

## ERCOT CORPORATE STANDARD

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Governs:	ERCOT Personnel
Approved:	ERCOT Board of Directors

### 1. PURPOSE

The purpose of the ERCOT Investment Corporate Standard is to document the guidelines and related activities ~~approved by the ERCOT Board of Directors~~ for the investment and management of funds held by ERCOT, ~~whether those funds arise from ERCOT operations or are held by ERCOT on behalf of the ERCOT market. All references to "ERCOT" in this Investment Corporate Standard shall be to Electric Reliability Council of Texas, Inc., unless ERCOT is used in conjunction with "market", in which case the reference shall be to the market which ERCOT manages.~~

~~It is ERCOT's policy to invest its funds in a manner that provides adequate security; meets daily cash flow demands; conforms to applicable laws, bylaws, board resolutions and debt covenants; and affords reasonable investment returns.~~

~~The corporate standard applies to activity involving ERCOT funds, except for the Electric Reliability Council of Texas, Inc. 401(k) Savings Plan, which is managed separately.~~

ERCOT invests and manages funds ~~specifically include proceeds held~~received from a variety of sources including:by ERCOT from:

- 1) ~~the ERCOT System Administration f~~Fees described in ERCOT protocols; and Nodal Surcharge, North American Electric Reliability Corporation (NERC) funding under a Delegation Agreement, and other fees collected from time to time;
- 2) proceeds from the issuance of debt issues;~~and other miscellaneous cash received,~~
- 3) ~~the ERCOT market for transmission congestion rights (TCR) auctions or receipts from congestion revenue rights (CRR) auctions;~~
- 4) the ERCOT market for receipts relating to market settlement operations;
- 5) ~~the ERCOT market for~~ security deposits from market participants; and
- 6) receipts from other miscellaneous sources.~~cash received from the ERCOT market.~~

~~The Investment eCorporate Sstandard applies to activity involving ERCOT funds, except for~~does not apply to the Electric Reliability Council of Texas, Inc. 401(k) Savings Plan investments, which are managed separately.

## 2. Terms & Definitions<sup>[MWP1]</sup>

<u>Term</u>	<u>Definition / Description</u>
<u>Designated Investment Officers</u>	<u>ERCOT's President and Chief Executive Officer, Senior Vice President and Chief Operating Officer, Vice President and General Counsel, Vice President of Finance and Treasury, and Treasury Manager.</u>
<u>ERCOT</u>	<u>All references to "ERCOT" in the Investment Corporate Standard shall be to Electric Reliability Council of Texas, Inc., unless ERCOT is used in conjunction with "market", in which case the reference shall be to the market which ERCOT manages.</u>
<u>"Prudent investor" standard</u>	<u>A financial concept assuming investment transactions are made with judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of principal as well as the probable income to be derived.</u>

## 3. DELEGATION OF AUTHORITY

Responsibility for the Investment Corporate Standard is hereby delegated to ERCOT's Designated Investment Officers. They establish a system of controls over the investment program including written investment procedures for the operation of the investment program consistent with the Investment Corporate Standard. No person may engage in an investment transaction except as provided under the terms of the Investment Corporate Standard and the procedures established by the Designated Investment Officers.

Designated Investment Officers shall apply the prudent investor standard in managing ERCOT's investment portfolio. The Designated Investment Officers, acting in accordance with the prudent investor standard, supplemented as appropriate by other written procedures pertaining to the administration and management of ERCOT's investment portfolio, shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

## 4. STANDARDS INVESTMENT OBJECTIVES

ERCOT's investment activity is guided by three primary objectives:

1. Safety of principal – The foremost objective of ERCOT’s investment program is safety of principal.
2. Liquidity – ERCOT’s investment portfolio will remain sufficiently liquid to enable ERCOT to meet all operating requirements which might be reasonably anticipated.
3. Return on investment – ERCOT’s investment portfolio is designed with the goal of attaining a reasonable rate of return throughout budgetary and economic cycles, in line with ERCOT’s objectives relating to safety of principal and liquidity.

## **5. INVESTMENT INSTRUMENTS**

To ensure ERCOT’s three primary investment objectives are met, Designated Investment Officers shall ensure ERCOT invests only with Qualified Institutions offering money market mutual funds investing exclusively in U.S. treasury securities or a combination of U.S. treasury securities and repurchase agreements backed by U.S. treasury securities. Investments should be diversified among a number of money market mutual funds offered by a variety of Qualified Institutions.

*Qualified Institutions* - Any two Designated Investment Officers shall have authority to identify and establish investing relationships with financial counterparties, also known as Qualified Institutions.

To be approved as a Qualified Institution, Designated Investment Officers will ensure that, at a minimum, the entity can take the following action:

1. Maintain a senior debt rating at least the equivalent of A- by Standard & Poor’s or A3 by Moody’s Investor Service;
2. Provide current audited financial statements to ERCOT treasury personnel;
3. Maintain capital of not less than \$100 million; and
4. Maintain assets of not less than \$1 billion.

If an ERCOT Board member or member of his or her immediate family is an officer or director, is employed by, or owns or has a beneficial interest in more than 10 percent of the stock in a bank or other financial institution that would otherwise be a Qualified Institution, such Board member shall provide full disclosure of such stock holdings or relationship to the ERCOT General Counsel in documented form to be filed with corporate records of ERCOT. Any institutions so disclosed will be excluded from consideration as a Qualified Institution without full disclosure to the Board of Directors of the relationship and approval of the Board to establish the relationship.

Qualified Institutions wishing to serve as an ERCOT cash depository must also be a federal or state-chartered bank and offer federal deposit insurance to the maximum amount allowed by law.

*Money Market Mutual Funds* - ERCOT will only invest in money market mutual funds which are defined under Securities and Exchange Commission Rule 2a-7, have at least

\$1 billion of assets under management, and which invest exclusively in U.S. treasury securities or a combination of U.S. treasury securities and repurchase agreements backed by U.S. treasury securities.

*Cash Investments* - To the extent possible, ERCOT attempts to match its investments with anticipated cash flow requirements. Some level of cash may remain uninvested to meet liquidity needs or to address unusual situations as they arise.

## **6. INVESTMENT CONSTRAINTS**

Designated Investment Officers shall ensure that investments are made in compliance with the following constraints:

1. No more than \$50 million and 10 percent of the portfolio shall be invested with any single Qualified Institution.
2. No more than \$50 million and 10 percent of the portfolio shall be invested in any single money market mutual fund.
3. No more than 40 percent of the portfolio shall be invested in repurchase agreements across all money market mutual funds.

## **7. INVESTMENT LOSSES**

Investment losses incurred on money market mutual funds held by ERCOT on behalf of Market Participants for collateral are attributable to Market Participants and are not borne by ERCOT.

ERCOT shall not have any fiduciary relationship with Market Participants and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into the Investment Corporate Standard. Investment losses attributable to Market Participants shall be addressed in the ERCOT Protocols or by direction from ERCOT Board of Directors.

## **8. INVESTMENT MONITORING**

*Credit Analysis* - Designated Investment Officers shall at least monthly review investments held through money market mutual funds to identify credit risk arising from the investments. Any credit-related concerns not satisfactorily resolved with fund managers will result in movement of the investment to an alternative fund. ERCOT staff will not duplicate credit analysis performed by fund managers and are not expected to provide assurance that all holdings are creditworthy.

*Investment Reporting* - Designated Investment Officers shall provide quarterly investment reports to ERCOT's Board of Directors and Finance and Audit Committee which provide a clear picture of the status of the current investment portfolio. Each quarterly report shall include a certification of compliance with the provisions of the Investment Corporate Standard.

*Compliance Testing* - Designated Investment Officers shall ensure that ERCOT's internal auditor periodically tests compliance with the Investment Corporate Standard and associated procedures.

## **9. STANDARD ADOPTION**

ERCOT's Investment Corporate Standard is adopted by resolution of ERCOT's Board of Directors. The Corporate Standard is reviewed annually by the Finance & Audit Committee and any modifications made thereto must be approved by the Board of Directors.

## **2.**

~~**Standard of Care.**—ERCOT investments are made with judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of principal as well as the probable income to be derived.~~

~~The standard of prudence used by the Designated Investment Officers (defined below) shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. The Designated Investment Officers of ERCOT, acting in accordance with this standard and any other written procedures pertaining to the administration and management of ERCOT's portfolio and who exercise the proper due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes.~~

~~—**Investment Objectives.**—The primary objectives, in priority order, of ERCOT's investment activities shall be:~~

- ~~1) **Safety**—Safety of principal is the foremost objective of the investment program. Investment of ERCOT funds is undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, ERCOT diversifies its investments by investing funds among a variety of securities offering independent returns and a variety of independent financial institutions.~~
- ~~2) **Liquidity**—ERCOT's investment portfolio will remain sufficiently liquid to enable ERCOT to meet all operating requirements which might be reasonably anticipated.~~
- ~~3) **Return on investment**—ERCOT's investment portfolio is designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, in line with ERCOT's investment risk constraints and the cash flow characteristics of the portfolio.~~

~~**Authorized Instruments.**—ERCOT shall invest only in those types of instruments authorized under this corporate standard and listed in Appendix C and subject to restrictions included in Appendix C.~~

~~**Delegation of Authority.** Responsibility for the investment program is hereby delegated to the Designated Investment Officers. The Chief Executive Officer, Chief Financial Officer (or the Controller, in the absence of a Chief Financial Officer), and the Treasurer of ERCOT are the Designated Investment Officers of ERCOT and are authorized to enter into and are responsible for all investment transactions undertaken. They establish a system of controls over the investment program.~~

~~The Designated Investment Officers establish written investment procedures for the operation of the investment program consistent with this corporate standard. No person may engage in an investment transaction except as provided under the terms of this corporate standard and the procedures established by the Designated Investment Officers.~~

~~Any two of the following individuals, with at least one being a Designated Investment Officer, shall have authority to open and close investment and / or depository accounts with Qualified Institutions (as defined below): Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Controller, and Treasurer.~~

~~**Qualified Institutions or Money Market Funds.** A Designated Investment Officer selects banks and other financial institutions that are approved for investment and / or depository purposes ("Qualified Institutions"). Only firms meeting the requirements of the attached Appendix A are eligible to serve as Qualified Institutions or Money Market Funds.~~

~~If an ERCOT Board member or member of his or her immediate family is an officer or director, is employed by, or owns or has a beneficial interest in more than 10 percent of the stock in a bank or other financial institution that would otherwise be a Qualified Institution, such Board member shall provide full disclosure of such stock holdings or relationship to the ERCOT General Counsel in documented form to be filed with corporate records of ERCOT. Any institutions so disclosed will be excluded from consideration as a Qualified Institution without 1) full disclosure to the Board of Directors of the relationship and 2) approval of the Board to establish the relationship.~~

~~Only entities meeting the following requirements are eligible to serve as Qualified Money Market Funds:~~

- ~~1) The fund is a money market fund under SEC Rule 2a-7;~~
- ~~2) Has provided and commits to provide at least monthly a list of holdings in the fund; and~~
- ~~3) Has assets under management in the fund of at least \$1 billion.~~

### **Safekeeping of Investments.**

~~Security transactions, including collateral for repurchase agreements, are conducted on a "delivery versus payment" (DVP) basis. Securities, other than shares in money market mutual funds, are held for safekeeping, in the name of ERCOT, by a custodian (an independent state or federally chartered bank) designated by a Designated~~

~~Investment Officer and evidenced by safekeeping receipts. Institutions that offer money market mutual funds are responsible for safeguarding their underlying securities.~~

~~**Internal Reviews.** *Credit* To manage credit risk arising from investments, at least monthly ERCOT reviews underlying securities held as investments, including investments held through money market funds. Any credit related concerns not satisfactorily resolved with fund managers will result in movement of the investment to an alternative fund. ERCOT staff will not duplicate credit analysis performed by fund managers and are not expected to provide assurance that all holdings are creditworthy.~~

~~**Reporting.** A Designated Investment Officer provides quarterly investment reports to ERCOT's Board of Directors and Finance and Audit Committee which provide a clear picture of the status of the current investment portfolio.~~

~~Schedules in the quarterly report will, at a minimum, include the following:~~

- ~~1) A listing of individual securities held at the end of the reporting period by authorized investment category. If the investment category is money market, a list of securities held within each money market fund is provided;~~
- ~~2) Average life and final maturity of all investments listed;~~
- ~~3) Coupon, discount or earnings rate;~~
- ~~4) Par value, amortized book value and market value;~~
- ~~5) Percentage of the portfolio represented by each investment category;~~
- ~~6) For money market mutual funds, a concentration risk report of underlying investments in the funds; and~~
- ~~7) Statement of compliance with the Investment Corporate Standard.~~

~~**Investment Losses.** Investment losses incurred on funds held by ERCOT on behalf of Market Participants for collateral are attributable to Market Participants and are not borne by ERCOT.~~

~~ERCOT shall not have any fiduciary relationship with Market Participants and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Corporate Standard. Investment losses attributable to Market Participants shall be addressed in the ERCOT Protocols or by direction from ERCOT Board of Directors.~~

~~**Investment Corporate Standard Adoption.** ERCOT's Investment Corporate Standard is adopted by resolution of ERCOT's Board of Directors. The Corporate Standard is reviewed annually by the Finance & Audit Committee and any modifications made thereto must be approved by the Board of Directors.~~

## ~~APPENDIX A~~

### ~~Requirements of Qualified Institutions or Money Market Funds~~

~~Only entities meeting the following requirements are eligible to serve as Qualified Institutions:~~

#### ~~General Requirements~~

- ~~1) The entity has a senior debt rating which is at least the equivalent of A- by Standard & Poor's or A3 by Moody's Investor Service,~~
- ~~2) Has provided a current audited financial statement which is on file at ERCOT,~~
- ~~3) Has capital of not less than \$100 million, and~~
- ~~4) Has assets of not less than \$1 billion.~~

#### ~~Additional Requirements for Depositories~~

- ~~1) The entity is a federal or state-chartered bank, and~~
- ~~2) Deposits up to \$250,000 are insured by federal agencies.~~

#### ~~Additional Requirements for Security Dealers~~

- ~~1) The entity is a "primary" or regional dealer that qualifies under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule),~~
- ~~2) Is registered as a dealer under the Securities Exchange Act of 1934,~~
- ~~3) Is a member in good standing of the National Association of Securities Dealers (NASD),~~
- ~~4) The entity has been in business for at least five (5) years,~~
- ~~5) A representative of the entity has returned a signed certification (substantially in the form attached as Appendix B) that he/she has read and is familiar with ERCOT's Investment Corporate Standard, and~~
- ~~6) The entity has provided such other information as ERCOT requires from time to time.~~



## APPENDIX B

### ~~Investment Corporate Standard for Electric Reliability Council of Texas, Inc.~~

#### ~~Qualified Institution Certification for Security Dealers~~

~~Dealer / Investment Firm:~~ \_\_\_\_\_

~~I hereby certify that I have received and thoroughly reviewed the ERCOT Investment Corporate Standard, and the firm I represent~~

- ~~1) meets all of ERCOT's Requirements for Qualified Institutions; and~~
- ~~2) has implemented reasonable procedures and controls in an effort to preclude investment transactions between this firm and ERCOT that are not authorized by the ERCOT Investment Corporate Standard, except to the extent that this authorization is dependent on an analysis of the makeup of ERCOT's entire portfolio or requires an interpretation of subjective investment standards.~~

\_\_\_\_\_  
Qualified Representative

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

## **APPENDIX C**

### **Authorized Instruments**

<u>Description</u>	<u>Quality Limitation</u>	<u>Maturity Limitation (Note 1)</u>	<u>Limitation per issuer</u>	<u>Category limitation</u>
<del>1. Obligations of or guaranteed by the US government</del>	<del>n/a</del>	<del>5 yrs or less</del>	<del>none</del>	<del>none</del>
<del>2. Repurchase agreements in which the collateral is obligations of or guaranteed by the US government. (Note 3)</del>	<del>Note 2</del>	<del>7 days or less</del>	<del>\$5,000,000</del>	<del>33% of total</del>
<b>10.</b> <del>3. Money market mutual funds (MMMF) invested only in obligations of or guaranteed by the US government or repurchase agreements in which the collateral is obligations of or guaranteed by the US government</del>	<del>Note 4</del>	<del>Note 4</del>	<del>Note 4</del>	<del>Note 5</del>

Note 1:

Note 2: ~~Investments may be made with financial institutions with a corporate or senior debt credit rating of at least A- with S&P or A3 with Moody's. Investments in repurchase agreements must be subject to a Master Repurchase Agreement signed with the bank or dealer (e.g. a PSA Master Repurchase Agreement or equivalent).~~

Note 3: ~~Collateral is required for all repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level is 102% of market value and accrued interest. Collateral may consist only of other instruments approved above. Collateral is always held by an independent third party with whom ERCOT has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to and retained by ERCOT. The right of collateral substitution is granted.~~

~~Note 4: There is no credit rating required given 1) the MMMFs stated objective to preserve capital, 2) the credit quality restrictions placed on MMMFs by the SEC (may hold no more than 5% of middle-rated securities — A2/P2 or equivalent), 3) the SEC restriction that no more than 5% of assets in a MMMF may be invested in any one security (requires diversification) and 4) the restriction that MMMFs can only invest in instruments with maturities of less than 13 months and that the average maturity of all holdings in a MMF cannot extend beyond 90 days. There is no maturity limitation or limitation per issuer for the reasons mentioned above.~~

~~Note 5: There is no limit on how much money may be placed with MMMFs in this category because of the requirements on those funds outlined in Note 4 and given the secure investments held by the funds. However, ERCOT must diversify investments held in money market accounts across at least four different fund families to safeguard liquidity. Based on availability of funds meeting the above investment criteria, ERCOT seeks to ensure that no more than 30% of investable funds and no more than \$100 million is maintained in any one fund through May 31, 2011, and no more than \$50 million is maintained in any one fund thereafter.~~