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**RISK MANAGEMENT EVENT PROFILE MATRIX (as of March 1, 2011)**

Strategic	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Legal and Regulatory Compliance
 <b>Strategy Development</b> Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.	 <b>Performance Monitoring</b> Clearly defined and actively monitored performance metrics linked to mission and goals - Performance status communicated and corrective action taken.	 <b>Market Operations</b> Effectively manage the evolution of the wholesale and retail markets to meet the changing business environment.	 <b>Grid Operations</b> Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.	 <b>Review Practices</b> Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.	 <b>Legal &amp; Legislative</b>  Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.
					Regulatory uncertainty over possible future oversight roles of CFTC / FERC on ERCOT if CRRs classified as "swaps" under Dodd-Frank legislation and potential impacts on credit policies and processes.
 <b>Mission and Goals</b>  Corporate objectives and performance standards are understood and followed.	 <b>Business Practices</b> Business planning, processes and management standards are effective and efficient.	 <b>Nodal Systems Stabilization</b>  Manage the deployment and stabilization of the nodal market systems	 <b>Planning</b> Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.	 <b>Disclosure</b> Reporting and other disclosures to intended parties is timely, accurate and effective.	 <b>Internal Control Compliance</b> Internal Control Compliance processes and management standards are effective, efficient, and provide stakeholders with required assurances of quality.
Strategic Plan has been approved since July of 2010 . Proposed 2011 KPIs under review by HR&G Committee.		ERCOT working with stakeholders to address risk of exceeding 200,000 bid limit in balance of year CRR auction and will introduce an NPRR to address additional issues caused by the dead resource node pricing logic.	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.		A limited SAS 70 Audit was completed in January (Type I). No control issues were identified. The full suite of nodal processes are scheduled to undergo a full Type II audit later this year.
 <b>Reputation</b>  Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.	 <b>Workforce</b>  Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.	 <b>Counterparty Credit</b> Maintain credit risk exposure for overall market within acceptable limits.	 <b>Bulk System Resources</b> Market Participants construct and make available adequate bulk electric grid resources.	 <b>Communication</b>  Internal & external communications are timely and effective.	 <b>Industry Standards</b> Business and operational activities in compliance with all applicable regulatory, financial & accounting requirements, standards, & directives.
Reassessed reputation risk as a result of February cold weather event.	Employee retention risk likely to increase as economy continues to improve.	Color remains yellow pending the review of risk factors in the Nodal market requested by F&A. CMM successfully launched. Market participant credit quality continues to be monitored on an ongoing basis.	The December update of the CDR report forecasts reserve margins in 2013 and 2016 falling below the 13.75% target reserve margin. ERCOT is evaluating the potential impact of EPA regulations and nodal pricing on future reserve margins.	February cold weather event revealed need for ERCOT to reassess its communication procedures for issuing Energy Emergency Alert (EEA) notifications.	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
 <b>Fiscal Management</b> ISO design requires competent, prudent and cost effective provision of services.	 <b>Technology Infrastructure</b> Information systems, supporting facilities and data are effectively managed and are reliable.	 <b>Administration, Settlement &amp; Billing</b> Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.	 <b>Operational Responsibility</b>  Market participant conduct their operations in a manner which facilitates consistent grid reliability.	 <b>Adequacy and Integrity</b> Robust processes exist to support management assertions embodied within financial reports.	 <b>Regulatory Filings</b> Evidence, testimony and other supporting materials are compelling and successful.
			Operational impacts of increasing amounts of intermittent renewable generation on the system is uncertain. ERCOT has established a Resource Integration department devoted to analyzing and proposing solutions to defined issues. Questions have arisen regarding adequacy of power plant winterization plans. We are reassessing interdependence between gas and electric markets. Plans to address these issues going forward are being developed.		

Notes:

Changes to Risk Categories / Descriptions shown in **Green**

Elevated risk level indicated by 

Reduced risk level indicated by downward green arrow ()

**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		
<b>Strategy Development</b> <i>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</i>	<b>Performance Monitoring</b> <i>Clearly defined and actively monitored performance metrics linked to mission and goals- Performance status communicated and corrective action taken.</i>	<b>Market Operations</b> <i>Effectively manage the evolution of the wholesale and retail markets to meet a changing business environment.</i>	<b>Grid Operations</b> <i>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.</i>	<b>Review Practices</b> <i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</i>	<b>Legal &amp; Legislative</b> <i>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</i>
Calibrated to Business Climate Risk-Based Resource Allocation  Execution Risk Identified & Managed On-Going Event Monitoring Adaptive to Change	Capital Project Program Management Effective Use of Dashboards  Metrics Linked to Mission and Goals Effective Status Reporting Clear Standards and Expectations  Quantifiable Key Performance Indicators	Pricing model transparency Enhanced price validation tools  Accommodate advanced metering technology Market design flaws Load/energy storage participation in A/S markets  Monitor market incentives to ensure resource mix meets load needs	Operator Readiness Communications with MP  Data Availability & Accuracy Robust Models and Tools are Utilized Operating Assumptions & Judgment  Scheduling Process (Congestion Mgt)  Adherence to Standards & Rules	Hierarchy of Internal Reviews Auditor Review  Board of Directors Review Notification and Escalation of Emerging Items Management Signoff	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
<b>Mission and Goals</b> <i>Corporate objectives and performance standards are understood and followed.</i>	<b>Business Practices</b> <i>Business planning, processes and management standards are effective and efficient.</i>	<b>Nodal Systems Stabilization</b> <i>Manage the deployment and stabilization of the nodal market systems</i>	<b>Planning</b> <i>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</i>	<b>Disclosure</b> <i>Reporting and other disclosures to intended parties is timely, accurate and effective.</i>	<b>Internal Control Compliance</b> <i>Internal Control Compliance, processes and management standards are effective and efficient.</i>
Clear Governance and Oversight  Comprehensive Policies/Procedures Clarity of Fiduciary Responsibility Stakeholder Management Practices  Clear Mission and Synchronized Cross Divisional Prioritization Ethical Practices Portfolio View of Risks (ERM)	Internal Controls are Effectively Designed & Implemented Business Practices are Cost Effective Responsive to Change Execution Consistency  Documentation and Record Keeping Business Continuity & Disaster Recovery Physical Security Standards  Safety Practices Adequate Physical Facilities (non-IT) SAS 70 Audits	Nodal market model validation  Implement deferred nodal defects  Plan, prioritize and implement nodal "Parking Deck" features  Additional reporting features to support new nodal systems  Plan and implement other prioritized enhancements and reliability/market initiatives	Stakeholder Support  Planning Assumptions and Processes Data Availability & Accuracy Sufficiency of Models, Forecast and Tools  Adherence to Standards & Rules	Prepared in Accordance with Relevant Standards  Effective Management Reporting Reports are Transparent and Useful	Internal Control Management  Internal Audit Analysis and Findings External Audit Reviews
<b>Reputation</b> <i>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</i>	<b>Workforce</b> <i>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</i>	<b>Counterparty Credit</b> <i>Maintain credit risk exposure for overall market within acceptable limits.</i>	<b>Bulk System Resources</b> <i>Market Participants construct and make available adequate bulk electric grid resources.</i>	<b>Communication</b> <i>Internal and external communications are timely and effective.</i>	<b>Industry Standards</b> <i>Business practices provide stakeholders with required assurances of quality.</i>
Publicity Management Political Position  High Public Confidence and Trust Management/Employee Credibility Employee Values and Corporate Culture Good Neighbor Practices	Priorities Linked to Mission/Objectives Compensation Programs Aligned w/ Objectives and Priorities Employee Training and Development Workforce Planning Adequacy and Competency of Staff Organizational Structure Performance Management	MP Credit Worthiness Standards Measurement of exposure  QSE Certification/De-certification Process Risk to Market from Sustained/Large Uplifts Proactive identification of risk factors	Generation Resource Adequacy & Availability Transmission Adequacy & Availability  Reactive Resource Adequacy & Availability Timeliness of Additions / Modifications Fuel Diversity and Availability	Methods are Appropriate for Audience Message Achieves Desired Purpose  Effective Delivery Mechanisms Timeliness and Accuracy Message Consistency over time and audiences Responsiveness to Data Request Employee Opinions and Feedback Open Meetings	NERC Reliability Standards ERCOT Operating Guidelines & Protocols
<b>Fiscal Management</b> <i>ISO design requires competent, prudent and cost effective provision of services.</i>	<b>Technology Infrastructure</b> <i>Information systems, supporting facilities and data are effectively managed and are reliable.</i>	<b>Admin, Settlement &amp; Billing</b> <i>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</i>	<b>Operational Responsibility</b> <i>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</i>	<b>Adequacy and Integrity</b> <i>Robust processes exist to support management assertions embodied within financial reports.</i>	<b>Regulatory Filings</b> <i>Evidence, testimony and other supporting materials are compelling and successful.</i>
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	Accessibility of Systems Systems Development/Testing Practices Systems 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)	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	Preparation for Weather Events Prudent Maintenance Practices Sufficient Operating Resources Standard Compliance Norms	Completeness Verification methods Valuation and Estimation methods Costs & revenues booked in proper period	Advocacy Effectiveness Responsive to Requests Compliance w/ Current Rules Relationship w/ Commission Positions are Supported by Facts

### 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