



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 206
April 18, 2011; 12:00pm – 2:00pm*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
		Call Open Session to order and announce proxies	C. Karnei	12:00pm
1.	Vote	Approve general session minutes (3/21/11)	C. Karnei	
2.	Vote	Periodic meeting with independent auditor - Discuss audited financial statements - Review and recommendation of Board acceptance of the audited financial statements (Vote)	Ernst & Young	
3.	Vote	Committee approval of non-audit services by independent auditor (Vote)	R. Beckham	
4.	Discussion	Recommend revision of ERCOT security screening study fee	D. Woodfin	
5.	Discussion	Discussion of Commodity Exchange Act	M. Morais / M. Ruane	
6.	Discussion	Credit update	C. Yager	
7.	Discussion	Review Committee briefs	M. Petterson	
8.	Discussion	Future agenda items	M. Petterson	
9.		Other business	M. Petterson	
		Convene to Executive Session	C. Karnei	
10.	Vote	Approve executive session minutes (3/21/11)	C. Karnei	
11.	Discussion	Annual audit and significant issues – discussion with auditors	Ernst & Young	
12.	Discussion	a. Internal Audit status report	B. Wullenjohn	
	Discussion	b. Quarterly update on EthicsPoint historical metrics and trends	B. Wullenjohn	
	Discussion	c. EthicsPoint update	B. Wullenjohn	
	Discussion	d. Quarterly private discussion with Chief Audit Executive	B. Wullenjohn	
13.	Discussion	Contract, personnel, security, compliance and risk management matters	C. Karnei	
		Reconvene to Open Session		
		Adjourn meeting	C. Karnei	2:00pm

** 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, May 16, 2011, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 206.*

1. Approval of General Session Minutes

Clifton Karnei

Approval of General Session Minutes

- Vote 3/21/11



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

Electric Reliability Council of Texas Inc.
7620 Metro Center Drive (Room 206) - Austin, Texas 78744
March 21, 2011

Pursuant to notice duly given and after determination by the Committee Chairman that a quorum was present, the meeting of the Finance and Audit (F&A) Committee of the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) convened on the above-referenced date. After meeting earlier in Executive Session, the Committee then met in General Session.

General Session Attendance

Committee Members:

Bivens, Danny	Office of Public Utility Counsel (OPUC)	Designated Alternate Representative for Sheri Givens - Consumer/Residential
Bermudez, Jorge (Vice Chair)	Unaffiliated Director	Unaffiliated Director
Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility
Dreyfus, Mark	Austin Energy	Municipal
Espinosa, Miguel	Unaffiliated Director	Unaffiliated Director
Fehrenbach, Nick	City of Dallas	Commercial Consumer
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative
Zlotnik, Marcie	StarTex Power	Independent Retail Electric Provider

Other Board Members and Segment Alternates:

Brown, Jeff	Shell Energy North America	Segment Alternate – Independent Power Marketer
Doggett, Trip	ERCOT	President and Chief Executive Officer (CEO)
Doll, Laura	Unaffiliated Director	Unaffiliated Director, Board Chairman
Gent, Michehl	Unaffiliated Director	Unaffiliated Director, Board Vice Chairman
Gresham, Kevin	E.ON Climate & Renewable NA LLC	Segment Alternate – Independent Generator



Helton, Bob	IPR-GDF SUEZ North America	Independent Generator
Hendrick, Eric	Stream Energy	Segment Alternate - Independent Retail Electric Provider
Ryall, Jean	Constellation Energy	Independent Power Marketer
Smitherman, Barry T.	Public Utility Commission of Texas (PUCT)	Chairman

ERCOT Staff and Guests:

Anderson, Ken	Public Utility Commission of Texas - Commissioner
Anderson, Troy	ERCOT Manager of Enterprise Project Portfolio
Beckham, Rebecca	ERCOT Manager of Financial Reporting
Cobos, Lori	ERCOT Associate Corporate Counsel
Cleary, Mike	ERCOT Senior Vice President and Chief Operations Officer
Day, Betty	ERCOT Director of Commercial Market Operations
Jones, Brad	Luminant, Technical Advisory Committee (TAC) Chair
Leadly, Vickie	ERCOT Assistant General Counsel and Assistant Corporate Secretary
Magness, Bill	ERCOT Vice President, General Counsel and Corporate Secretary
Manning, Chuck	ERCOT Vice President and Chief Compliance Officer
Moseley, Cheryl	ERCOT Manager of Internal Control Management Program (ICMP)
Nelson, Donna	Public Utility Commission of Texas – Commissioner (starting on Agenda Item 11)
Pettersen, Mike	ERCOT Vice President of Finance and Treasury
Ruane, Mark	ERCOT Vice President of Credit and Enterprise Risk Management
Saathoff, Kent	ERCOT Vice President of Grid Operations and System Planning
Swanson, Leslie	ERCOT Treasury Manager (contractor)
Wullenjohn, Bill	ERCOT Director of Internal Audit
Yager, Cheryl	ERCOT Treasurer

Chairman Karnei convened the General Session of the F&A Committee meeting at approximately 1:05 p.m. and addressed the following Agenda Items in the order below.

Barry T. Smitherman, Chairman of the Public Utility Commission of Texas (PUCT, Commission), called an Open Meeting of the Commission to order to consider matters which had been duly posted with the Texas Secretary of State for March 21, 2011.

Approval of General Session Minutes – February 14, 2011 (Agenda Item 4)

Chairman Karnei entertained a motion to approve the February 14, 2011 F&A Committee General Session Meeting Minutes (Minutes).

Miguel Espinosa moved to approve the Minutes as presented. Calvin Crowder seconded the motion. The motion passed by unanimous voice vote with no abstentions.



Committee Approval of Internal Audit Department Charter (Agenda Item 5)

Chairman Karnei noted that the Committee members inadvertently voted on the 2011 Internal Audit Department Charter in Executive Session and entertained a motion to re-approve the Charter in General Session.

Jorge Bermudez moved to approve the 2011 Internal Audit Department Charter as presented. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Review and Recommend Board Approval of the F&A Committee Charter (Agenda Item 6)

Chairman Karnei directed the Committee members to the proposed F&A Committee Charter for 2011 in the meeting materials and entertained a motion to recommend Board approval of the F&A Committee Charter as presented.

Nick Fehrenbach moved to recommend Board approval of the 2011 F&A Committee Charter as presented. Mr. Crowder seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Review and Recommend Board Acceptance of the SAS 70, Type 1 Audit Report (Agenda Item 7)

Cheryl Moseley provided background information on the SAS 70, Type 1 Audit Report to the Committee members, noting that it was a qualified opinion due to the limitation of the scope of the audit and that the audit findings concluded that the current controls and design were adequate.

Mr. Espinosa moved to recommend Board acceptance of the SAS 70, Type 1 Audit Report as presented. Mr. Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Annual Review and Recommendation of Board Approval of Investment Corporate Standard and Financial Corporate Standard (Agenda Items 8a and 8b)

Investment Corporate Standard (Agenda Item 8a)

Leslie Swanson presented the Investment Corporate Standard for Committee review, noting that the standard included minor clean-up changes and two substantive changes. First, ERCOT proposed removing the list of individual securities held at the end of the reporting period by money market funds as a required report since there is now a quarterly concentration report and the list of securities is voluminous. Second, ERCOT proposed reducing the cap on the amount that may be held in any one investment fund, which had been temporarily increased to \$100 million for Nodal start up, back to \$50 million.



Due to Committee member concerns about the investment amount held by a particular organization and risks involved with investing in Treasury and Treasury-backed securities, Chairman Karnei asked Bill Magness to review the recent history of bankruptcy cases (*e.g.*, Lehman) to determine the sequence of events related to the failure of the investment funds and provide a legal opinion on the risk of investing in Treasury and Treasury-backed securities in the event of a default of a money market fund or the sponsoring organization at the April 2011 F&A Committee meeting. PUCT Commissioner Ken Anderson encouraged the F&A Committee and Board to conduct periodic spot checks of ERCOT's concentration of investments and the investment fund holdings to address the concerns raised by the Committee members.

Chairman Karnei deferred the Committee's recommendation to the Board on the Investment Corporate Standard until the April 2011 F&A Committee Meeting to allow further review of the proposed changes and delivery of the requested action items.

Financial Corporate Standard (Agenda Item 8b)

Leslie Swanson presented the Financial Corporate Standard for Committee review, noting that the standard consisted of minor clean-up changes. No comments or questions were voiced by the Committee members.

Mr. Bermudez moved to recommend Board approval of the Financial Corporate Standard as presented. Mr. Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Annual Review and Recommendation of Board Approval of Market Credit Risk Corporate Standard (Agenda Item 9)

Cheryl Yager presented the Market Credit Risk Corporate Standard for Committee review, noting that the standard was initially passed in 2009 and updated in 2010 and that the standard primarily consisted of minor clean-up changes to account for the Nodal market implementation.

Mr. Fehrenbach moved to recommend Board approval of the Market Credit Risk Corporate Standard as presented. Mr. Crowder seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Committee Approval of the Credit Work Group Charter (Agenda Item 10)

Cheryl Yager presented the Credit Work Group (CWG) Charter for Committee approval, noting that the Charter consisted of minor clean-up changes to take into account the Nodal market implementation.

Marcie Zlotnik moved to approve the CWG Charter as presented. Mr. Bermudez seconded the motion. The motion passed by unanimous voice vote with no abstentions.



Discuss Credit Management Practices and Judgments (Agenda Items 11a and 11b)

Specifically relating to the Events of 2/02/2011 (Agenda Item 11a)

Cheryl Yager and Mark Ruane discussed the credit management practices and judgments that ERCOT utilized during the February 2, 2011 Events and addressed Committee member concerns about the transparency, discretion, and potential legal precedent associated with the credit calculation adjustments.

PUCT Chairman Smitherman emphasized the importance of sending the right signal to the retail electric provider (REP) community about the use of credit calculation adjustments during a crisis. PUCT Commissioner Anderson clarified that the pricing anomalies resulted from a massive generation failure, not as a result of a weather event, and stressed the importance of hedging fixed rate contracts.

Ms. Zlotnik requested an offline discussion with Ms. Yager to gain more insight into ERCOT's normal course of business use of credit calculation adjustments. Ms. Yager also agreed to consult with ERCOT Legal to determine what non-confidential information about the drawn-on collateral during the February 2, 2011 Events could be provided to the Board members to confirm that the process worked properly.

Mr. Bermudez requested that Mr. Doggett provide more detailed examples of when ERCOT may use its sole discretion (*i.e.*, judgment) to make credit calculation adjustments at the April 2011 F&A Committee Meeting.

Chairman Karnei noted that the F&A Committee had been charged by the Board with evaluating how ERCOT's credit calculation adjustments worked during the February 2, 2011 Events. He stated that he would report that the credit calculation adjustments worked as intended at the Board meeting the following day on March 22, 2011.

Generally (Agenda Item 11b)

Ms. Yager and Mr. Ruane discussed ERCOT's general credit management practices and judgments and provided the Committee members with a few examples of when ERCOT makes credit calculation adjustments.

Periodic Review of Liquidity Report (Agenda Item 12)

Ms. Yager provided the Committee members with a summary of the Liquidity Report.

Mr. Crowder asked Ms. Yager to research the demand for debt more globally to determine whether ERCOT should consider entering into a new revolver earlier and whether there are any changing views in the demand for debt over the next eighteen months that ERCOT should be taking into account.



Review Committee Briefs (Agenda Item 13)

Mike Petterson noted that Board Agenda Item 9F for the Board meeting the following day on March 22, 2011 would address the 2010 IRS Form 990 and questionnaire and set forth deadlines for completion of the questionnaire and form. Mr. Fehrenbach asked Mr. Petterson to provide the Board members, Segment Alternates, and appropriate ERCOT Staff with an electronic Word version of the 2010 IRS Form 990 questionnaire.

Rebecca Beckham provided an overview of recent accounting developments and key risk identified in the financial statement audit by Ernst & Young and answered Committee member questions.

In response to Mr. Crowder's inquiry about the potential impact of the Environmental Protection Agency's (EPA) regulations and Nodal pricing on future reserve margins, Trip Doggett offered to provide a global assessment of the issues to the Committee in the coming months.

Future Agenda Items (Agenda Item 14)

Mr. Petterson noted that Ernst & Young would be providing a recap of the financial statement audit to the Committee members at the April 2011 F&A Committee meeting and that the Investment Corporate Standard, along with the associated action items, would be brought back for Committee consideration at the April 2011 F&A Committee meeting. Chairman Karnei requested that Mr. Petterson add a report to address the detailed examples of when ERCOT can use its sole discretion to adjust collateral to a future F&A Committee meeting.

Other Business (Agenda Item 15)

There was no other business considered at this time.

Adjournment

Chairman Karnei adjourned the meeting at approximately 2:49 p.m.

Committee materials and presentations from the meeting are available on ERCOT's website at: http://www.ercot.com/committees/board/finance_audit/

Lori Cobos
Associate Corporate Counsel

2. Periodic Meeting with Independent Auditor Ernst & Young

Discuss audited financial statements

2. Review and Recommendation of Board Acceptance of the Audited Financial Statements – Ernst & Young (Vote)

- **Section 10.6 of the ERCOT Bylaws provides that “[a]t least annually, an audit of the financial statements of ERCOT shall be performed by the Auditor approved by the Board.”**
- **Section 1.4.2 of the ERCOT Protocols provides that “for audits to be performed by an Appointed Firm, the F&A Committee shall make recommendations to the ERCOT Board in relation to the approval, initiation, and scheduling of such audits.”**
- **Included in the F&A Committee Charter, “the Committee shall provide a recommendation to the Board whether the Company’s financial statements audit report should be accepted.”**
- **Along with the preliminary audited financial statements and associated footnotes, a decision template on the acceptance of the 2010 Audited Financial Statements is included in the Board packet and will be voted on in the April 19, 2011 meeting.**

3. Committee Approval of Non-Audit Services by Independent Auditor – Rebecca Beckham (Vote)

<Vote>

Memo attached as separate document



Date: April 11, 2011
To: Finance and Audit Committee
From: Rebecca Beckham, Manager, Financial Reporting
Subject: Pre-approval of engagement of external auditor for other services

Issue for the ERCOT Finance and Audit Committee

ERCOT Finance and Audit Committee Meeting Date: April 18, 2011

Agenda Item No.: 3

Issue:

As required by the charter of the Finance and Audit Committee, ERCOT seeks pre-approval from Committee members to engage Ernst & Young, ERCOT's independent auditor, to provide up to \$10,000 of advisory services relating to the preparation of ERCOT's 2010 IRS Form 990.

Background/History:

In early 2006, the Finance and Audit Committee amended its charter to include language consistent with the requirements established in Section 202 of Sarbanes-Oxley, which calls for preapproval from the Finance and Audit Committee for engagement of external auditors for "other services".

It was agreed at the time of the charter amendment that generally ERCOT staff should make the request for "preapproval" using the standard decision template (with other essential supporting documentation) used for Board and Board Committee meetings.

In 2009, the ERCOT Board of Directors selected Ernst & Young as ERCOT's external auditor and concurrently selected Ernst & Young to perform review services relating to ERCOT's annual informational tax return – the IRS Form 990. This decision was reaffirmed for 2010 services on November 16, 2010.

The engagement letter relating to Ernst & Young's review of ERCOT's 2010 IRS Form 990 is specifically limited to the review of the tax forms prepared by ERCOT staff and does not accommodate tax advisory services during the preparation of the tax forms.

In 2008, the IRS adopted numerous changes to the Form 990 that significantly increased the complexity of preparing the tax form. To ensure new reporting requirements were properly and fully incorporated into its 2008 and 2009 IRS Form 990, ERCOT incurred advisory legal service fees of \$20,000 and \$8,200, respectively.

In connection with the preparation of its 2010 IRS Form 990, ERCOT believes it may need specialized tax advisory services and seeks pre-approval from the Finance and Audit Committee to engage Ernst & Young to provide up to \$10,000 of advisory services where necessary and



appropriate. The advisory services would be discretely identified and approved by ERCOT management before being provided by Ernst & Young personnel. The advisory services would be billed at 75 percent of the hourly rates included in the bid submitted by Ernst & Young in response to ERCOT's request for proposal for audit services.

Key Factors Influencing Issue:

The key factors influencing the decision are: the complexity of the 2010 IRS Form 990; expectation and necessity of full-compliance with IRS filing requirements; and the expertise of Ernst & Young tax professionals offered on an as needed basis at ERCOT's discretion.

Alternatives:

The F&A Committee has three primary alternatives:

1. Pre-approve management to engage Ernst & Young to provide up to \$10,000 of advisory services relating to preparation of ERCOT's 2010 IRS Form 990;
2. Pre-approve management to engage Ernst & Young to provide advisory services relating to preparation of ERCOT's 2010 IRS Form 990 up to another financial threshold acceptable to the Committee; or
3. Disapprove management to engage Ernst & Young to provide advisory services relating to preparation of ERCOT's 2010 IRS Form 990.

Recommendation:

Management recommends the Finance and Audit Committee pre-approve engagement of Ernst & Young to provide up to \$10,000 of advisory services relating to preparation of ERCOT's 2010 IRS Form 990.

4. Recommend Revision of ERCOT Security Screening Study Fee: Background – Dan Woodfin

- **ERCOT is required to perform a screening study for new Generation Resources requesting connection to the ERCOT transmission system per PUCT Substantive Rules Section 25.198 (c)**
- **ERCOT charges a fee for performing this study**
- **The current fee, in place since 2004, ranges from \$1,000 to \$5,000 depending upon the MW capacity of the generation project**
- **The table to the right shows the number of screening studies performed each year since 2004:**
- **The number of requests is expected to increase from the 2010 volume due to completion of CREZ lines and tightening reserve margins**

Year	Number of Requests
2004	19
2005	44
2006	99
2007	106
2008	94
2009	81
2010	55
2011 (thru 3/31)	22
Expected On-Going	75-100

4. Recommend Revision of ERCOT Security Screening Study Fee: Proposed Fee Structure – Dan Woodfin

- Under PUCT's new rule on ERCOT oversight, ERCOT Board can approve User Fees, such as the Screening Study fee
- The proposed fee schedule is:

Project Size	Fee
< 150 MW	\$10,000
>= 150 MW	\$13,000

- **New fee schedule would be more inline with costs**
 - Includes increased study burden (ie. data requirements review, SSR/ SSI assessment)
- **New fee is more consistent with fees charged by other ISOs and consultants for similar work**
- **\$15/MW Full Interconnection Study fee, payable at time of full interconnection study request, would remain the same**

4. Recommend Revision of ERCOT Security Screening Study Fee: Cost Estimate – Dan Woodfin

- The following table shows a cost estimate for performing screening studies that is the basis for the fee:

Per Study	Hours		Costs	
Project Size	>= 150 MW	< 150 MW	>= 150 MW	< 150 MW
Labor Total (Engr \$45/hr + Benefits)	120	96	\$7700	\$6200
Oversight and Review			\$2800	\$2200
Facilities			\$850	\$650
IT Support			\$400	\$300
Administrative Support			\$350	\$300
Travel			\$500	\$500
Total			\$12,600	\$10,150

5. Discussion of Commodity Exchange Act: Overview

Matt Morais / Mark Ruane

- **CFTC 4(c) exemption**
- **Differences between FERC Credit Rule and ERCOT rules**
- **Next steps**

5. Discussion of Commodity Exchange Act: CFTC 4(c) Exemption

Matt Morais / Mark Ruane

ERCOT along with other ISO/RTOs began a conversation with CFTC last year to discuss applying for an exemption from CFTC jurisdictional oversight of ISO/RTO markets

- Currently responding to questions from CFTC
- Potential requirements of ISO/RTOs for obtaining CFTC exemption
 - FERC Credit Rule – The CFTC preliminarily seems to view favorably the requirements of the FERC Credit Rule
- Dodd Frank becomes effective incrementally in the second half 2011; CFTC exemption must be obtained within a comparable timeframe
- CFTC exemption may be contingent on ERCOT making changes to existing Protocols, systems, etc. in a timely manner

5. Discussion of Commodity Exchange Act: Differences Between FERC Credit Rule and ERCOT Rules

Shortening Settlement Cycle

FERC Rule

- 14 Days;
- Billing periods of no more than seven days and settlement periods of no more than seven days after issuance of bills.

ERCOT Rule

- Day Ahead Market settlement cycle is consistent with FERC Credit Rule (with possible exception of certain holiday periods);
- Real Time settlement cycle 21-31 days, including payment cycle (NPRR in process);
- Other billings (monthly)?

Potential Changes Required to be Consistent with FERC Rule

- Reduce settlement cycle to 14 days, billing periods of no more than seven days and settlement periods of no more than seven days after issuance of bills
 - Change to ERCOT Protocols
 - System change

5. Discussion of Commodity Exchange Act: Differences Between FERC Credit Rule and ERCOT Rules

Unsecured Credit

FERC Rule

- Eliminates unsecured credit for FTR markets;
- \$50 million limit per participant, including corporate family if relevant.

ERCOT Rule

- \$100 million limit per participant across all markets, including CRRs
- Currently enforced at \$75 million

Potential Rule Changes Required to be Consistent with FERC Rule

- Impose \$50 million limit per participant and corporate family, as relevant;
 - Change to ERCOT Creditworthiness Standard
- Eliminate unsecured credit for CRRs
 - Change to ERCOT Protocols
 - System change

5. Discussion of Commodity Exchange Act: Differences Between FERC Credit Rule and ERCOT Rules

Eligibility Requirements

FERC Rule

- Requires minimum market participation eligibility requirements;
- No specific mandates – Examples include adequate capitalization, ability to respond to ISO/RTO direction and risk management expertise.

ERCOT Rule

- ERCOT has market participant eligibility requirements BUT they do not include capitalization or risk management capability requirements;

Potential Rule Changes Required to be Consistent with FERC Rule

- Develop Market Participation Requirements with Market Participants;
 - Change to ERCOT Protocols

5. Discussion of Commodity Exchange Act: Differences Between FERC Credit Rule and ERCOT Rules

Netting / Setoff

General

- Netting is discussed by FERC at several levels
 1. Netting FTR with non-FTR activity
 2. Netting between non-FTR markets (e.g. DAM with RT)
 3. Netting within markets (e.g. plus and minus within DAM)
- The goal of the FERC Credit Rule is to obtain positive assurance of an ISO's standing in a bankruptcy to ensure the right of set off

5. Discussion of Commodity Exchange Act: Differences Between FERC Credit Rule and ERCOT Rules

Netting / Setoff

FERC Rule

- Netting of FTR and non-FTR activity not allowed (even if ISO is a Central Counter-Party). (level 1)
- To allow netting across or within non-FTR markets, RTO/ISO must (level 2 and 3):
 - 1) Become counterparty;
 - 2) Obtain security interest; or
 - 3) Establish equivalent means of protecting interest in default/bankruptcy situations.
- If one of 1-3 is not implemented, credit/collateral requirements based on gross obligations.

5. Discussion of Commodity Exchange Act: Differences Between FERC Credit Rule and ERCOT Rules

Netting / Setoff

ERCOT Rule

- Netting is allowed within and between non-FTR markets (e.g. DAM, RT and for expired CRRs). (level 2 and 3)
- Netting is allowed within the forward mark-to-market values of CRRs. (level 3)
- ERCOT allows netting of forward market to market value of CRR positions with other market activity if a first priority security interest is granted. (level 1)

5. Discussion of Commodity Exchange Act: Differences Between FERC Credit Rule and ERCOT Rules

Netting / Setoff

Potential Rule Changes Required to be Consistent with FERC Rule

- Eliminate ability to net current activity with forward mark to market for CRR positions (level 1)
 - Change ERCOT Protocols
 - No system change
- Potentially eliminate netting of expired CRR activity with other current non-CRR activity;
 - Change ERCOT Protocols
 - System change needed to segregate CRR activity (and possibly QSE – CRR activity from other market activity)

5. Discussion of Commodity Exchange Act: Differences Between FERC Credit Rule and ERCOT Rules

Netting / Setoff

Potential Rule Changes Required to be Consistent with FERC Rule

- Become a central counter-party or develop an alternative option;
 - No specific alternative options presented by FERC. Alternatives may be difficult to define and even if developed would face the extra step of critical review before approval;
- Assuming 1) no viable alternative options and 2) status quo is unacceptable from CFTC perspective THEN central counter-party option is only viable option.
 - Change ERCOT Protocols; system changes; legal and/or organizational changes; by-laws; debt instruments; etc., as needed

5. Discussion of Commodity Exchange Act: Differences Between FERC Credit Rule and ERCOT Rules

“Material Adverse Change”

- FERC rule seeks to reduce ambiguity in use of Material Adverse Change clauses
- ERCOT believes its credit rules are compliant but will confirm with FERC.

Grace Period to “Cure” Collateral Posting

- FERC seeks a two day limit on “curing” collateral calls
- ERCOT believes its credit rules are compliant but will confirm with CFTC.

5. Discussion of Commodity Exchange Act: Next Steps

Matt Morais / Mark Ruane

- ERCOT expects any CFTC 4(c) exemption will be conditioned on meeting CFTC requirements, including being consistent with the FERC Credit Rule;
- ERCOT is in discussions with CFTC to finalize exemption requirements.

Next steps

- ERCOT will work with relevant market committees and working groups to facilitate implementation of changes necessary to meet CFTC requirements for the CFTC 4(c) exemption.
- The F&A Committee has asked that CWG provide input on credit aspects.
- CWG will meet as frequently as necessary over the next weeks to address CFTC requirements.

6. Credit Update: Overview

Cheryl Yager

- **ERCOT and Credit Work Group activities**
- **Use of Judgment related to the February 2nd event – follow up**
 - Market expectations in the future
 - Risk of ERCOT's actions related to the February 2nd event setting a precedent for the future

6. Credit Update: ERCOT and Credit Work Group (CWG) Activities: Cheryl Yager

- **ERCOT filed a draft NPRR to tighten invoicing cycle timelines**
 - Combine Day Ahead and Real Time settlement statements on one daily invoice
 - One invoice per Counter-Party
 - Benefit – reduces timeline for clearing Real Time activity and provides ability to net historical Day Ahead and Real Time activity
 - Will move ERCOT closer toward FERC Credit Rule standards

- **CWG/MCWG met March 30**
 - Received an update on CFTC status
 - Continues to consider ways to reduce credit exposure so that collateral requirements can be correspondingly reduced – considering
 - Reducing mass transition timeline
 - Reducing cure period for payment breach
 - Reducing settlement timelines

6. Credit Update: Use of Judgment Related to the February 2nd Event – Follow Up: Cheryl Yager

Market expectations in the future – related to when ERCOT might again make global changes to calculated collateral requirements

- Global collateralization adjustments similar to those made related to the February 2nd event have been made only three other times in the past ten years
- Market participants should plan their activity using prudent risk management practices under the expectation that ERCOT **will not** make global adjustments
- Any action that ERCOT **may** take to better reflect risk does not relieve market participants from their responsibility to operate responsibly in the ERCOT market

6. Credit Update: Use of Judgment Related to the February 2nd Event – Follow Up: Cheryl Yager

In general, ERCOT plans to use judgment to globally adjust collateralization factors only when calculated collateral requirements do not reasonably reflect existing or anticipated market risk. Situations that may result in an adjustment include, but are not limited to, market conditions that:

- Pose a systemic threat to the integrity or overall liquidity of the market;
- May endanger grid reliability;
- Are expected to be short-term in nature;
- Result from material adverse events or errors;
- Represent ‘tail event’ risk (Note that this implies atypical market conditions and is not equivalent to P95 or P99 risk levels generally used in collateralization rules which assume an underlying normal distribution of activity); or
- Materially change or are expected to change the risk profile of the market without a concurrent change in computed collateral requirements, or vice versa.

6. Credit Update: Use of Judgment Related to the February 2nd Event – Follow Up: Cheryl Yager

Examples of these situations might include:

- Significant gas supply shortage causing widespread loss of generation,
- Extreme weather events (e.g. hurricanes, tornadoes, etc) that may disrupt normal grid operations for significant portions of the grid,
- Extreme or prolonged transmission line disruption, or
- Multiple simultaneous defaults or credit events associated with conditions noted above.

6. Credit Update: Use of Judgment Related to the February 2nd Event – Follow Up: Cheryl Yager

Risk of ERCOT's actions related to the February 2nd event setting a precedent for the future

- As noted above, global collateralization adjustments similar to those made related to the February 2nd event have been made only three other times in the past ten years, so market participants have no reason to infer that a material precedent for revisions has been set
- ERCOT Legal reviewed the Protocol language and believes that it is sufficiently broad to allow ERCOT “sole discretion” to use judgment as needed when collateral does not match the financial risk
- ERCOT's Creditworthiness Requirements are written to explicitly disclaim setting precedent when ERCOT exercises discretion in specific factual circumstances

7. Committee Briefs

ERCOT Market Credit Status

as of 2/28/2011

as of 3/31/2011

Exposure in the ERCOT Market (owed to ERCOT)

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 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

Total

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
14	56,032,032	18%	498,094,390	U
60	135,867,944	44%	851,354,151	S
26	114,574,251	37%	702,694,854	S
100	306,474,226	100%		
12	-	0%	357,072,604	U
81	(468,245)	-100%	128,236,235	S
9	(1,652)	0%	64,727,000	S
102	(469,897)	-100%		

202

# of CPs*	Total Potential Exposure (\$)	% of TPE	Total Unsec Credit Limit / Security Posted	
14	32,486,229	13%	446,507,493	U
64	149,307,898	57%	724,986,586	S
28	78,078,287	30%	723,944,853	S
106	259,872,413	100%		
12	-	0%	410,174,377	U
80	(1,292,078)	-100%	144,424,519	S
5	-	0%	8,152,000	S
97	(1,292,078)	-100%		

203

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.

Summary Benchmark Report as of March 31, 2011

	# 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)
Between High and Low									
w/ No Load and No Generation	78						2,455	107	4,516
w/ Load and/or Generation	65	618,750	674,959				186,520	77,223	342,946
Total	143	618,750	674,959	70%	85%	93%	188,975	77,331	347,462
Above High									
w/ No Load and No Generation	34	-	-				18,057	1,744	4,715
w/ Load and/or Generation	21	103,131	34,355				50,848	10,939	28,421
Total	55	103,131	34,355	27%	14%	5%	68,905	12,683	33,137
Below Low									
w/ No Load and No Generation	2	-	-				(1,268)	-	-
w/ Load and/or Generation	3	2,557	18,168				1,969	2,874	11,782
Total	5	2,557	18,168	2%	0%	2%	700	2,874	11,782
Total as of March 31, 2011	203	724,437	727,481	100%	100%	100%	258,580	92,888	392,380
Total as of February 28, 2011	202	830,110	838,131				306,004	137,581	823,511

ERCOT
Summary of Investments
March 31, 2011

(\$ in mils)

Investment Account	Investment Type	Operating	Market	Deposit/ Restricted	Total	% Investments
Bank of America	<i>Treasury and Repo</i>	\$ -	\$ 9.0	\$ 21.7	\$ 30.7	10%
BlackRock 60	<i>Treasury and Repo</i>	\$ -	\$ 0.6	\$ 6.5	\$ 7.1	2%
BlackRock 62	<i>Treasury only</i>	\$ -	\$ -	\$ 42.0	\$ 42.0	14%
Federated 068	<i>Treasury and Repo</i>	\$ 2.1	\$ 7.0	\$ 3.9	\$ 13.0	4%
Federated 0125	<i>Treasury only</i>	\$ -	\$ 0.5	\$ 36.0	\$ 36.6	12%
Fidelity 695	<i>Treasury and Repo</i>	\$ -	\$ -	\$ 5.8	\$ 5.8	2%
Fidelity 680	<i>Treasury Only</i>	\$ -	\$ -	\$ 43.7	\$ 43.7	15%
Invesco	<i>Treasury and Repo</i>	\$ -	\$ 5.5	\$ 18.9	\$ 24.4	8%
JPMorgan	<i>Treasury and Repo</i>	\$ 2.1	\$ 9.7	\$ 33.0	\$ 44.7	15%
Wells Fargo 793	<i>Treasury and Repo</i>	\$ -	\$ 2.4	\$ 1.4	\$ 3.8	1%
Wells Fargo 3722	<i>Treasury only</i>	\$ -	\$ -	\$ 46.1	\$ 46.1	15%
		<u>\$ 4.1</u>	<u>\$ 34.7</u>	<u>\$ 259.1</u>	<u>\$ 297.9</u>	<u>100%</u>

Other cash net of outstanding checks

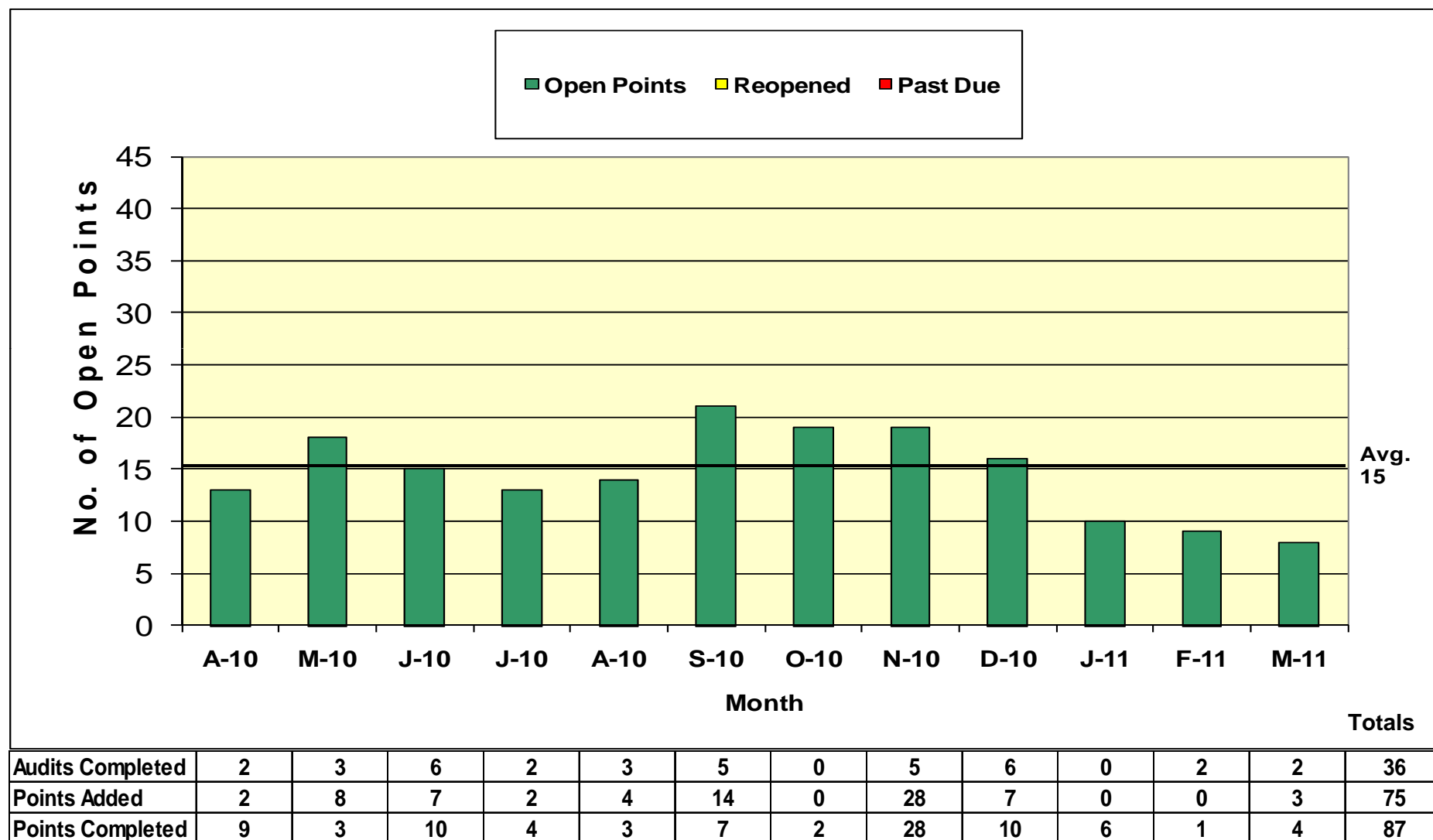
N/A

Total cash and cash equivalents

\$ 297.9

7. Committee Brief ICMP: Status of Open Audit Points

Cheryl Moseley



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

7. Committee Brief: ICMP – Audits Cheryl Moseley

Audits Completed

(last 3 months)

Internal Audits

- FY2010 Fraud Auditing
- Nodal Fixed Assets
- Protocol 1.4 Required Audit – Confidentiality
- Protocol 1.4 Required Audit - Independence

External Audits

- 2011 Type 1 SAS70 Audit (BrightLine CPAs & Associates, Inc.)

Audits in Progress

Internal Audits

- 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
- Software/System Development Lifecycle
- Allegis Resource Management
- Payroll Overpayment to ERCOT Employee (Special Request)
- Standard for Black Start & EILS Agreements
- Q1 2011 Fraud Auditing

External Audits

- 2010 Financial Audit (Ernst & Young, LLP)

Planned Audits

(next 3 months)

Internal Audits

- Employee Compensation and Benefit Plan Practices – HR
- ADP (Payroll & Benefits)
- Assessment of Completed Projects
- Nodal Program Performance Bonuses
- Integration Business Application Testing
- Q2 2011 Fraud Auditing

External Audits

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



April 18, 2011

Finance & Audit Committee Meeting

7. 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

- None

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of April 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.	Market Operations Effectively manage the evolution of the wholesale and retail markets to meet the changing business environment.	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.
					It appears likely that in order to gain an exemption from CFTC oversight ERCOT will have to conform to recent FERC credit standards. Implementation issues are being reviewed.
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 Systems Stabilization Manage the deployment and stabilization of the nodal market systems	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, 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.
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.
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. System and protocol revisions necessary for potential FERC credit standard compliance requirement are being reviewed.	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.	An updated external communications plan has been issued following the February Energy Emergency Alert.	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.
			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 ()

ERCOT
Finance and Audit Committee
2011 Annual Meeting Planner and Future Agenda Items

Task Description	Charter Page #	J F M A M J J A S O N D											
		J	F	M	A	M	J	J	A	S	O	N	D
1 Elect Committee officers and designate a secretary	2 & 7	A											
2 Review and assess adequacy of Committee charter	6	A	A										
3 Review and recommend investment standard	3			A									
4 Review and recommend financial standard	3			A									
5 Handling of complaints regarding financial matters	5		A										
6 Hiring former employees of the independent auditor	4		A										
7 Review and recommend credit standard	3			A									
8 Receive periodic report on Credit Work Group activity	na												
9 Approve Credit Work Group Charter	na			A									
10 Appoint Credit Work Group Chair and Vice Chair	na		A										
11 Review risk policies and risk management practices	6												
12 Undertake annual self-evaluation	8	A											
13 Periodic meeting with senior management	6												
14 Review and approve internal audit charter	6			A									
15 Periodic meeting with Chief Audit Executive	6 & 7	A	A	A	A								
16 Review internal audit reports	6	A	A	A	A								
17 Review Ethics Point issues	na	A	A	A	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	7												
21 Recommend selection of independent auditor	4												
22 Receive independence report from independent auditor	4												
23 Periodic meeting with independent auditor	5				A								
24 Discuss audited financial statements	5				A								
25 Review and accept financial statement audit	5				A								
26 Review and recommend proposed budget	3												
27 Review and recommend debt structure	3												
28 Review insurance coverage	na												
29 Review IRS Form 990	na												
30 Review and accept 401(k) audit report	6												
31 Review and accept SSAE 16 audit report	5												
32 Review Committee briefs	na	A	A	A	A								
33 Receive periodic investment report	na		A										
34 Receive periodic liquidity report	na			A									
35 Review major changes to accounting principles	5			A									
36 Review financial institutions - market participants	6			A									
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	4	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												
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											
45 Review proposed audit of the nodal program	na		A										
46 Review credit procedures, practices, and judgments	na		A	A	A								

9. Other Business

Mike Petterson
