials aspects are included in the update.

Mr. Karnei agreed that Mr. Petterson should bring this item back to the January Committee meeting for further consideration.



Future Agenda Items (Agenda Item 12)

The following items were identified as Future Agenda Items:

1. Standing approval of prior month's minutes
2. Standing Internal Audit agenda items
3. Standing EthicsPoint update
4. Standing Contracts, Personnel, Litigation, and Security
5. Standing Nodal Credit status
6. Standing Review of Investment Strategy
7. Standing Committee Briefs
8. Standing Future Agenda Items and consideration of proposed new format tied to Charter Responsibilities
9. F&A Committee Survey on Adequacy and Effectiveness of Internal Audit
10. Results of F&A Committee Self Assessment
11. Election of Committee Officers and designation of Committee Secretary
12. Annual review of Committee Charter and Structure

Other Business (Agenda Item 13)

None.

Adjournment

Mr. Karnei adjourned the meeting at approximately **2:31 p.m.**

Lori Cobos
Associate Corporate Counsel

7. Review and Assess Adequacy of Committee Charter Chairman

Charter is attached as a separate document

THE ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
FINANCE & AUDIT COMMITTEE CHARTER

Purpose

The Finance and Audit Committee (the “Committee”) of the Board of Directors (“Board”) of Electric Reliability Council of Texas, Inc. (“ERCOT” or ~~the “Company”~~) shall:

1. Oversee the development of and adherence to a Company budget;
2. Provide recommendations to the Board ~~of Directors~~ for financing Company needs, including both debt and revenue financing;
3. Review and make recommendations to the Board ~~of Directors~~ regarding investment and financial guidelines for the Company;
4. Review and make recommendations to the Board ~~of Directors~~ regarding credit standards, procedures, governance, ERCOT Protocols and other market rules which impact credit risk;
5. Ensure that the Company’s financial statements are timely audited by qualified accountants who are independent;
6. Assist the Board ~~of Directors~~ in fulfilling its oversight responsibility with respect to the Company’s maintenance of an effective internal audit function;
7. Establish and maintain procedures for the receipt (including anonymous submission), retention and treatment of complaints regarding accounting, internal controls, and auditing;
8. Perform such other duties and responsibilities enumerated in and consistent with this Charter.

The Committee’s function is one of oversight, recognizing that the Company’s management is responsible for preparing the Company’s financial statements, and the independent auditor is responsible for auditing those statements. In adopting this Charter, the Board ~~of Directors~~ acknowledges that the Committee members (“Committee Members”) are not employees of the Company (with the exception of ERCOT’s Chief Executive Officer) and are not providing any expert or special assurance as to the Company’s financial statements or any professional certification as to the external auditor’s work or auditing standards. Each ~~member of the~~ Committee Member shall be entitled to rely on the integrity of staff and external auditors to provide accurate, complete financial and other information to the Committee, absent actual knowledge to the contrary, and shall also exercise their fiduciary duties as Directors, including their duties of care, loyalty, and obedience.

While the Committee has the responsibilities, duties and powers set forth in this Charter, it shall be the responsibility and duty of the Company’s management and independent auditor, and not the responsibility or duty of the Committee, to plan or conduct audits, to make any determination that the Company’s financial statements are complete, accurate and in accordance with generally accepted accounting principles, and to assure compliance with laws, regulations and the Company’s ethics policies. It is the responsibility of the Committee to conduct investigations and resolve disagreements regarding financial reporting, if any, between management and the independent auditor.

The Committee shall provide assistance to the Board in fulfilling its oversight responsibility relating to the Company’s financial statements and the financial reporting process, the systems of

internal accounting and financial controls, the annual independent audit of the Company's financial statements and the legal compliance and ethics programs as established by management and the Board. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee and the Company's independent auditors, internal accounting personnel and management.

Membership and Qualifications

Committee Composition; Committee Member Qualifications; and Term

~~The Board members shall decide from among themselves who shall participate in the Committee.~~ The Committee shall be comprised of at least five Board members, at least three of which are from Market Segments and two or more of which must be ~~Independent Unaffiliated~~ Board members ~~of the Company~~. Each Committee Member must be able to read and understand fundamental financial statements, including the balance sheet, income statement and cash flow statement. Each Committee Member shall also meet any experience requirements as may be established from time to time by the Board. The term of the Committee and its Committee Members shall be for not more than one year.

Comment [v11]: Moved this sentence up within the section.

Comment [v12]: Moved this sentence from former "Qualifications" section.

Comment [v13]: Moved this sentence up with the section. Modified to note that neither the Committee or its members' terms should exceed one year.

Designation and Qualifications of Committee Financial Expert

At least one Committee Member shall be designated a "financial expert" as such term may be defined from time to time by the Board ~~of Directors~~ consistent with definitions generally accepted by the accounting industry or other regulatory authorities (the "Financial Expert"). At a minimum, the Financial Expert must have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which ensures the individual's financial sophistication, including a past or current position as a Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") or other senior officer with financial oversight responsibilities. The Board shall endeavor to appoint at least one Board member to the Committee as the Financial Expert.

Comment [v14]: Moved from former "Qualifications" section.

~~The Board members shall decide from among themselves who shall participate in the Committee. The term shall be for not more than one year.~~

Election of Committee Chair; and Chair Qualifications

The Chair of the Committee shall be selected through a majority vote of the Committee ~~m~~Members. The Committee Chair shall not be the CEO of the Company and shall have accounting or related financial management expertise.

~~Any member of the public may attend and participate in the open session of Committee meetings. For the executive session of Committee meetings, the Committee shall close the Committee meeting to the public to address sensitive matters such as confidential personnel information, contracts, lawsuits, competitively sensitive information, or other information related to the security of the regional electrical network. For such executive sessions of Committee meetings, the Committee may request that any officers or employees of the Company, or any other person, whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests. In addition, for such executive sessions of the Committee meetings, the Committee may exclude any persons~~

~~who are not Directors, the Directors' Segment Alternates or the Directors' Designated Representatives.~~

~~Board members (other than Committee members) including Board member alternates may attend and participate in all Committee meetings but may not participate in Committee voting.~~

Comment [v15]: Moved to "Meetings" section below.

Qualifications

~~Each member of the Committee shall also meet any experience requirements as may be established from time to time by the Board of Directors. The Board of Directors shall endeavor to appoint at least one member to the Committee as the Financial Expert.~~

Comment [v16]: These sentences have been integrated into section above.

Authority

Power to Investigate

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain outside counsel or other experts for this purpose. All employees are directed to cooperate as requested by the Committee or any of its Committee Members for Committee purposes. The Committee may request any officer or employee of the Company, the Company's outside counsel or the Company's independent auditor to attend a meeting of the Committee or to meet with any Committee Member or any consultants to the Committee.

~~The Committee may appoint workgroups or task forces to investigate issues defined by the Committee. Members of such workgroups or task forces need not be Directors. Such workgroups or task forces shall have no authority to bind the Committee or the Company.~~

Comment [v17]: Moved these sentences up within the section.

Reporting Relationship and Role of Company's Chief Audit Executive

The Director of Internal Audit is the Chief Audit Executive at the Company. The Company's Chief Audit Executive shall report directly to the Committee. For administrative purposes, the Chief Audit Executive shall report to the CEO. The Committee shall approve an Annual Internal Audit Plan prepared by the Chief Audit Executive. The Chief Audit Executive shall (1) manage the execution of the Annual Internal Audit Plan, (2) conduct investigations at the direction of the Chair and the Committee, and (3) make periodic reports to the Committee at regularly scheduled Committee meetings and as otherwise directed by the Chair and the Committee.

~~The Committee may appoint workgroups or task forces to investigate issues defined by the Committee. Members of such workgroups or task forces need not be Directors. Such workgroups or task forces shall have no authority to bind the Committee or the Company.~~

Comment [v18]: Moved these sentences up within the section.

Quorum and Action by Committee Members~~Structure~~

The presence of at least half of the ~~members of the Committee~~Committee Members who are duly assembled to conduct authorized business of the Committee shall constitute a quorum. At any meeting at which a quorum exists, the act of a majority of the ~~Committee~~Members present at a meeting shall be the act of the Committee. For the purposes of voting, ~~Committee M~~members who recuse themselves from voting on an issue shall not be counted as present for that vote.

~~The Chair, in consultation with the Vice President of Finance and Treasury CFO, shall develop the agenda, the frequency, and length of meetings and shall have unlimited access to management and information for purposes of carrying out functions of the Committee. The Chair shall establish such other rules, as may from time to time be necessary and proper for the conduct of the Committee.~~

Comment [v19]: Moved these sentences to the "Meetings" section below.

Duties and Responsibilities

The following shall be the prominent recurring duties and responsibilities of the Committee in carrying out its oversight functions. The duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, and by the Company's Articles of Incorporation and Bylaws:

With respect to budget oversight and financing:

1. Annually, ~~on a schedule to be established by the Board of Directors,~~ the Committee shall review staff's proposed budget for the following year, ~~including proposed staffing levels, proposed capital expenditures, and other proposed expenditures.~~
2. The Committee shall review the staff's recommendation of the amount and type of financing needed, both revenue and debt financing, to support the proposed budget and meet the Company's liquidity needs,~~including the staff's proposed financial performance measures (e.g. ratios).~~
3. Following the Committee's review of the above items, the Committee shall recommend to the Board ~~of Directors~~ a staffing level, a proposed budget and associated financing plan,~~proposed fees, and proposed financial performance measures~~ for the following year.
4. As needed throughout the year, the Committee shall review staff's recommendations regarding specific among debt financing transactions and alternatives and make recommendations to the Board ~~of Directors a debt structure or facility for approval that meets the Company's liquidity needs.~~

Comment [MWP10]: This provision of the Charter is more conservative than Board policy. Section 2.4.7 of Board policy requires Board approval for establishment of any line of credit, loans, or other forms of indebtedness in the name of ERCOT exceeding one million dollars.

With respect to maintaining investment and financial guidelines for the Company, the Committee shall:

1. Establish standards by which the Company will invest funds and maintain its financial health/strength and review these standards at least annually, recommending updates to the Board of Directors as needed.

Comment [MWP11]: This responsibility can be carried out by the Committee. Board approval is not required by ERCOT bylaws or Board policy. Committee action regarding investment standards and practices can be communicated during regular Committee reports to the full Board.

With respect to the Company's credit policies and standards:

1. Establish a standard by which the Board will seek to maintain the long-term financial integrity of the ERCOT market and review this standard at least annually, recommending updates to the Board of Directors as needed.
2. The Committee shall review the Company's credit policies to consider:
 - a. Appropriateness of credit practices and creditworthiness standards established for market participants;
 - b. Compliance with existing creditworthiness standards by market participants;
 - c. Compliance with credit-related Protocols and market rules; and
 - d. Development of appropriate methods to evaluate and mitigate credit risk;

Comment [MWP12]: This responsibility can be carried out by the Committee. Board approval is not required by ERCOT bylaws or Board policy. Committee action regarding credit standards and practices can be communicated during regular Committee reports to the full Board.

3. In establishing or reviewing the standard under Item 1 above and in conducting the review under Item 2 above the Committee shall consider the recommendations of staff and the Credit Work Group and the decisions and recommendations of the appropriate stakeholder groups, including the Technical Advisory Committee and the Market Credit Work Group.
4. Following each such review, the Committee may, in its discretion, ~~recommend to the Board of Directors any proposed~~ approve changes to the previously approved standard or credit policies.

With respect to the independent auditors engaged to audit ERCOT financial statements:

1. Annually, the Committee shall recommend to the Board ~~of Directors~~ the selection and engagement of ~~the Company's independent auditor~~ a qualified independent public accounting firm to audit the financial statements of ERCOT. The Committee shall fulfill the oversight responsibility of the Board ~~of Directors~~ with respect to the independent auditors' audit of the books and accounts of the Company and for the fiscal year for which it is appointed.
2. The Committee shall approve the provision of all auditing and non-audit services (in excess of \$5,000) by the independent auditor to the Company in advance of the provision of those services and shall also approve the fees for all non-audit services provided by the independent auditor.
3. Provision of non-audit services of less than or equal to \$5,000 by the independent auditor to the Company do not require pre-approval from the Committee, but shall be communicated in writing to the ~~members of the~~ Committee Members at the first meeting following the engagement for the non-audit services at issue.
4. In connection with the Committee's approval of non-audit services, the Committee shall consider whether the independent auditor's performance of any non-audit services is compatible with the external auditor's independence.
5. At least annually, the Committee shall obtain and review a report by the independent auditor describing:
 - a. ~~T~~he independent auditor's internal quality control procedures; and
 - b. ~~A~~ll relationships between the independent auditor and the Company, in order to assess the auditor's independence.
6. The Committee shall also review any report by the independent auditor describing:
 - a. ~~s~~ignificant accounting policies and practices used by the Company;
 - b. ~~A~~lternative treatments of financial information as required to be discussed by the independent auditors with the Committee; and
 - c. ~~A~~ny other material written communication between the independent auditors firm and the Company's management.
7. Establish the Company's hiring policies for employees who are former employees of the Company's independent auditors.

Comment [MWP13]: Proposed edit is intended to clarify the requirement and make it consistent with the wording in section 4.10 of the ERCOT bylaws.

With respect to the Company's financial statements:

1. The Committee shall discuss the annual audited financial statements with management and the independent auditor, including the Company's disclosures.
2. The Committee shall review disclosures made to the Committee by the Company's CEO and Vice President of Finance and Treasury ~~CEO~~ about any significant deficiencies in the design or operation of the internal controls or material weaknesses therein and any fraud involving

management or other employees who have a significant role in the Company's internal controls.

3. In connection with its review of the Company's financial statements, the Committee shall review and discuss with the independent auditor the matters relating to the conduct of the audit as they may be modified or supplemented, including, but not limited to, significant judgments, significant estimates, critical accounting policies, and unadjusted differences.
4. Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
5. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.
6. Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
7. Review any and all press stories that relate to the Company's accounting and disclosure, require that management or the auditor explain any negative comments and determine whether these comments necessitate a change in the accounting structure of the Company.
8. Based on its review and discussions with management, the Chief Audit Executive and the independent auditor, the Committee shall ~~decide whether to provide a recommendation to the Board of Directors whether the~~ Company's financial statements audit report should be accepted.

With respect to the independent auditors engaged to perform ERCOT's annual SSAE 16 audit:

1. Periodically select and authorize engagement of an independent audit firm to perform annual SSAE 16 audit of ERCOT's controls related to settlement operations.
2. As necessary, before and during SSAE 16 audit fieldwork, the Committee shall discuss with management and the independent auditor the planning and execution of the audit.
3. Based on its review and discussions with management and the independent auditor, the Committee shall decide whether the Company's SSAE 16 audit report should be accepted.

With respect to the independent auditors engaged to perform ERCOT's annual 401(k) Savings Plan audit:

1. Periodically select and authorize engagement of an independent audit firm to perform annual audit of ERCOT's 401(k) Savings Plan.
2. As necessary, before and during 401(k) Savings Plan audit fieldwork, the Committee shall discuss with management and the independent auditor the planning and execution of the audit.
3. Based on its review and discussions with management and the independent auditor, the Committee shall decide whether the Company's 401(k) Savings Plan audit report should be accepted.

With respect to periodic reviews and reports:

1. Periodically, the committee shall meet separately with senior management, the Chief Audit Executive and the independent auditors.

Comment [MWP14]: This responsibility can be carried out by the Committee. Board approval is not required by ERCOT bylaws or Board policy. Committee action regarding review and acceptance of the financial statement audit report can be communicated during regular Committee reports to the full Board.

2. The Committee shall review with the independent auditor any audit problems or difficulties and management's response to them.
3. The Committee shall review the Company's policies with respect to risk assessment and risk management.
4. The Committee shall inquire of management and the independent auditors about significant risks or exposures to the Company and the Company's market and assess the steps management has taken to minimize such risks.
5. The Committee shall establish procedures for:
 - a. The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - b. The confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.
6. The Committee shall review a summary of the Company's dealings with any financial institutions that are also market participants.
7. The Committee shall communicate to the Board ~~of Directors~~ the matters discussed at each meeting of the Committee, including any issues with respect to the quality or integrity of the Company's financial statements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.
8. The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board ~~of Directors~~.

With respect to Internal Audit:

1. The Committee shall review with management and the Chief Audit Executive the charter, activities, staffing, and organizational structure of the internal audit function.
2. The Committee shall have final authority to review and approve the Annual Internal Audit Plan and all major changes to the Plan.
3. The Committee shall review, considering the recommendations of the independent auditors and the [Vice President of Finance and Treasury](#) ~~CFO~~, the scope of the Internal Audit Plan and the plan of work to be done by the Company's Internal Audit Department, and the results of such work.
4. The Committee shall review the significant reports to management prepared by the Internal Audit Department and management's responses.
5. The Committee shall ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive.
6. The Committee shall, at least once per year, review the performance of the Chief Audit Executive and concur with the annual compensation and salary adjustment.
7. The Committee shall review the adequacy and effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
8. The Committee shall, on a regular basis, meet separately with the Chief Audit Executive in executive session [of a Committee meeting](#) to discuss any matters that the committee or Internal Audit believes should be discussed privately.

Meetings

[Frequency of Meetings](#)

The Committee shall meet at least once during each fiscal quarter, and as many additional times as the Committee shall deem necessary or appropriate. The Chair, in consultation with the Vice President of Finance and Treasury, shall develop the agenda, the frequency, and length of meetings and shall have unlimited access to management and information for purposes of carrying out functions of the Committee. The Chair shall establish such other rules, as may from time to time be necessary and proper for the conduct of the Committee.

Comment [v115]: These sentences have been moved from the former "Structure" section above.

Attendance at Open Session and Executive Session of Committee Meetings

Any member of the public may attend and participate in the open session of Committee meetings. For the executive session of Committee meetings, the Committee shall close the Committee meeting to the public to address sensitive matters such as confidential personnel information, contracts, lawsuits, competitively sensitive information, or other information related to the security of the regional electrical network. For such executive sessions of Committee meetings, the Committee may request that any officers or employees of the Company, or any other person, whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests. In addition, for such executive sessions of the Committee meetings, the Committee may exclude any persons who are not Directors, the Directors' Segment Alternates or the Directors' Alternate Representatives.

Participation and Voting During Committee Meetings

Board members who are not Committee Members (including Segment Alternates and Alternate Representatives) may attend and participate in all Committee meetings, but may not participate in Committee voting.

Comment [v116]: These sentences have been moved from the "Membership" section above.

Minutes

The Committee shall designate a secretary, who may be a Committee Member or employee of ERCOT, who shall prepare or cause to be prepared the minutes of each meeting and file such minutes with the corporate records of the Company. The secretary shall send, or cause to be sent, copies of ~~such~~ minutes to each of the Committee Members.

Evaluation

The Committee shall undertake an annual evaluation assessing its performance and, in light of this, consider changes in its membership, ~~e~~Charter or procedures. The Committee shall report to the Board the results of its evaluation, including recommended ~~C~~harter, membership and other changes, if any.

8. Review F&A 2011 Yearly Schedule

Mike Petterson

Future Agenda Item Matrix attached as separate document

ERCOT

Finance and Audit Committee

Charter Responsibilities as Planned Future Agenda Items - Twelve Monthly Meetings

Task Description	Charter Page #	Charter											
		J	F	M	A	M	J	J	A	S	O	N	D
1 Elect Committee officers and designate a secretary	7	A											
2 Review and assess adequacy of Committee charter	6	A											
3 Review and recommend investment standard	4												
4 Review and recommend financial standard	4												
5 Handling of complaints regarding financial matters	6												
6 Hiring former employees of the independent auditor	5												
7 Review and recommend credit standard	4												
8 Receive periodic report on Credit Working Group activity	na												
9 Approve Credit Working Group Charter	na												
10 Appoint Credit Working Group Chair and Vice Chair	na												
11 Review risk policies and risk management practices	6												
12 Undertake annual self-evaluation	7	A											
13 Periodic meeting with senior management	5												
14 Approve internal audit charter	6												
15 Periodic meeting with Chief Audit Executive	5 & 6	A											
16 Review significant internal audit reports	6	A											
17 Review Ethics Point issues	na	A											
18 Review effectiveness of internal audit functions	6												
19 Review and approve annual internal audit plan	6												
20 Review performance of the Chief Audit Executive	6												
21 Recommend selection of independent auditor	4												
22 Receive independence report from independent auditor	5												
23 Periodic meeting with independent auditor	5												
24 Discuss audited financial statements	5												
25 Review and accept financial statement audit	5												
26 Review and recommend proposed budget	4												
27 Review and recommend debt structure	4												
28 Review insurance coverage	na												
29 Review IRS Form 990	na												
30 Review and accept 401(k) audit report	na												
31 Review and accept SSAE 16 audit report	na												
32 Review Committee briefs	na	A											
33 Receive periodic investment report	na												
34 Receive periodic liquidity report	na												
35 Review major changes to accounting principles	5												
36 Review financial institutions - market participants	6												
37 Receive periodic Potential Future Exposure report	na												
38 Preapprove non-audit services	4	Performed on as-needed basis											
39 Review any report by independent auditor	5	Performed on as-needed basis											
40 Review effect of regulatory accounting initiatives	5	Performed on as-needed basis											
41 Review complaints regarding financial statements	5	Performed on as-needed basis											
42 Review press stories regarding financial statements	5	Performed on as-needed basis											
43 Periodic meeting with 401(k) auditor	na	Performed on as-needed basis											
44 Periodic meeting with SSAE 16 auditor	na	Performed on as-needed basis											

ERCOT

Finance and Audit Committee

Charter Responsibilities as Planned Future Agenda Items - Ten Monthly Meetings

Task Description	Charter Page #	Charter											
		J	F	M	A	M	J	J	A	S	O	N	D
1 Elect Committee officers and designate a secretary	7	A											
2 Review and assess adequacy of Committee charter	6	A											
3 Review and recommend investment standard	4												
4 Review and recommend financial standard	4												
5 Handling of complaints regarding financial matters	6												
6 Hiring former employees of the independent auditor	5												
7 Review and recommend credit standard	4												
8 Receive periodic report on Credit Working Group activity	na												
9 Approve Credit Working Group Charter	na												
10 Appoint Credit Working Group Chair and Vice Chair	na												
11 Review risk policies and risk management practices	6												
12 Undertake annual self-evaluation	7	A											
13 Periodic meeting with senior management	5												
14 Approve internal audit charter	6												
15 Periodic meeting with Chief Audit Executive	5 & 6	A											
16 Review significant internal audit reports	6	A											
17 Review Ethics Point issues	na	A											
18 Review effectiveness of internal audit functions	6												
19 Review and approve annual internal audit plan	6												
20 Review performance of the Chief Audit Executive	6												
21 Recommend selection of independent auditor	4												
22 Receive independence report from independent auditor	5												
23 Periodic meeting with independent auditor	5												
24 Discuss audited financial statements	5												
25 Review and accept financial statement audit	5												
26 Review and recommend proposed budget	4												
27 Review and recommend debt structure	4												
28 Review insurance coverage	na												
29 Review IRS Form 990	na												
30 Review and accept 401(k) audit report	na												
31 Review and accept SSAE 16 audit report	na												
32 Review Committee briefs	na	A											
33 Receive periodic investment report													
34 Receive periodic liquidity report													
35 Review major changes to accounting principles													
36 Review financial institutions - market participants													
37 Receive periodic Potential Future Exposure report													
38 Preapprove non-audit services	4	Performed on as-needed basis											
39 Review any report by independent auditor	5	Performed on as-needed basis											
40 Review effect of regulatory accounting initiatives	5	Performed on as-needed basis											
41 Review complaints regarding financial statements	5	Performed on as-needed basis											
42 Review press stories regarding financial statements	5	Performed on as-needed basis											
43 Periodic meeting with 401(k) auditor	na	Performed on as-needed basis											
44 Periodic meeting with SSAE 16 auditor	na	Performed on as-needed basis											

9. Credit Update: CWG / MCWG Proposed 2011 Projects Tamila Nikazm

Task	Timeframe
<p>1) Nodal credit calculations</p> <ul style="list-style-type: none"> a) Pre-DAM credit validation <ul style="list-style-type: none"> i. e-Factors/replacement for e-Factors ii. PTP obligations offset with CRRs b) CRR Auction credit validation <ul style="list-style-type: none"> i. Initial margin (A & M) ii. Collateralization of purchase price c) CMM core systems <ul style="list-style-type: none"> i. FCE calculations - CRR exposure and related collateral held ii. Tightening of settlement / payment cycle and related collateral requirements (in conjunction with WMS/COPS project to tighten cycles) iii. Adequacy of collateral held for forward risk 	<ul style="list-style-type: none"> • 3rd Qtr • 2nd Qtr • In time for balance of year or annual auction • In time for balance of year or annual auction • 2nd Qtr • In conjunction with c) ii. Above
<p>2) Netting/mutuality - First Priority Security Interest / ERCOT as central counterparty / other alternative</p>	<ul style="list-style-type: none"> • In time for balance of year or annual auction

9. Credit Update: CWG / MCWG Proposed 2011 Projects Tamila Nikazm

Task	Timeframe
<p>3) ERCOT unsecured credit policies</p> <ul style="list-style-type: none"> a) Review of the unsecured credit cap b) Form of LCs and guarantees c) Comparison to best practices d) Comprehensive review of assignment of unsecured credit 	<ul style="list-style-type: none"> • 1st Qtr • 2nd Qtr • 3rd Qtr • 4th Qtr
<p>4) Review Investment practices</p>	<ul style="list-style-type: none"> • 3rd Qtr
<p>Note: Timeframe estimates reflect a target for CWG and/or MCWG to address the issue. Additional time will likely be required for Protocol revisions and/or system changes, if either are required.</p>	

9. Credit Update: ERCOT Market Credit Status

Cheryl Yager

ERCOT Market Credit Status

as of 11/30/2010

as of 12/31/2010

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	
12	42,709,571	14%	420,997,225	U
59	131,279,856	42%	920,770,067	S
23	137,864,416	44%	722,420,514	S
94	311,853,842	100%		

# of CPs*	Total Potential Exposure (\$)	% of TPE	Total Unsec Credit Limit / Security Posted	
14	33,407,516	10%	441,817,381	U
69	159,077,995	48%	974,860,138	S
23	141,317,203	42%	753,420,514	S
106	333,802,714	100%		

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit
Guarantee Agreements

Total Exposure

Other QSEs in the ERCOT Market (ERCOT owes)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit
Guarantee Agreements

Total

209

197

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.

9. Credit Update: Benchmark Report – Background

Cheryl Yager

- **Section 16 - total potential exposure (TPE) covers both historical risk and forward risk**
 - Historical exposure may be invoiced or estimated
 - Forward risk is, in large part, estimated based on historical activity in CMM
 - Underlying assumption - history is a reasonable predictor of the future (e.g. if an entity has been in the ERCOT market at 20% of its load, it is appropriate to assume they will be in the ERCOT market at 20% of load in the future)
 - Key drivers of **forward risk** include **volume escalation** and **price volatility**
- **However, situations may arise when historical trends may not be the best predictor of forward risk**
 - Market wide - dramatic price changes – forward prices may be higher (or lower) than those used to calculate collateral in the TPE
 - Entity specific - when an entity is at the point of default, volume from the ERCOT market may increase substantially from historical trends
 - The physical nature of the electric market has a significant impact on forward risk (e.g. mass transition risk for Counter-Parties that represent load, DAM activity may impact real time market, etc)

9. Credit Update: Benchmark Report – Background

Cheryl Yager

- **Ensuring the adequacy of collateral held for forward risk is a key goal that the CWG / MCWG took on for 2011**
- **The Benchmark Report provides context for how much forward risk is provided for in the TPE calculation at a point in time**

9. Credit Update: Benchmark Report as of December 31, 2010

Cheryl Yager

	# of CPs	Ave Gen Vol (in MWh)	Ave Load Vol (in MWh)	% CPs	% Gen Vol	% Load Vol	CP TPE (in 000's)	Low Benchmark (in 000's)	High Benchmark (in 000's)
Above High									
w/ No Load and No Generation	12	0	0				\$ 27,709	\$ 3,975	\$ 5,184
w/ Load and/or Generation	29	153,075	47,447				78,909	20,669	41,201
Subtotal	41	153,075	47,447	21%	20%	6%	106,617	24,644	46,384
Below Low									
w/ No Load and No Generation	3	0	0				(743)	2	6
w/ Load and/or Generation	5	42,895	91,314				2,766	5,923	52,845
Subtotal	8	42,895	91,314	4%	6%	12%	2,024	5,924	52,851
Between High and Low									
w/ No Load and No Generation	82	0	0				10,663	4,412	14,876
w/ Load and/or Generation	66	575,800	637,956				212,129	85,027	350,847
Subtotal	148	575,800	637,956	75%	75%	82%	\$ 222,793	\$ 89,438	\$ 365,724
Total	197	771,769	776,717	100%	100%	100%	\$ 331,434	\$ 120,007	\$ 464,959

Notes:

- 1) 75% of Generation volume and 82% of Load volume have TPEs that fall between the Low and the High Benchmark.
- 2) There are 41 CPs that have TPEs that are above the High Benchmark - primarily entities that have no load or generation or have primarily generation. We will review the reasons for this and provide input to CWG/MCWG as they review exposure calculations.
- 3) There are some entities (generally those that have minimal net activity in the ERCOT market), where the calculated TPE is less than the Low Benchmark. ERCOT will review the reasons for this and provide input to CWG/MCWG as they review exposure calculations.

9. Credit Update: Benchmark Assumptions

Cheryl Yager

	Historical Risk	Forward Risk Estimate				Price volatility factor
		Volume Component		Price Component		
		Basis	# of days	Factor	Basis	
Low Benchmark						
Counter-Parties - Load only	Outstanding receivable/payable - invoiced and estimated	30-day average total load volume	2	1.0	Avg real time price - floor - \$25, cap - \$100	1.0
Counter-Parties - Generation only	Outstanding receivable/payable - invoiced and estimated	30-day average total generation volume	2	0.2	Avg real time price - floor - \$25, cap - \$100	1.0
Counter-Parties - neither Load or Generation	Outstanding receivable/payable - invoiced and estimated	30-day average imbalance volume (real time activity)	2	1.0	Avg real time price - floor - \$25, cap - \$100	1.0
High Benchmark						
Counter-Parties - Load only	Outstanding receivable/payable - invoiced and estimated	Highest total load volume over past 30-days	9	1.0	Avg real time price - floor - \$25, cap - \$100	1.5
Counter-Parties - Generation only	Outstanding receivable/payable - invoiced and estimated	Highest total generation volume over past 30-days	9	0.2	Avg real time price - floor - \$25, cap - \$100	1.5
Counter-Parties - neither Load or Generation	Outstanding receivable/payable - invoiced and estimated	Highest imbalance volume over past 30-days (real time activity)	6	1.0	Avg real time price - floor - \$25, cap - \$100	1.5

Note: If an entity has both load and generation volume, the greater of the two estimates is used in the Benchmark

10. Results of Finance and Audit Committee Self Assessment Chairman

For discussion

	ERCOT Finance & Audit Committee Self-Evaluation December 2010	Yes	No	Not Sure	Comments
1.	Does the committee have the appropriate number of members? The committee should not be so large that: <ul style="list-style-type: none"> ▪ its ability to operate efficiently and effectively is reduced ▪ members' ability to raise issues is hampered ▪ it is difficult to get a quorum when a time-sensitive issue arises 	5	1	0	<ul style="list-style-type: none"> • The present size of the committee makes it difficult to address issues on a timely and deliberate manner
2.	Committee members demonstrate their objectivity during meetings through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.	5	1	0	<ul style="list-style-type: none"> • Discussions sometimes tend to be biased towards whatever segment a member represents versus having ERCOT's best interest in mind • The agenda is driven by ERCOT staff
3.	Differences of opinion on issues are resolved to the satisfaction of the committee.	6	0	0	
4.	Committee members challenge the Chair as appropriate.	6	0	0	
5.	The committee charter is used as a document to guide the committee in its efforts, and to help guide the committee's agenda.	4	0	2	<ul style="list-style-type: none"> • The Charter is approved once a year and then forgotten
6.	6.1 Committee members are financially literate, and the committee has determined that it has adequate financial expertise in accordance with its charter.	6	0	0	
	6.2 Committee members participate in some form of continuing education to stay abreast of changes in the financial accounting and reporting, regulatory and ethics areas.	1	0	5	<ul style="list-style-type: none"> • I do Continuing education to keep my CPA certificate but I am not sure about the other committee members • Minimal continuing education is done • I am not aware that committee members' continuing education activities are reported to the full committee • I'm not sure how we would know this
	6.3 The committee understands how the organization's performance compares with its budgetary targets and its peers, and how management plans to address any unfavorable variances.	6	0	0	

	ERCOT Finance & Audit Committee Self-Evaluation December 2010	Yes	No	Not Sure	Comments
	6.4 The committee discusses the initial selection of or changes in significant accounting policies used in developing the financial statements, the reason for and impact of any changes in policy, and reasons alternative treatments were not adopted.	5	0	1	<ul style="list-style-type: none"> • Not sure the Committee is briefed properly on any changes in accounting policy
	6.5 The committee discusses significant, complex, or unusual transactions with management and the external auditors.	4	1	1	<ul style="list-style-type: none"> • Have not done so, so far
	6.6 The committee understands which areas represent high risk for material misstatement of the financial statements, and discusses assumptions and approaches used with management and the external auditors.	5	0	1	
	6.7 The committee forms its own view of the risk of material misstatement due to fraud, discusses with management and the external auditors their views on the risk of material misstatement due to fraud, and is comfortable that any differences in views can be reconciled.	6	0	0	
	6.8 The committee fully understands significant changes in financial statements from prior years and from budget, and is provided with sufficient, reliable evidence to support variances.	6	0	0	
	6.9 The committee commits sufficient time to review, discuss, and consider the financial statements.	5	0	1	
	6.10 The committee makes optimum use of the meeting time allotted.	5	0	1	
	6.11 The committee meets with financial management to discuss results reported before finalization.	5	0	1	<ul style="list-style-type: none"> • There is a good and open discussion with management which is healthy
7.	Committee members have a clear understanding of ERCOT's debt structure and cash management practices.	5	0	1	
8.	Committee members receive sufficient details regarding long-term financial planning.	5	0	1	<ul style="list-style-type: none"> • Yes except long term at ERCOT is 2 to 3 years
9.	The Committee makes appropriate use of workgroups or task forces to investigate issues defined by the Committee.	5	0	1	<ul style="list-style-type: none"> • CWG is an example • I do not recall any workgroups or task forces, nor of I aware of the need for them in prior year
10.	The committee engages outside experts as appropriate.	6	0	0	<ul style="list-style-type: none"> • Oliver Wyman is and example

	ERCOT Finance & Audit Committee Self-Evaluation December 2010	Yes	No	Not Sure	Comments
11.	11.1 The organization's financial reporting processes are stronger as a result of management's interactions with the committee.	5	0	1	
	11.2 The committee understands and agrees with the board on which categories of internal control it oversees. Categories include: <ul style="list-style-type: none"> ▪ Integrity of financial reporting ▪ Compliance with laws and regulations ▪ Operational efficiency and effectiveness 	6	0	0	
	11.3 The committee and the board concur with any changes to the committee's internal control oversight mandate.	6	0	0	
	11.4 The committee understands the current high-risk areas - including information technology and computer systems - in the categories of controls it oversees, as well as how management addresses those areas.	5	0	1	
12.	The committee is cognizant of the line between oversight and management, and endeavors to respect that line.	6	0	0	
13.	The committee conducts executive sessions in a manner that offers a "safe haven" to the individual, while at the same time asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution.	6	0	0	<ul style="list-style-type: none"> • With a committee as large as this one, the Executive Sessions are very necessary
14.	14.1 The committee does its part to ensure the objectivity of the internal audit team.	6	0	0	
	14.2 The committee provides constructive feedback to the chief audit executive at least annually.	6	0	0	<ul style="list-style-type: none"> • We do it more often than annually
	14.3 The committee receives sufficient detail regarding material issues and complaints brought forward which relate to the company's fraud, ethics or accounting practices.	6	0	0	
	14.4 The committee has developed the scope of work to be done by the independent auditor and by the internal audit department based upon a reasoned review of the risks or exposures to the company.	6	0	0	<ul style="list-style-type: none"> • More with Internal Audit than with the Independent Auditors

	ERCOT Finance & Audit Committee Self-Evaluation December 2010	Yes	No	Not Sure	Comments
15.	The committee communicates at an appropriate level of detail when informing the Board of its actions.	6	0	0	• Maybe too much detail
16.	Committee members receive clear and succinct agendas and supporting written material sufficiently prior to scheduled meetings.	6	0	0	
17.	Committee members have adequate opportunities to discuss issues and ask questions.	6	0	0	
18.	The frequency of committee meetings is appropriate for the responsibilities assigned to the committee.	6	0	0	
19.	Meeting facilities and presentation materials are effective for the conduct of committee activities.	6	0	0	
20.	The committee is efficient and value adding.	6	0	0	
21.	Please add additional comments, questions and suggestions here.				

11. Committee Briefs

Q&A only

ERCOT Market Credit Status

as of 11/30/2010

as of 12/31/2010

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	
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106	333,802,714	100%		

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

Total Exposure

Other QSEs in the ERCOT Market (ERCOT owes)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

14	(5,523,651)	91%	405,064,972	U
90	(567,764)	9%	28,402,571	S
11	-	0%	65,322,000	S
115	(6,091,415)	100%		

12	(1,625,120)	-69%	384,244,816	U
70	(743,674)	-31%	77,566,325	S
9	-	0%	12,752,000	S
91	(2,368,794)	-100%		

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

Total

Total

209

197

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.

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11. Committee Briefs: Benchmark Report as of December 31, 2010

Cheryl Yager

	# of CPs	Ave Gen Vol (in MWh)	Ave Load Vol (in MWh)	% CPs	% Gen Vol	% Load Vol	CP TPE (in 000's)	Low Benchmark (in 000's)	High Benchmark (in 000's)
Above High									
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- 3) There are some entities (generally those that have minimal net activity in the ERCOT market), where the calculated TPE is less than the Low Benchmark. ERCOT will review the reasons for this and provide input to CWG/MCWG as they review exposure calculations.

ERCOT
Summary of Investments
December 31, 2010

(\$ in mils)

Investment Account	Investment Type	Operating	Market	Deposit/ Restricted	Total	%
						Investments
Bank of America	<i>Treasury and Repo</i>	\$ -	\$ 9.5	\$ 6.0	\$ 15.5	5%
BlackRock 60	<i>Treasury and Repo</i>	-	9.5	\$ 10.5	\$ 20.0	6%
BlackRock 62	<i>Treasury only</i>	-	-	\$ 49.5	\$ 49.5	15%
Federated 068	<i>Treasury and Repo</i>	3.1	8.2	\$ 9.4	\$ 20.7	6%
Federated 0125	<i>Treasury only</i>	-	1.8	\$ 43.5	\$ 45.3	14%
Fidelity 695	<i>Treasury and Repo</i>	-	-	\$ 6.0	\$ 6.0	2%
Fidelity 680	<i>Treasury Only</i>	-	-	\$ 49.8	\$ 49.8	15%
Invesco	<i>Treasury and Repo</i>	-	10.0	\$ 15.4	\$ 25.4	8%
JPMorgan	<i>Treasury and Repo</i>	3.1	17.4	\$ 7.7	\$ 28.1	9%
Wells Fargo	<i>Treasury and Repo</i>	-	9.0	\$ 8.7	\$ 17.7	5%
Wells Fargo	<i>Treasury only</i>	-	-	\$ 49.1	\$ 49.1	15%
		<u>\$ 6.2</u>	<u>\$ 65.4</u>	<u>\$ 255.6</u>	<u>\$ 327.2</u>	<u>100%</u>

Other cash net of outstanding checks

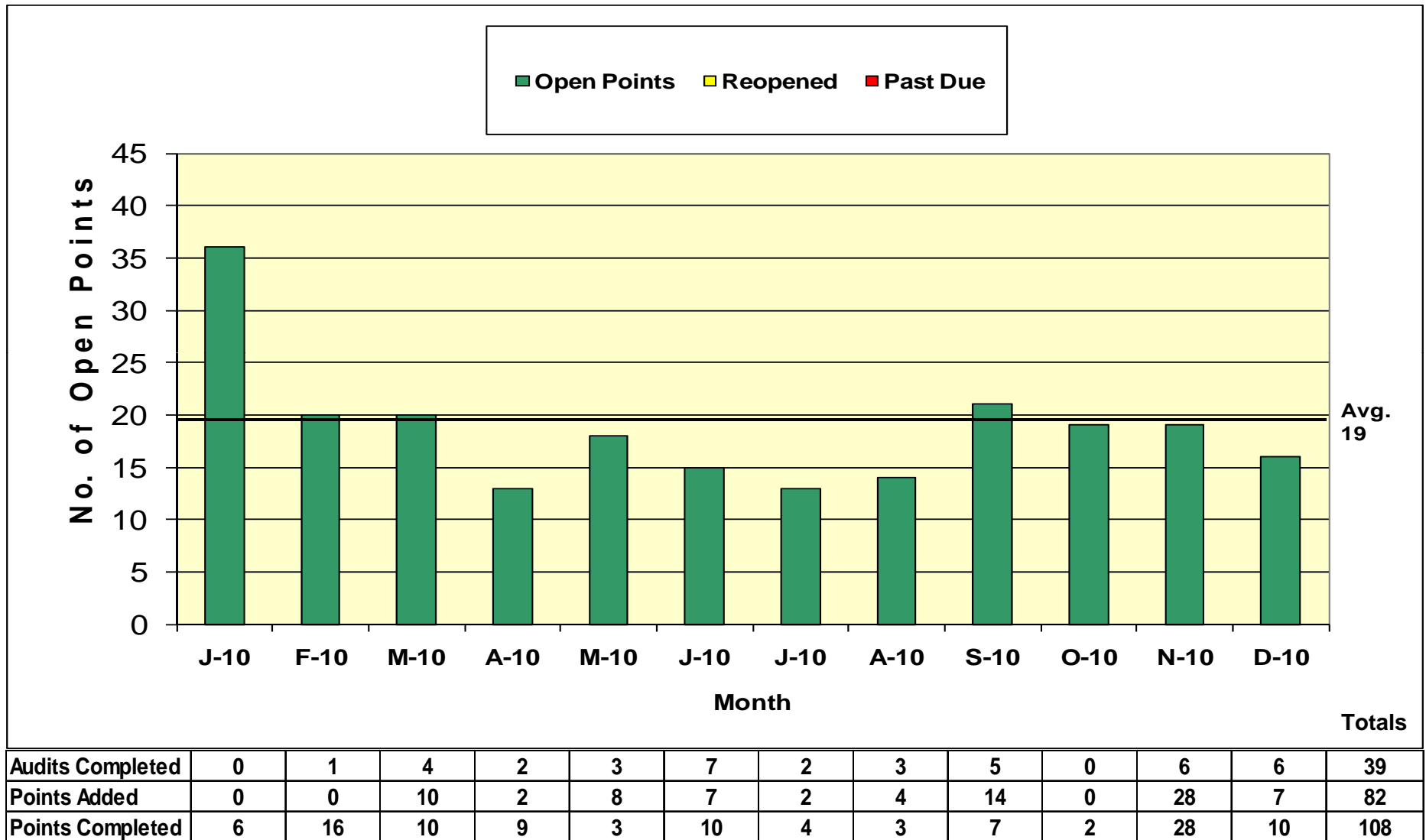
N/A

Total cash and cash equivalents

\$ 327.2

11. Committee Brief ICMP: Status of Open Audit Points

Cheryl Moseley

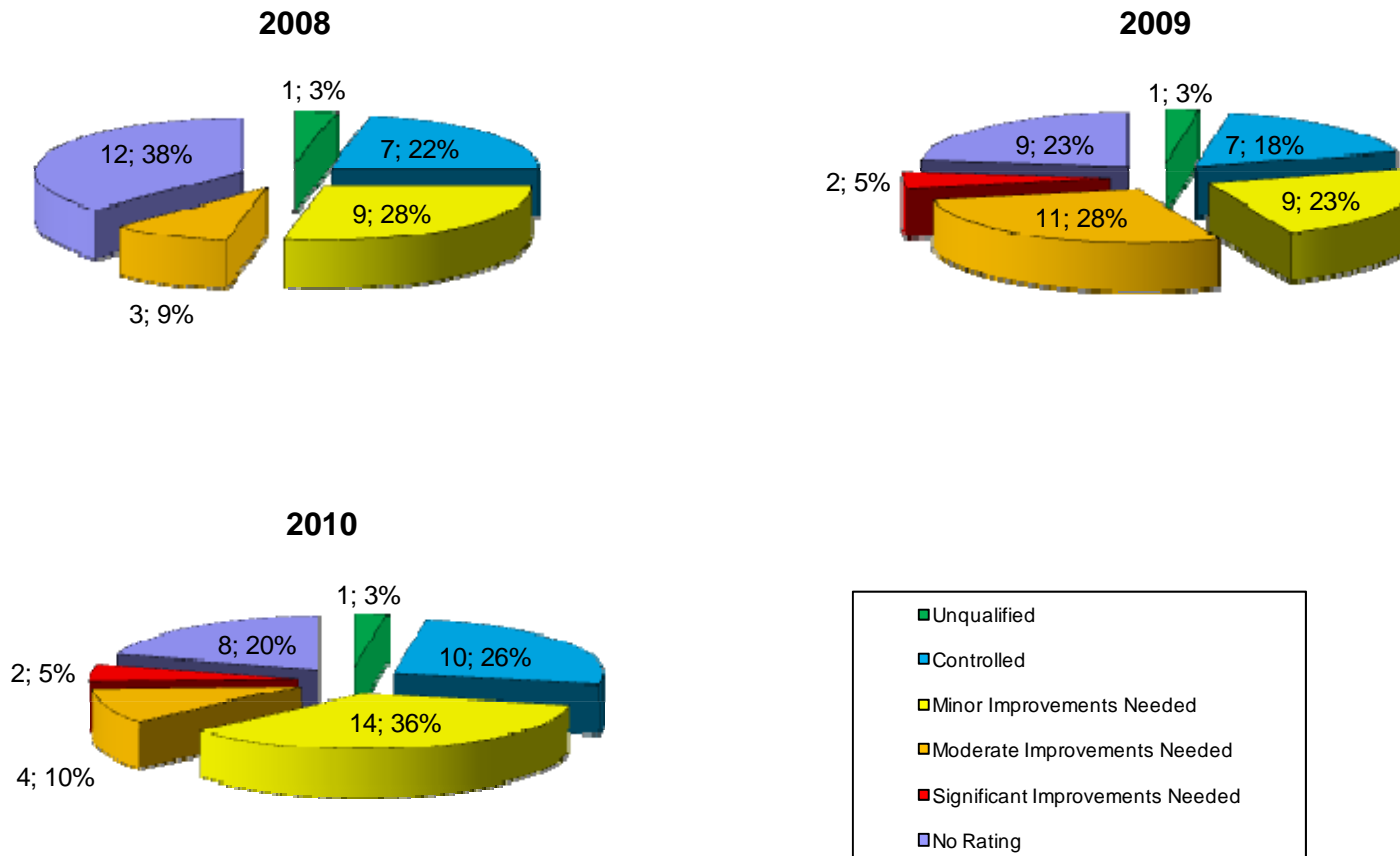


All audit points expected to be complete by 7/31/11.



11. Summary of Audit Report Ratings for 2008, 2009, & 2010

Cheryl Moseley



11. Committee Brief: ICMP – Audits

Cheryl Moseley

Audits Completed

(last 3 months)

Internal Audits

- Pre-Audit Testing for the 2011 Nodal SAS70 Audit
- Audit of Nodal Protocol Owners (Special Request)
- Q3 2010 Fraud Auditing
- Protocol 1.4 required Audit – Ethics Compliance
- ERCOT-Wide ethics Compliance
- Nodal Program Reporting (Special Request)
- Nodal Program Spending (Part 2 of 3)
- Outage Coordination
- Software License Mgmt Process (Special Request)
- Nodal Program Spending (Part 3 of 3)

External Audits

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

Audits in Progress

Internal Audits

- FY 2010 Fraud Auditing Program
- Evaluation of Criteria for Nodal Success
- Nodal Fixed Assets
- Governmental Grants and Contract Compliance
- Nodal Protocol 3.10(5) Required Audit – Consistent Information in Operations Models
- Nodal Protocol 17.3 Required Audit – ERCOT Market Monitoring Data Handling
- Protocol 1.4 Required Audit – Confidentiality Compliance

External Audits

- 2010 Financial Audit (Ernst & Young, LLP)
- 2011 Type 1 SAS70 Audit (SAS70 Solutions, Inc. (now BrightLine CPAs & Associates, Inc.))

Planned Audits

(next 3 months)

Internal Audits

- Standard for Black Start & EILS Agreements
- Employee Compensation and Benefit Plan practices – HR
- ADP (Payroll & Benefits)
- Vendor Software Development & Performance Management
- ERCOT Software/System Development Lifecycle
- Allegis Resource Management
- Protocol 1.4 Required Audit – Independence Verification

External Audits

- 2011 Type 2 SSAE 16 (SAS 70) Audit (BrightLine CPAs & Associates, Inc.)



11. Committee Brief: ICMP – Security Assessments Cheryl Moseley

Consultation/Analysis Reports Completed

(last 3 months)

Assessments

- None

Open Consultation/ Analysis Reviews

(in progress)

Assessments

- None

Planned Consultation/ Analysis Reviews

(next 3 months)

Assessments

- 1 Assessment planned

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of January 1, 2011)**

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. We continue to work on nodal stabilization. There are no major organization changes and we are currently looking at the 2011 KPI's and Goals for the organization.	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. 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.	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. 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. ERCOT addressing reputation issues by 1) refocusing communication efforts, 2) the successful launch of Nodal on Dec 1 as planned, 3) Board approval of the 2011 budget, and 4) increasing accountability.	Workforce ↓ Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals. Performance Management is our key focus with completion of year-end performance evaluations for all Ercot employees. New 2011 training initiatives are ready to be launched using Skillssoft. Areas of focus include performance management for managers, technical skills for IT, engineering ethics training for professional engineers.	Counterparty Credit Maintain credit risk exposure for overall market within acceptable limits. Color remains yellow pending the review of risk factors in the Nodal market requested by F&A. CMM successfully launched.	Bulk System Resources ↑ Market Participants construct and make available adequate bulk electric grid resources. The December Update of the Capacity, Demand and Reserve report forecasts reserve margins during two years in the study period (2013 and 2016) falling below the 13.75% target reserve margin adopted by the Board in November.	Communication Internal & external communications are timely and effective.	Industry Standards Business and operational activities in compliance with all applicable regulatory, financial & accounting requirements, standards, & 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. There are still uncertainties involved regarding operational impacts of existing and continually increasing amount of intermittent renewable generation on the system. ERCOT is creating a Resource Integration department devoted to analyzing and proposing solutions to any issues defined.	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.

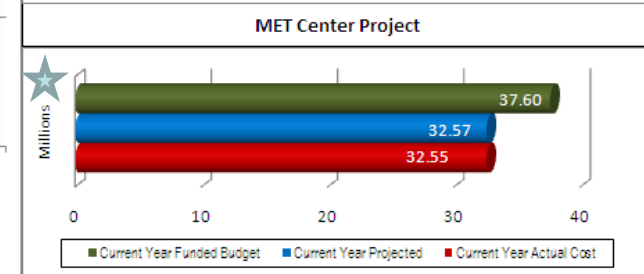
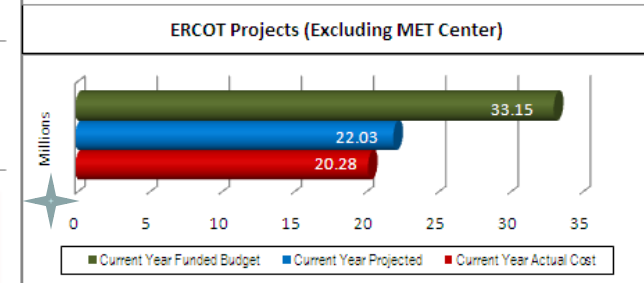
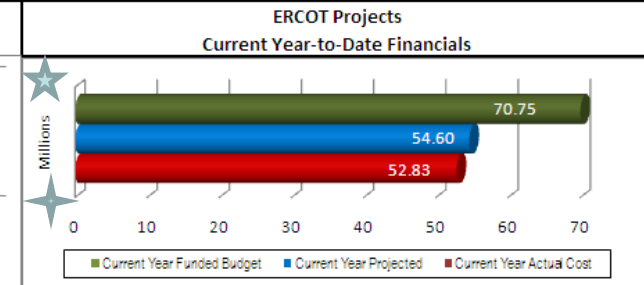
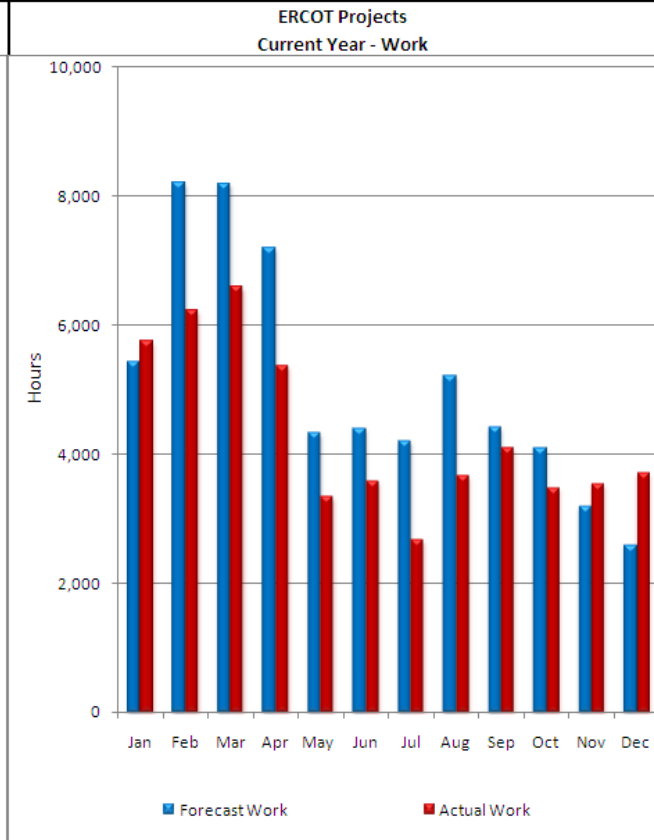
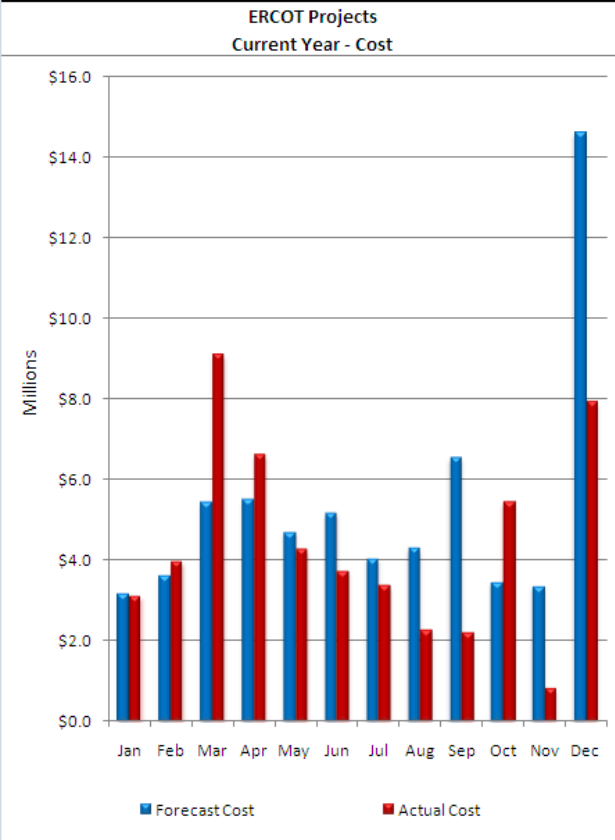
Legend: Elevated Risk Level Reduced Risk Level

(New Risk Categories / Descriptions Indicated in Green)

11. Committee Briefs: Business Integration

ERCOT Enterprise Projects Summary Report

ERCOT		Overall Projects Report					Reporting Period:		12/31/2010		
		Projects in ERCOT's Portfolio						Portfolio Performance			
Deferred	Concept	On Hold	Initiation	Planning	Execution	Closing	Schedule		Budget		
0	0	1	0	7	8	2	Green		Green		
			Closed	Total Active		17					
			Cancelled	Projects Not Started		0					
						Current Year Funded Budget:	\$70,750,000				



★ Includes \$18.3M authorization to accelerate purchasing from 2010 to 2011 for Data Center Hardware.

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



12. Future Agenda Items: 2011

Mike Petterson

- **Please see previous slide – Item #8: Review F&A 2011 yearly schedule**

13. Other Business

Mike Petterson
