



**ERCOT Finance & Audit Committee Meeting**  
**7620 Metro Center Drive, Austin, Texas**  
**Met Center, Conference Room 206**  
**June 20, 2011; 12:00pm – 2:00pm\***

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
		<b>Call Open Session to order and announce proxies</b>	<b>Jorge Bermudez</b>	<b>12:00pm</b>
1.	Vote	Approve general session minutes (5/16/11)	Jorge Bermudez	
2.	Discussion	Review preliminary 2012-2017 budget highlights	Misti Hancock	
3.	Vote	Recommend revision of ERCOT security screening study fee	Dan Woodfin	
4.	Discussion	Commodities Exchange Act exemption	Mark Ruane	
5.	Vote	<del>Recommend changes to standard forms of Letter of Credit and Market Participant Guarantee Agreements</del>	Chad Seely	
6.	Vote	Recommend corrected effective date for revised Investment Corporate Standard – approved May 2011	Mike Petterson	
7.	Discussion	Quarterly Committee education on accounting developments	Freddy Wolff	
8.	Discussion	Review Committee briefs	Mike Petterson	
9.	Discussion	Future agenda items	Mike Petterson	
10.		Other business	Mike Petterson	
		<b>Convene to Executive Session</b>	<b>Jorge Bermudez</b>	
11.	Vote	Approve executive session minutes (5/16/11)	Jorge Bermudez	
12.	Discussion	12a. Internal Audit status report	Bill Wullenjohn	
	Discussion	12b. Update on timeline for 2012 Internal Audit plan	Bill Wullenjohn	
	Discussion	12c. Update on Internal Audit Staffing for 2011	Bill Wullenjohn	
	Discussion	12d. Discussion of Internal Audit Staffing for 2012	Bill Wullenjohn / Trip Doggett	
	Discussion	12e. EthicsPoint update	Bill Wullenjohn	
13.	Discussion	Contract, personnel, security, compliance, risk management, litigation and regulatory matters	Jorge Bermudez	
		<b>Reconvene to Open Session</b>		
		Adjourn meeting	Jorge Bermudez	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, July 18, 2011, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 206.*

# 1. Approval of General Session Minutes

## Jorge Bermudez

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### Approval of General Session Minutes

- Vote 5/16/11



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

Electric Reliability Council of Texas, Inc.  
7620 Metro Center Drive (Room 206) - Austin, Texas 78744  
May 16, 2011 at 12:30 p.m.

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.

**General Session Attendance**

Committee Members:

<b>Director</b>	<b>Affiliation</b>	<b>Segment</b>
Bermudez, Jorge (Vice Chairman)	Unaffiliated	Unaffiliated Director
Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility
Dreyfus, Mark	Austin Energy	Municipal
Espinosa, Miguel	Unaffiliated	Unaffiliated Director
Fehrenbach, Nick	City of Dallas	Commercial Consumer
Karnei, Clifton (Chairman)	Brazos Electric Power Cooperative	Cooperative
Zlotnik, Marcie	StarTex Power	Independent Retail Electric Provider

Guest Board Members and Segment Alternates:

<b>Director</b>	<b>Affiliation</b>	<b>Segment</b>
Bivens, Danny	Office of Public Utility Counsel	Alternate Representative for Sheri Givens – Residential Consumer (Beginning with Agenda Item 2)
Brown, Jeff	Shell Energy North America	Segment Alternate – Independent Power Marketer
Doggett, Trip	ERCOT	President and Chief Executive Officer (CEO) (Beginning with Agenda Item 2)
Doll, Laura	Unaffiliated	Unaffiliated Director (Beginning with Agenda Item 2)
Gresham, Kevin	E.ON Climate & Renewable NA LLC	Segment Alternate – Independent Generator (Beginning with Agenda Item 2)



Helton, Bob	International Power America Services	Independent Generator
Patton, Dr. A.D.	Unaffiliated	Unaffiliated Director (Beginning with Agenda Item 2; except Agenda Item 4)
Ryall, Jean	Constellation Energy	Independent Power Marketer (Beginning with Agenda Item 4)

Other Guests:

Anderson, Ken	Public Utility Commission of Texas – Commissioner (Beginning with Agenda Item 2)
Cobos, Lori	ERCOT Associate Corporate Counsel
Cleary, Mike	ERCOT Senior Vice President and Chief Operating Officer
Hancock, Misti	ERCOT Manager of Budget and Financial Analysis
Leady, Vickie	ERCOT Assistant General Counsel and Assistant Corporate Secretary
Magness, Bill	ERCOT Vice President, General Counsel and Corporate Secretary
Manning, Chuck	ERCOT Vice President of Human Resources and Chief Compliance Officer
Morgan, Richard	ERCOT Vice President and Chief Information Officer
Petterson, 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
Wullenjohn, Bill	ERCOT Director of Internal Audit
Yager, Cheryl	ERCOT Director of Credit

Clifton Karnei, F&A Committee Chairman, determined a quorum was present and called the F&A Committee meeting to order at approximately 12:30 p.m. Chairman Karnei announced that there were no proxies and addressed the following Agenda Items in the order below.

**Approval of April 18, 2011 General Session Minutes (Agenda Item 1)**

Chairman Karnei entertained a motion to approve the April 18, 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.**

**Dodd-Frank Act Exemption (Agenda Item 2)**

Bill Magness provided the Committee members with a status update on exemption issues related to the Dodd-Frank Act and responded to comments and questions from the Committee members. Chairman Karnei then announced that a vote on this item would be taken when the General Session was reconvened after Executive Session.



### **Annual Review and Recommendation of Board Approval of the Investment Corporate Standard (Agenda Item 3)**

Leslie Swanson provided the Committee members with an overview of the revised Investment Corporate Standard, noting that a sixty (60)-day extension of the current standard was needed to be able to open additional accounts as necessary, and responded to questions and comments from the Committee members. After discussion among the Committee members, Chairman Karnei called for a motion to recommend Board approval of the revised Investment Corporate Standard with modifications to No. 1 and 2 in Section 6 (Investment Constraints) of the standard that provide as follows:

1. No more than 10% of the portfolio shall be invested in any single Qualified Institution, provided that in no event shall investments in any single Qualified Institution exceed \$50M.
2. No more than 10% of the portfolio shall be invested in any single money market fund, provided that in no event shall investments in any single money market fund exceed \$50M.

**Marcie Zlotnik moved to approve the Investment Corporate Standard as presented with the suggested modifications. Nick Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

### **Periodic Investment Report (Agenda Item 4)**

Ms. Swanson provided the Committee members with the Periodic Investment Report and responded to questions and comments from the Committee members.

### **Credit Update (Agenda Item 5)**

Cheryl Yager provided the Committee members with a Credit Update and responded to comments and questions from the Committee members.

### **Review Preliminary 2012 Budget Preparation Schedule (Agenda Item 6)**

Misti Hancock presented the preliminary 2012 Budget Preparation Schedule to the Committee members. No comments or questions were voiced by the Committee members. Chairman Karnei recommended that the F&A Committee meeting in July start at an earlier time and include a “working lunch” to allow the Committee members to focus on the 2012 budget.

### **Committee Briefs (Agenda Item 7)**

Mike Petterson noted that the Committee Briefs were included in the meeting materials. No questions or comments were voiced by the Committee members.

### **Future Agenda Items (Agenda Item 8)**

Mr. Petterson noted that the following items would be presented for consideration at next month’s F&A Committee meeting:

- Review of proposed 2012 budget, including discussion of debt structure;
- Report on new accounting and financial reporting developments;
- Follow-up discussion on Dodd-Frank Act exemption issues; and
- Approval of the revised Generation Interconnection fee.



**Other Business (Agenda Item 9)**

There was no other business considered at this time.

**Convene to Executive Session (Agenda Items 10 through 12)**

Chairman Karnei adjourned the meeting into Executive Session at approximately 1:47 p.m. and reconvened General Session at approximately 3:06 p.m.

**Vote on Matters from Executive Session (Agenda Item 13)**

Chairman Karnei called for motions on two voting matters from Executive Session.

**Mark Dreyfus made a motion that the F&A Committee recommend Board approval of ERCOT making regulatory filings at the Commodity Futures Trading Commission (CFTC) as necessary to seek an exemption under CEA Section (4)(c). Jorge Bermudez seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

**Mr. Espinosa made a motion that the F&A Committee recommend Board approval of ERCOT's initiation of a request for an Internal Revenue Service (IRS) Letter Ruling regarding ERCOT's contemplation of a CFTC exemption. Mr. Crowder seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

**Adjournment**

Chairman Karnei adjourned the F&A Committee meeting at approximately 3:08 p.m.

Committee materials and presentations from the meeting are available on ERCOT's website at: [http://www.ercot.com/committees/board/finance\\_audit/](http://www.ercot.com/committees/board/finance_audit/)

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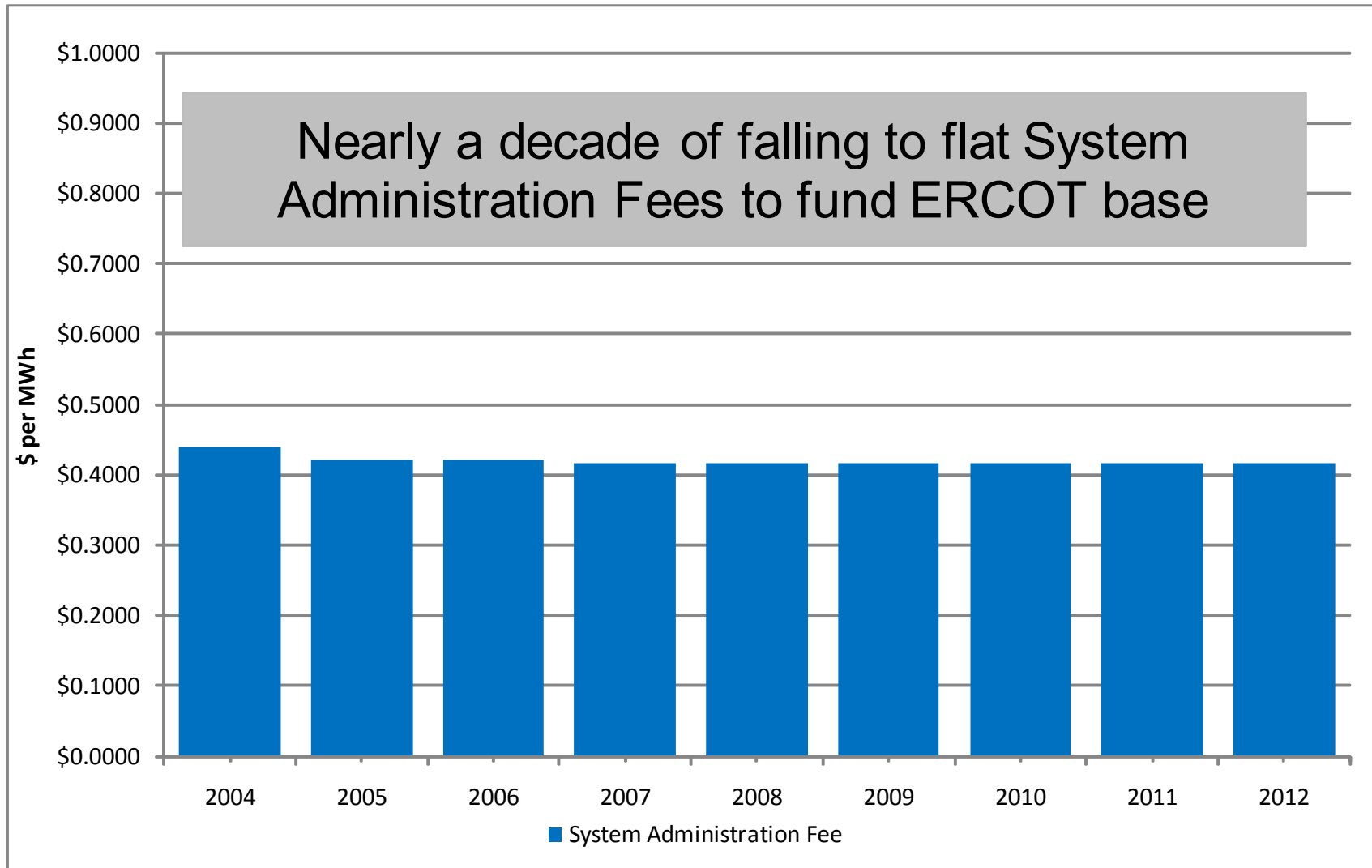
Lori Cobos  
Committee Secretary

## 2. Review Preliminary 2012-2017 Budget Highlights

### Misti Hancock

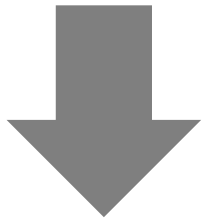
- System Administration Fee - \$0.4171 per MWh
  - 9 years of falling to flat funding of ERCOT base operations
- Nodal Surcharge - \$0.375 per MWh
  - Nodal implementation cost paid off nearly one year early
- Projects
  - \$15 + million per year dedicated for priority projects to enhance system reliability and market operations
- Long-term outlook
  - Fees reduced more than 40 percent
  - Outstanding debt reduced by more than 75 percent

## 2. Review Preliminary 2012-2017 Budget Highlights Historical System Administration Fee



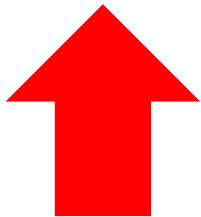


## 2. Review Preliminary 2012-2017 Budget Highlights Requirement Changes 2011 Budget vs. 2012 Budget



### Downward Fee Pressure.....

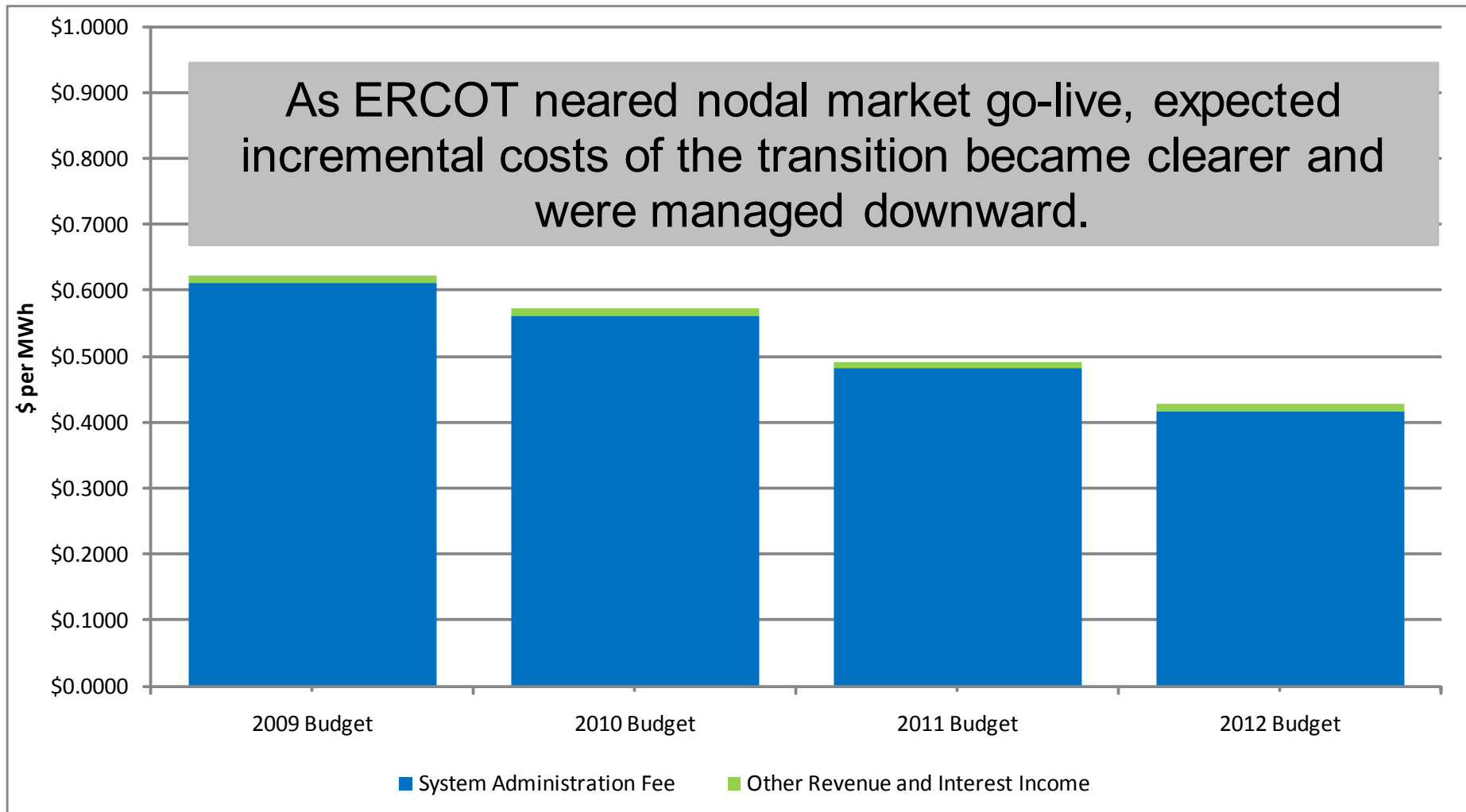
- Increased MWh consumption
- Reduced Project Portfolio



### Upward Fee Pressure.....

- Reduced Carry Forward & Extraordinary Revenue
- Increased HW/SW Maintenance for Nodal Systems
- Increased Vendor Services for Proprietary Systems
- Increased Base Operations Cost of Labor

## 2. Review Preliminary 2012-2017 Budget Highlights – Progression of Expected Base Operating Costs, Nodal Go-Live + 1 Year

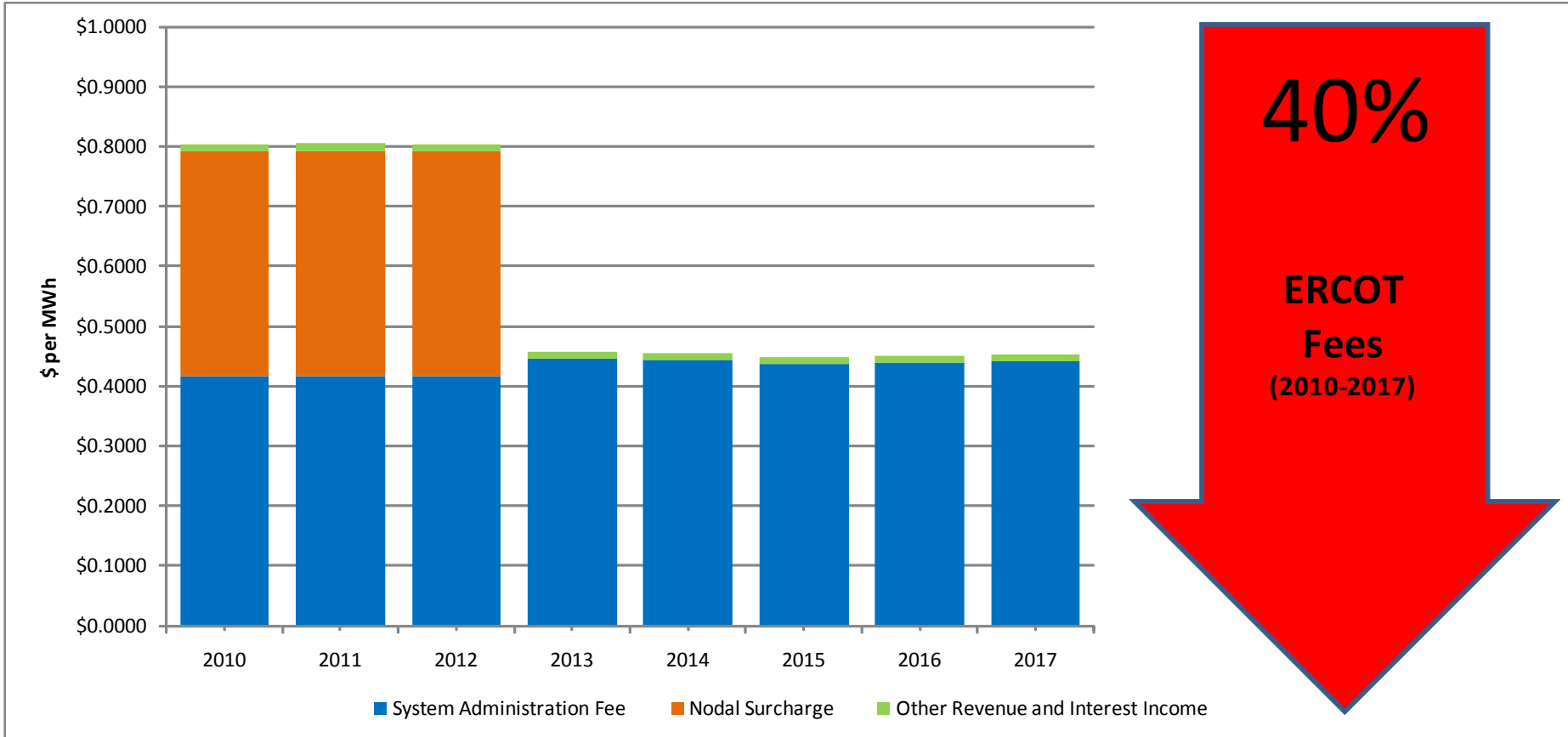


## 2. Review Preliminary 2012-2017 Budget Highlights Annual Project Budgets

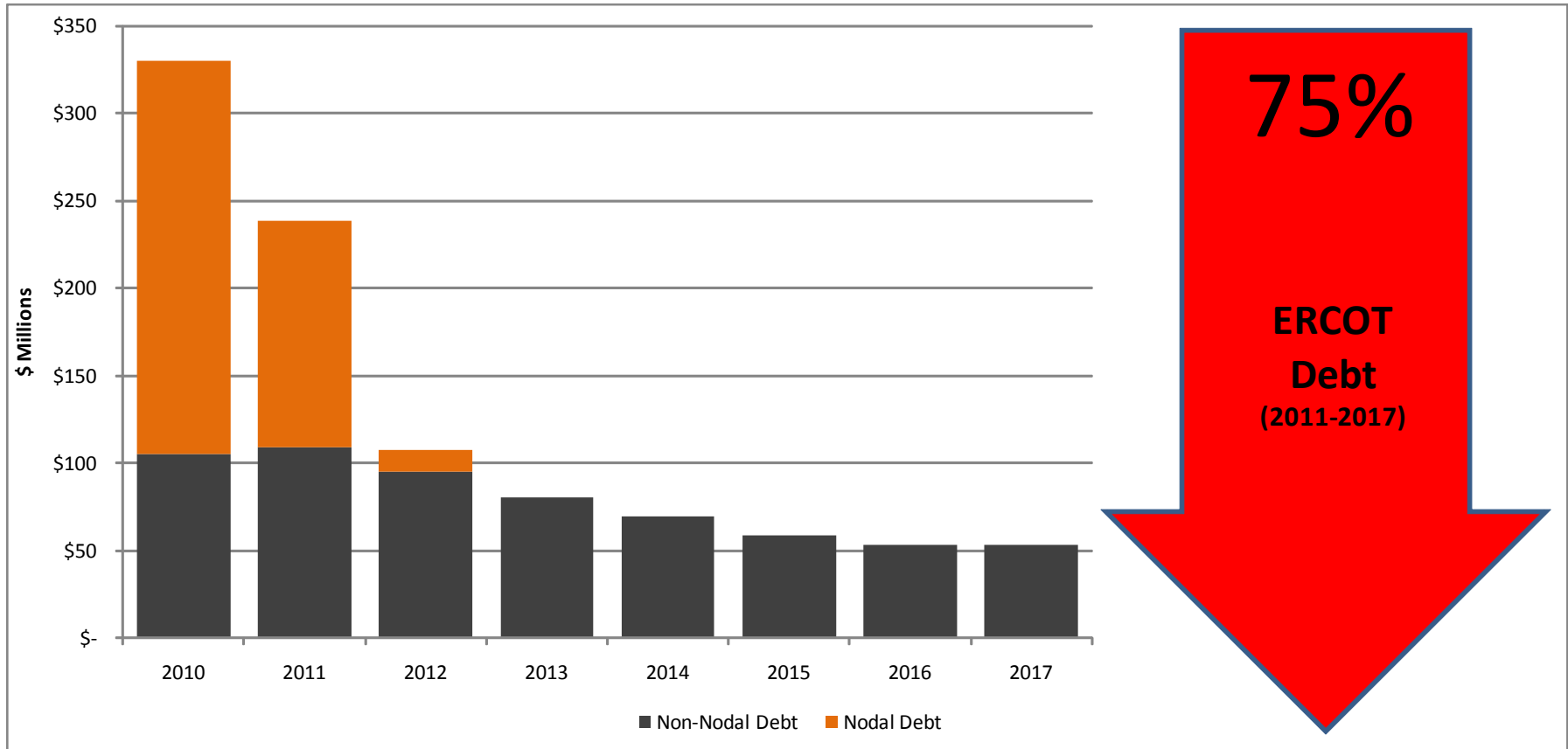
- **\$15 + million per year dedicated for priority projects to enhance system reliability and market operations**

Budget Year	Preliminary Project Budget
2012	\$15.0 million
2013	\$15.0 million
2014	\$20.0 million
2015	\$20.0 million
2016	\$25.0 million
2017	\$25.0 million

## 2. Review Preliminary 2012-2017 Budget Highlights Long-Term Outlook of Total Fees



## 2. Review Preliminary 2012-2017 Budget Highlights Long-Term Outlook of Outstanding Debt



## 2. Review Preliminary 2012-2017 Budget Highlights – Recap Misti Hancock

- Maintaining Flat System Administration Fee
- Nodal Program Recovery Completed Early
- \$15M Project Portfolio to Enhance Reliability & Systems
- Long-term Outlook
  - 40% Fee Reduction
  - 75% Outstanding Debt Reduction

# Detailed Schedules

## 2. Review Preliminary 2012-2017 Budget Highlights 2012 Base Operations Staffing Requirements

2011 Base Operations	584
Plus: Incremental staff associated with PRRs and NPRRs	5
Less: Efficiencies Obtained	<u>(16)</u>
2012 Base Operations	573

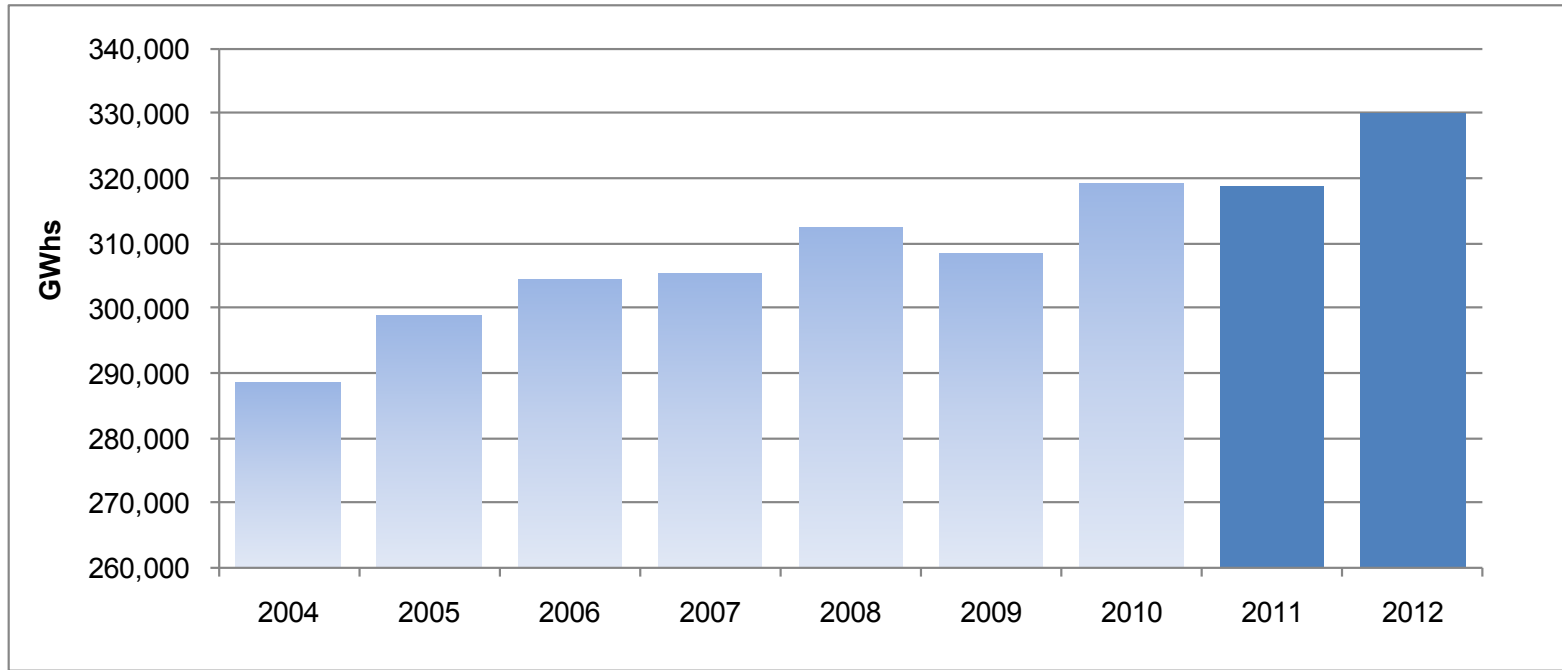
- Staffing for steady-state in Nodal Market
- Right people with the right skills in the right positions at the right cost
  - 2% Merit
  - 1% Other Salary Adjustments



## 2. Review Preliminary 2012-2017 Budget Highlights Revenue Requirements

(\$ Thousands)	2011 Budget	2012 Preliminary Budget	2013 Projected Budget	2014 Projected Budget	2015 Projected Budget	2016 Projected Budget	2017 Projected Budget
ERCOT O&M Expense							
Labor	70,307	73,915	75,762	77,657	79,598	81,588	83,628
Equipment & Tools	881	796	813	830	847	865	883
Outside Services	2,973	6,751	6,893	7,038	7,185	7,336	7,490
Utility, Maintenance, & Facilities	12,599	12,053	12,306	12,564	12,828	13,097	13,372
Hardware & Software License & Maint.	9,861	15,447	15,772	16,103	16,441	16,786	17,139
Employee Expenses	1,021	1,041	1,063	1,085	1,108	1,131	1,155
Other Expenses	3,610	3,457	3,530	3,604	3,680	3,757	3,836
Subtotal - O&M Expense	101,252	113,460	116,139	118,881	121,687	124,560	127,503
Debt Service	29,715	29,193	29,193	29,193	29,193	29,193	29,193
Revenue Funded Projects	16,758	6,000	6,000	8,000	8,000	10,000	10,000
Subtotal - Revenue Requirement	147,725	148,653	151,332	156,074	158,880	163,753	166,696
Less: Other Revenue	4,006	3,900	3,982	4,066	4,151	4,238	4,327
Less: Extraordinary Item Revenue	5,000	-	-	-	-	-	-
2010 Carry Forward	14,420	-	-	-	-	-	-
2011 Carry Forward	-	10,885	-	-	-	-	-
Subtotal - Revenue Requirement from System	124,299	133,868	147,350	152,008	154,729	159,515	162,369
<b>Subtotal - System Administration Fee</b>	<b>\$ 0.4004</b>	<b>\$ 0.4056</b>	<b>\$ 0.4339</b>	<b>\$ 0.4315</b>	<b>\$ 0.4264</b>	<b>\$ 0.4286</b>	<b>\$ 0.4293</b>
NERC Dues	11,975	12,226	12,483	12,745	13,013	13,286	13,565
NERC Electric Reliability Organization fee	(11,975)	(12,226)	(12,483)	(12,745)	(13,013)	(13,286)	(13,565)
Protocol Services	2,466	999	1,029	1,051	1,073	1,095	1,118
Market Monitoring	2,700	2,800	2,859	2,919	2,980	3,043	3,107
Subtotal - Mandated Costs	5,166	3,799	3,888	3,970	4,053	4,138	4,225
<b>Subtotal - System Administration Fee - Mandated</b>	<b>\$ 0.0166</b>	<b>\$ 0.0115</b>	<b>\$ 0.0114</b>	<b>\$ 0.0113</b>	<b>\$ 0.0112</b>	<b>\$ 0.0111</b>	<b>\$ 0.0112</b>
Total - Revenue Rqmt from System Admin Fee	129,465	137,667	151,238	155,978	158,782	163,653	166,594
<b>ERCOT System Administration Fee</b>	<b>\$ 0.4171</b>	<b>\$ 0.4171</b>	<b>\$ 0.4453</b>	<b>\$ 0.4427</b>	<b>\$ 0.4376</b>	<b>\$ 0.4397</b>	<b>\$ 0.4405</b>
GWh	310,410	330,034	339,616	352,294	362,841	372,150	378,178
Total Base Project/Data Center/Facility Capital	41,896	15,000	15,000	20,000	20,000	25,000	25,000
Total ERCOT Spending Authorization	190,004	173,678	176,703	184,789	187,946	196,177	199,486

## 2. Review Preliminary 2012-2017 Budget Highlights Historical Load Trend and Forecast



Fiscal Year	Actual	Projected	% Growth/Decline
2004	288,291,328		1.16%
2005	298,782,420		3.64%
2006	304,373,763		1.87%
2007	305,482,175		0.36%
2008	312,401,084		2.26%
2009	308,277,758		-1.32%
2010	319,097,400		3.51%
2011		318,876,379	-0.07%
2012		330,033,592	3.50%

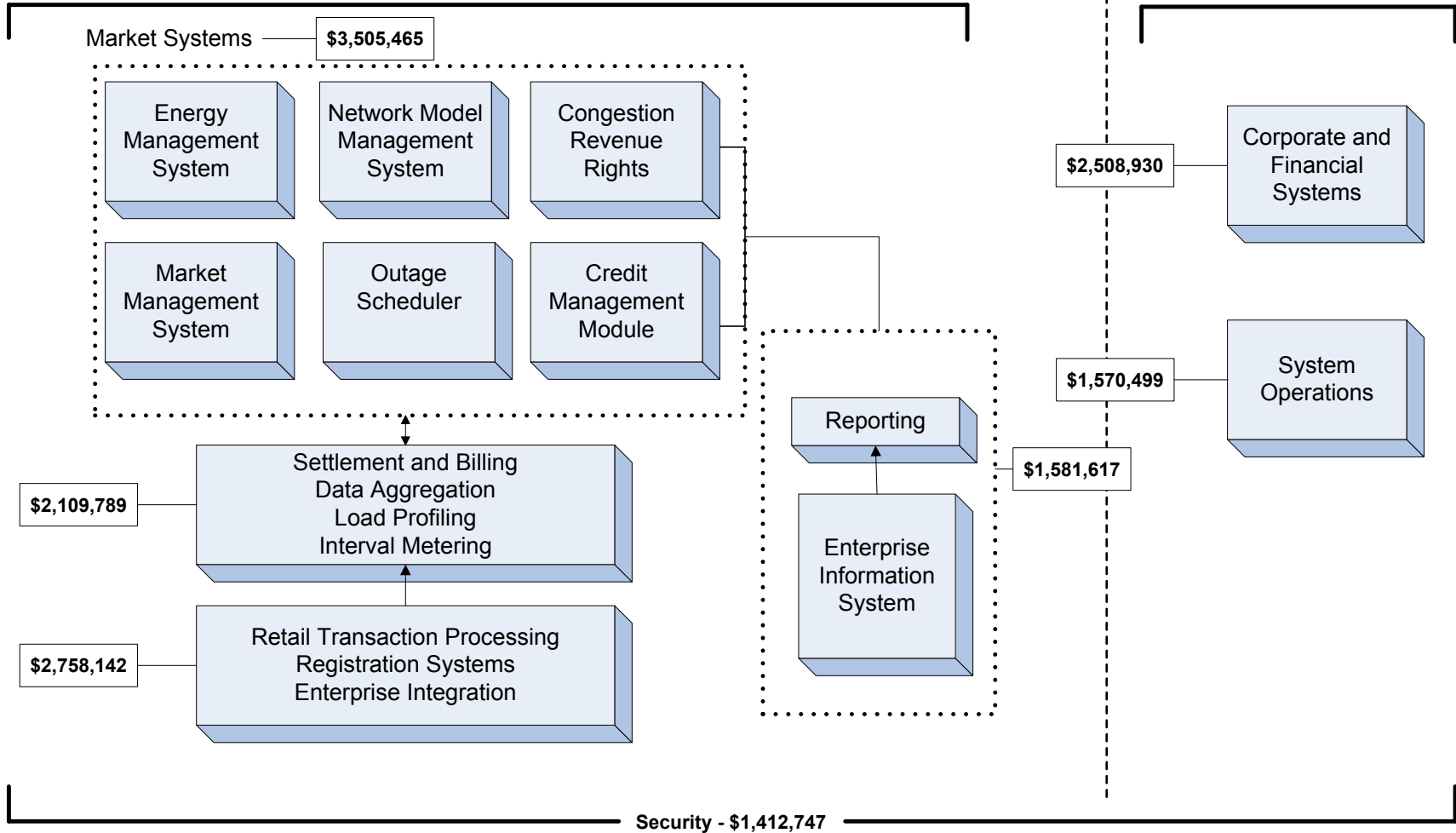
**AVG  
1.66%**

## 2. Review Preliminary 2012-2017 Budget Highlights 2012 Hardware and Software License and Maintenance

ERCOT 2012 Hardware & Software Support/Maintenance Budget = \$15,447,189  
*Preliminary*

### ERCOT Production Systems

### ERCOT Corporate Systems



## 2. Review Preliminary 2012-2017 Budget Highlights 2012 Project Portfolio

- **Key Areas of Focus (Project Categories)**
  - Regulatory
    - Required by Legislature, PUCT, NERC, FERC or legal ruling
  - Technical Foundation
    - Required maintenance and upgrades
    - Technical evolution and performance
    - Systemic growth
  - Business Strategy
    - Market driven enhancements and efficiencies
    - ERCOT strategic initiatives
  - Efficiencies & Enhancements
    - Internally driven operational improvements
    - Enhanced customer service

## 2. Review Preliminary 2012-2017 Budget Highlights 2012 Project Portfolio

Project Category	Target Funding	Projects Started in Previous Years	New 2012 Projects
Technical Foundation	\$ 6,500,000	4	7
Business Strategy	5,950,000	5	15
Efficiencies & Enhancements	2,050,000	2	9
Regulatory	1,600,000	2	1
<b>Total</b>	<b>\$ 16,100,000</b>	<b>13</b>	<b>32</b>

- ERCOT will manage within the projected \$15M project funding allocation.
- As active projects move through the project lifecycle and new projects are considered for initiation, they will be reassessed for criticality, cost/benefit and resource availability against other projects in the portfolio.

## 2. Review Preliminary 2012-2017 Budget Highlights 2012 Project Portfolio

Project Category	2012 Rank	Project	2012 Budget
Technical Foundation	1	Data Center Migration	\$100k-\$250k
Technical Foundation	2	Minor Cap - Critical	\$500k-\$1M
Technical Foundation	3	Information Lifecycle Mgmt Phase 2	\$500k-\$1M
Technical Foundation	4	Settlement Upgrade	\$1M-\$2M
Technical Foundation	5	Oracle 11g Upgrade	\$1M-\$2M
Technical Foundation	6	EMS Upgrade	\$1M-\$2M
Technical Foundation	7	Enterprise DW Platform Transition	\$500k-\$1M
Technical Foundation	8	Job Scheduling Upgrade v8	\$100k-\$250k
Technical Foundation	9	Siebel Upgrade	\$250k-\$500k
Technical Foundation	10	NMMS Upgrade	\$100k-\$250k
Technical Foundation	11	DC Growth & Asset Replacement	\$500k-\$1M

## 2. Review Preliminary 2012-2017 Budget Highlights 2012 Project Portfolio

Project Category	2012 Rank	Project	2012 Budget
Business Strategy	1	TXSET4.0	\$250k-\$500k
Business Strategy	2	SCR760 - Information Model Mgr & Topology	\$1M-\$2M
Business Strategy	3	Cyber Security Project #1	\$50k-\$100k
Business Strategy	4	Cyber Security Project #2	<\$50k
Business Strategy	5	TSAT Wind Model	\$100k-\$250k
Business Strategy	6	PRR830/NPRR269 - Reactive Power Capability	\$250k-\$500k
Business Strategy	7	Demand Response (Look Ahead SCED)	\$500k-\$1M
Business Strategy	8	Facilities Project	\$1M-\$2M
Business Strategy	9	Cyber Security Project #3	\$500k-\$1M
Business Strategy	10	Cyber Security Project #4	\$500k-\$1M
Business Strategy	11	NPRR347 - Single Daily Invoice	\$50k-\$100k
Business Strategy	12	NPRR260 - MIS Secure Access	\$100k-\$250k
Business Strategy	13	TML Transition to MIS	\$100k-\$250k
Business Strategy	14	Cyber Security Project #5	\$100k-\$250k
Business Strategy	15	Planning Site Transition to MIS	\$100k-\$250k
Business Strategy	16	NPRR222 - Half Hour Start Clawback	<\$50k
Business Strategy	17	NPRR326 - Adjust RT SPP Calc.	<\$50k
Business Strategy	18	NPRR272 - Quick Start Resources	\$100k-\$250k
Business Strategy	19	NPRR207 - Unit Deselection	\$50k-\$100k
Business Strategy	20	MarkeTrak Upgrade/Enhancements	\$500k-\$1M

## 2. Review Preliminary 2012-2017 Budget Highlights 2012 Project Portfolio

Project Category	2012 Rank	Project	2012 Budget
Efficiencies/Enhancements	1	Incremental Update Capability - Phase 1	\$100k-\$250k
Efficiencies/Enhancements	2	MP Online Data Entry - Phase 1	\$500k-\$1M
Efficiencies/Enhancements	3	CMS and MIR replacement	\$250k-\$500k
Efficiencies/Enhancements	4	ERCOT Website Enhancements	\$250k-\$500k
Efficiencies/Enhancements	5	Macomber Map NERC SA/Compliance Enhancements	\$250k-\$500k
Efficiencies/Enhancements	6	IGRID Implementation	<\$50k
Efficiencies/Enhancements	7	Contingency Functionality Enhmnts.	<\$50k
Efficiencies/Enhancements	8	SMTNET Improvements	\$50k-\$100k
Efficiencies/Enhancements	9	MP Communications Tool	\$50k-\$100k
Efficiencies/Enhancements	10	Smartphone Interface ("MyGrid")	\$100k-\$250k
Efficiencies/Enhancements	11	OA Grid Health Operator View	<\$50k
Regulatory	1	REC Enhancements	\$500k-\$1M
Regulatory	2	CFTC Compliance	\$100k-\$250k
Regulatory	3	Compliance Software Tool	\$500k-\$1M



### 3. Recommend Revision of ERCOT Security Screening Study Fee: Current Status – 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 6/9)	35
Expected On-Going	75-100

### 3. Recommend Revision of ERCOT Security Screening Study Fee: Background and Update – Dan Woodfin

- Under PUCT’s new rule on ERCOT oversight, ERCOT Board can approve User Fees, such as the Screening Study fee
- Proposed the concept of increasing fee at April F&A meeting; received good feedback and some questions
- Since the April F&A Meeting:
  - Have updated estimates presented at April meeting, which had been based on previous fee case filing preparation
  - Have collected estimates from other ISOs on their average Feasibility Study costs, as requested

ISO A	Avg. \$5,000; Range \$1,000-50,000; Allocation of Batch Studies
ISO B	Range \$8,000-10,000; Allocation of Batch Studies
ISO C	Avg. \$5000; Allocation of Batch Studies
ISO D	Outsourced to consultant paid by gen. (Canada)

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

- The proposed fee schedule is:

Project Size	Fee
<= 150 MW	\$5,000
> 150 MW	\$7,000

- New fee schedule would be more inline with current costs
- New fee is consistent with fees charged by other ISOs for similar work
- \$15/MW Full Interconnection Study ERCOT fee, payable at time of full interconnection study request, may be increased to account for additional ERCOT work related to subsynchronous interaction screening, requirements tracking and validation

### 3. 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 Interconnect	Loaded Rate (\$/Hr)	Hours		Cost	
		Sum		Large	Small
Interconnect Size:		Large	Small	Large	Small
Labor Hours (loaded rate)	60	49.5	32.5	\$2,970	\$1,950
Management and Legal Review (33% of Labor Hours @ loaded rate)	87	16.3	10.7	\$1,421	\$933
<b>Labor Subtotal</b>				<b>\$4,391</b>	<b>\$2,883</b>
Facilities Charge				\$481	\$316
Admin				\$763	\$501
IT Support Charge				\$488	\$320
<b>Overhead Sub Total</b>				<b>\$1,732</b>	<b>\$1,137</b>
<b>ERCOT Total Cost</b>				<b>\$6,123</b>	<b>\$4,020</b>
Compare to Consultant Rate (Rate at same # of hours)	150	65.8	43.2	\$9,875	\$6,484

## **4. Commodities Exchange Act Exemption: Summary**

### **Mark Ruane**

**As authorized by the Board in May, ERCOT plans to seek a Commodity Exchange Act exemption from the CFTC. ERCOT is working with the other ISOs/RTOs on specific compliance terms and filing requirements.**

- Expected issues raised by implementing changes that may be necessary to receive the exemption
- Third party Central Counter-Party proposal
- Next steps

## **4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption**

- 1. ERCOT becomes central counter-party (CCP)**
- 2. Setting criteria for market participation**
- 3. Reduced settlement window for real-time market**
- 4. Two-day limit to 'cure' collateral calls**
- 5. Elimination of unsecured credit for CRR market**
- 6. Limitation on unsecured credit of \$50 million**
- 7. Disallowance of netting between CRR and non-CRR markets**

## **4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption**

### **1. ERCOT becomes central counter-party (CCP)**

- **Expected to enhance ERCOT's position in bankruptcy due to clarification of ability to enforce set-off rights. Most practical of the options possible after FERC Order 741.**
- **Operational costs associated with changes to Protocols, Standard Form Agreement, and certain debt covenants.**
- **ERCOT is preparing to seek IRS confirmation that this will not impact 501(c) tax-exempt status.**

## **4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption**

### **1. ERCOT becomes central counter-party (CCP)**

- **No decision to date on establishment of a separate legal entity for transacting (e.g. PJM Settlements)**
- **Potential change in accounts to reflect gross positions**
  - **Other ISOs/RTOs likely to or are using net basis**
  - **Require clarification of impact in bankruptcies**
  - **Potential costs associated with additional testing by external auditors**
- **Discussions will be started with banks, ratings agencies and noteholders to inform and address issues**
- **There are no indications to date that assumption of the CCP role materially increases ERCOT's risk profile**
- **Consultations underway with PUCT staff**



## 4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption

### 2. Setting eligibility criteria for market participation

- **FERC left the initial development of market participation criteria to the ISOs/RTOs, but with the expectation that standards would address:**
  - Expertise in risk management and ISO/RTO markets
  - Ability to respond to ISO/RTO direction
  - Adequate capitalization

## 4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption

### 2. Setting criteria for market participation

- **Individual ISOs/RTOs are developing criteria through their respective stakeholder processes.**
  - Management certification - Annual officer certification attesting to
    - Sufficiency of risk management capabilities
      - Written policies, procedures and controls
      - Framework to identify the risks to which the participant is exposed
      - In some cases, requirements for appropriate segregation of duties and use of specified risk metrics
    - Expertise in an ISO/RTO market
      - Participants must have traders complete market training
      - Traders in financial products must attend product-specific training
      - New applicants must complete training prior to participation
      - ERCOT will be developing training requirements with stakeholders and PUCT

## 4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption

### 2. Setting criteria for market participation

- Ability to respond to ISO direction
  - Adequate operating procedures and technical abilities to respond
  
- Adequate capitalization
  - \$1 million tangible net worth (parent level), or
  - \$10 million in assets, or
  - Up to \$500,000 in additional collateral requirements for participants not meeting capitalization standards
  - There is considerable variation in the ISO/RTO proposals with respect to the final point, with generally lower requirements for non-FTR activity

## 4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption

### 2. Setting criteria for market participation

- **Failure to meet criteria or provide information would constitute default**
- **Some differences in specific proposals, e.g.**
  - Specific review of policies and controls
  - Investment grade rating
  - Third party transacting
  - Use of specific risk metrics and methodologies
  - PJM proposes tariff language specifying that false or incomplete statements could lead to enforcement action and/or civil or criminal legal action
  - Potential exception items:
    - Adverse information
    - Ratings downgrade
    - Restatement of financials
    - Default in another organized market
- **Supplemented by informational disclosures**

## **4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption**

### **2. Setting criteria for market participation – Risk impacts**

- **CFTC and FERC staff have indicated that risk management rules will require some degree of verification by the ISO/RTO of Market Participant risk management capabilities, however there is no specific proposal in this respect.**
- **Impacts:**
  - Compliance monitoring
  - Management of additional collateral
  - Protocol revisions
  - Potential system upgrades
  - Provision of training for market participants
- **ERCOT will be discussing participation criteria with stakeholders and PUCT as requirements become clearer.**

## **4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption**

### **3. Reduced settlement window for real-time market**

- **Day Ahead Market is already compliant with expected 14-day settlement and payment requirement**
- **NPRR347 (Counter-Party Invoice and Single Daily Settlement Invoice) is expected to bring approximately 82% of settlement days for Real Time market activity within a 16 day window**

## **4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption**

### **3. Reduced settlement window for real-time market**

- **We are considering ways to further shorten the Real Time settlement and payment period. For example,**
  - **Reducing one day from settlement time line and one day from the payment period would result in 88% of operating days being settled within a 14 day window.**
- **Potential impacts**
  - **Automated Clearing House (ACH) payment timing**
  - **Maintaining data integrity in the settlements process**
  - **Protocol revisions required**

## **4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption**

### **4. Two-day limit to 'cure' collateral calls**

- **ERCOT believes it is already compliant with this provision**
- **No material risk impact anticipated from this provision**



## **4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption**

### **5. Elimination of unsecured credit for CRR market**

- **At May 31, 2011, a total of 64 counterparties have unsecured credit available either directly or indirectly through guarantees. Of the 38 entities that also have CRR activity, 15 have CRR activity that would require collateral (remaining 23 have credits from CRR activity)**
- **Elimination of unsecured credit in the CRR market**
  - Would increase collateral requirements by approximately \$4.0 million for CRR FCE (as of May 31, 2011)
  - ERCOT expects a more significant dollar impact when CRR auctions extend beyond monthly auctions
  - Likely will also have an impact on MPs in the CRR Auctions
- **Protocol and system changes are needed to implement this provision**
- **Operational risk entailed by this change is manageable**

## **4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption**

### **6. Limitation on unsecured credit of \$50 million**

- **At May 31, 2011, fifteen counterparties have unsecured credit, either directly or indirectly through guarantees, in excess of \$50 million (across all markets) for a total of \$1.057 billion. The related Total Potential Exposure (TPE) for these entities is \$157 million.**
- **Based on activity and balances as of May 31, 2011, reducing the cap to \$50 million would reduce unsecured credit for these entities by approximately \$307 million to \$750 million.**
- **Operational risk entailed by this change is manageable.**

## **4. Commodities Exchange Act Exemption: Expected Conditions of CFTC CEA Exemption**

### **7. Disallowance of netting between CRR and non-CRR markets**

- **Currently netting between CRR and non-CRR markets is restricted to counterparties from whom ERCOT has a first priority security interest or who are either an Electric Cooperative or an Entity created under TWC § 222.001.**
- **As of May 31<sup>st</sup>, only 11 Counter-Parties or approximately 5% of CPs are allowed to net between CRR and non-CRR markets.**
- **Operational risk entailed by this change is manageable.**

**Any additional risks identified as the exemption application process progresses will be communicated to the Board, the PUCT, and Market Participants as they arise.**

## **4. Commodities Exchange Act Exemption: Third Party Central Counter-party**

- **ERCOT staff have met with NASDAQ-OMX to discuss NASDAQ's proposal to act as a third party central counter-party on behalf of ERCOT**
- **Under the proposal NASDAQ would act as the counter-party in all ERCOT market transactions**
- **No fees to either side**
- **As proposed, ERCOT would continue to:**
  - Execute all credit, invoicing and settlement functions
  - Provide market services
  - Administer market Protocols
- **NASDAQ will not take on risk positions**
- **Structure intended to be similar to PJM – PJM Settlements relationship**

## 4. **Commodities Exchange Act Exemption: Third Party Central Counter-party**

- **NASDAQ intends to offer joint NASDAQ / ERCOT market participants the option to avail of netting with NASDAQ OTC market receivables (not forward exposures)**
- **Identified risk issues:**
  - Lack of clarity with respect to position set-off in the event of bankruptcy if ERCOT and third party OTC receivables are netted.
  - Can ISO functions as mandated under PURA be delegated?
  - Use of ERCOT personnel may lead to a situation where the private benefit to NASDAQ may be deemed to exceed the public benefit of the proposed NASDAQ arrangement.
  - Tax exemption issues with a not-for-profit entity subcontracting material activities to a for-profit organization.

## **4. Commodities Exchange Act Exemption: Next Steps**

### **Mark Ruane**

- **Discussions regarding CEA exemption application are ongoing in stakeholder meetings**
  - Credit Working Group Meeting
    - May 25<sup>th</sup> 2011
    - June 9<sup>th</sup> 2011
  - Technical Advisory Committee Meeting
    - June 2<sup>nd</sup> 2011
  - CFTC Credit Workshop
    - June 16<sup>th</sup> 2011

## **4. Commodities Exchange Act Exemption: Next Steps**

### **Mark Ruane**

- **PUCT discussion at June 17, 2011 Open Meeting (Project No. 39484)**
- **CFTC staff has proposed a timeline contemplating ISO/RTO exemption filings in early July**
- **Based on July filings, publication of proposed exemption order anticipated late July – early August**
- **Final exemption order publication expected end of October**
- **IRS briefing paper prepared in cooperation with other ISOs/RTOs**
- **Filing of IRS submission expected in July**
- **IRS determination expected prior to end of year**

## **5. Recommend Changes to Standard Forms of Letter of Credit and Market Participant Guarantee Agreements – Chad Seely**

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**Item is postponed.  
Pages 48 – 118 (of 140) removed.**



## **6. Recommend Corrected Effective Date for Revised Investment Corporate Standard – Approved May 2011 (Vote)**

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**Board decision template attached as separate document**

**<Vote>**



**Date:** June 10, 2011  
**To:** Board of Directors  
**From:** Michael Petterson, Vice President of Finance and Treasury  
**Subject:** Correction of scrivener’s error relating to the May 2011 Approval of Investment Corporate Standard

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** June 21, 2011

**Agenda Item No.:** XX(Legal Department will Complete)

**Issue:**

Whether to approve correction of a scrivener’s error relating to the May 2011 approval of ERCOT’s revised Investment Corporate Standard (the “Standard”) and thereby provide the 60-day period management requested to implement key provisions of the revised Standard.

**Background/History:**

The Board of Directors (Board) of ERCOT has established an Investment Corporate Standard, which is reviewed annually and updated as needed. The Board must approve any modifications to the document.

This Standard documents the guidelines and related activities approved by the Board 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.

ERCOT staff reviewed the Standard and respectfully proposed several changes and clarifications which the Finance and Audit (F&A) Committee, on May 16, 2011, reviewed, amended, and recommended for Board approval. The Board adopted the recommended revisions at the May 17, 2011 Board meeting.

The Board’s action was taken with an immediate effective date; however, management believes a 60-day implementation period is essential. The transition time requested by management is primarily needed to identify, qualify, and establish contractual terms with additional financial institutions necessary to enhance diversification and reduce risk of ERCOT’s investment portfolio.

**Key Factors Influencing Issue:**

The key factor influencing the issue is ERCOT management’s ability to adhere to provisions of Board-approved corporate standards.

**Alternatives:**

1. Approve correction of a scrivener’s error relating to the May 2011 approval of ERCOT’s revised Investment Corporate Standard (the “Standard”) and thereby provide the 60-day period management requested to implement key provisions of the revised Standard;



2. Do not approve correction of the scrivener's error and recognize that ERCOT will not be able to comply with provisions of the Standard until late-July; or
3. Remand the issue to the F&A Committee with instructions.

**Conclusion/Recommendation:**

The F&A Committee will review this request for correction of a scrivener's error at its meeting on June 20, 2011 and is expected to recommend to the Board at the June 21, 2011 Board meeting that the record reflect approval of the time requested to implement the revised Standard.

## 7. Quarterly Committee Education on Accounting Developments Freddy Wolff

### Accounting and financial reporting implications of CFTC exemption and central counter-party position

- **Revenue recognition - gross vs. net**

ERCOT must apply judgment to determine if collecting settlement revenue as a central counter-party represents earning revenue (gross revenue recognition) or earning a commission/fee (net revenue recognition).

ERCOT considered these common indicators of gross revenue recognition:

- Is the company the primary obligor in the arrangement?
- Does the company change the product or perform part of the service?
- Does the company have physical loss inventory risk or credit risk?
- Is the amount earned by the company variable in nature?

ERCOT also considered the impact on the relevance and reliability of ERCOT's Statement of Activities noting that gross reporting in 2010 would have resulted in an increase of \$2.3 billion to operating revenue and an equally offsetting increase to operating expense.

## 7. Quarterly Committee Education on Accounting Developments Freddy Wolff

- **Revenue recognition- gross vs. net (cont.)**

Based on these considerations and discussions with Ernst & Young (as well as contacts at other ISOs), ERCOT currently believes net presentation of revenue (as well as the related accounts receivable and payable) is appropriate.

Additional disclosures around revenue recognition and the structure of the ERCOT market would also be necessary in the annual financial statements.

- **Disclosure and valuation of congestion revenue rights**

If ERCOT is deemed a counter-party to the CRR Buyer and Seller by taking title to the transaction, additional disclosures may be required around these positions in ERCOT's annual financial statements, including fair value measurement and qualitative information around the CRR auctions.

- **Increased audit services and fees**

Taking title to the settlement transactions could drive an increase in ERCOT audit services and related fees around revenue recognition, settlement transactions and related controls, cash management, CRR transactions, and potential loss contingencies.

## 7. Quarterly Committee Education on Accounting Developments Freddy Wolff

### Accounting treatment of generation interconnection fees

- **Non-refundable Fees**

- Non-refundable fees collected for generation interconnection studies are recognized as operating revenue on the Statement of Activity upon collection. The related expense is recognized in operating expense when incurred.
- For 2010, ERCOT collected \$214,000 in non-refundable generation interconnection revenue. As of May 31, 2011, ERCOT has collected \$94,000 in non-refundable generation interconnection revenue.

- **Refundable Fees**

- Prior to 2008, ERCOT also collected upfront generation connection deposits from generating entities to cover the cost of the full interconnection study. These amounts were recognized as deferred revenue on the Statement of Financial Position until the study was completed.
- Upon payment of the study to the transmission service provider, revenue would be recognized to the extent of the expense incurred. Any remaining funds would be returned to the generating entity.
- As of May 31, 2011, ERCOT has a current liability of \$537,000 related to 31 studies from years 2000-2007.

## 8. Committee Briefs

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## ERCOT Market Credit Status

as of 4/30/2011

as of 5/31/2011

### 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	
14	37,605,703 *	14%	501,633,018	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
75	126,367,161 *	47%	716,607,284	S
26	104,149,708 *	39%	715,898,069	S
<b>Total Exposure</b>	<b>268,122,572</b>	<b>100%</b>		

# of CPs*	Total Potential Exposure (\$)	% of TPE	Total Unsec Credit Limit / Security Posted	
15	35,127,442	10%	596,324,605	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
69	179,323,991	49%	1,356,736,065	S
24	150,617,425	41%	737,202,271	S
<b>Total Exposure</b>	<b>365,068,858</b>	<b>100%</b>		

### 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*

215

218

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.

Note 2: Collateral held as of May 31, 2011 was approximately \$800 million higher than at the end of April since the Balance of Year CRR auction was still in process.

\* Corrected from May F&A report



## Summary Benchmark Report as of May 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)
<b>Between High and Low</b>									
w/ No Load and No Generation	91						4,418	2,854	11,656
w/ Load and/or Generation	72	742,826	812,754				231,850	96,775	515,342
Total	163	742,826	812,754	75%	84%	91%	236,268	99,629	526,998
<b>Above High</b>									
w/ No Load and No Generation	29	-	-				9,922	502	4,028
w/ Load and/or Generation	21	107,863	69,049				118,502	32,968	65,059
Total	50	107,863	69,049	23%	12%	8%	128,424	33,470	69,087
<b>Below Low</b>									
w/ No Load and No Generation	2	-	-				(263)	-	-
w/ Load and/or Generation	3	31,569	7,942				(7,451)	510	2,982
Total	5	31,569	7,942	2%	4%	1%	(7,714)	510	2,982
<b>Total as of May 31, 2011</b>	<b>218</b>	<b>882,258</b>	<b>889,746</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>356,978</b>	<b>133,610</b>	<b>599,067</b>
<b>Total as of April 30, 2011</b>	<b>215</b>	<b>808,045</b>	<b>817,112</b>				<b>263,987</b>	<b>109,404</b>	<b>479,978</b>

## Benchmark Assumptions

		Forward Risk Estimate				
		Volume Component			Price Component	
		Basis	# of days	Factor	Basis	Price volatility factor
<b>Low Benchmark</b>						
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 - \$50	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 - \$50	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 - \$50	1.0
<b>High Benchmark</b>						
Counter-Parties - Load only	Outstanding receivable/payable - invoiced and estimated	Highest total load volume over past 30-days	9	1.0	Same	1.5
Counter-Parties - Generation only	Outstanding receivable/payable - invoiced and estimated	Highest total generation volume over past 30-days	6	0.2	Same	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	Same	1.5
		Highest DAM sales volume over past 30-days	2	1.0	Same	1.5

**Note 1: If an entity has both load and generation volume, the greater of the two estimates is used in the Benchmark**

## **8. Committee Brief: Investment Report Leslie Wiley**

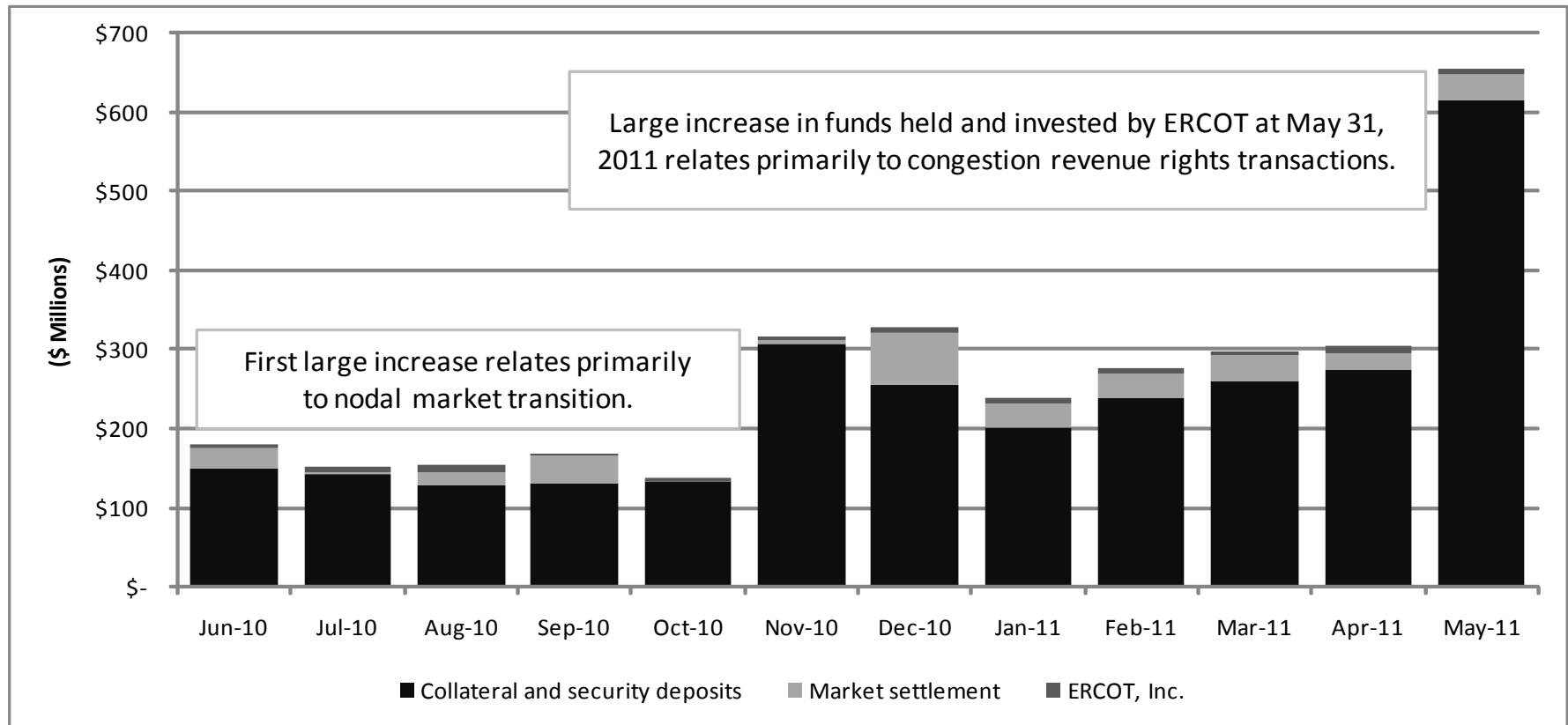
- **ERCOT has recently been out of compliance with the Investment Corporate Standard approved by the Board**
  - More than \$50 million invested in four funds for several days in May and June
- **Non-compliance is a result of two factors:**
  - Unexpectedly high value of congestion revenue rights transactions
  - Too few investment agreements with Qualified Institutions
- **Management response guided by a few concepts:**
  - Invested funds are preferable to uninvested funds
  - Treasury-only money market mutual funds are preferable to money market funds that allow investment in repurchase agreements backed by Treasury securities
  - Additional investment agreements with Qualified Institutions should be completed as quickly as possible

## 8. Committee Brief: Investment Report Leslie Wiley

### Summary of Investments May 31, 2011

Counter Party	Treasury	Treasury and Treasury Repo	Total Invested	Percentage of Investments
	----- \$ millions -----			
Federated	\$ 78.4	\$ 49.4	\$ 127.8	19%
Fidelity	77.0	50.0	127.0	19%
Wells Fargo	77.0	50.0	127.0	19%
BlackRock	77.0	49.9	126.9	19%
Bank of America	-	49.9	49.9	8%
Invesco	-	49.2	49.2	8%
JPMorgan	-	48.0	48.0	7%
Total	\$ 309.4	\$ 346.4	\$ 655.8	100%

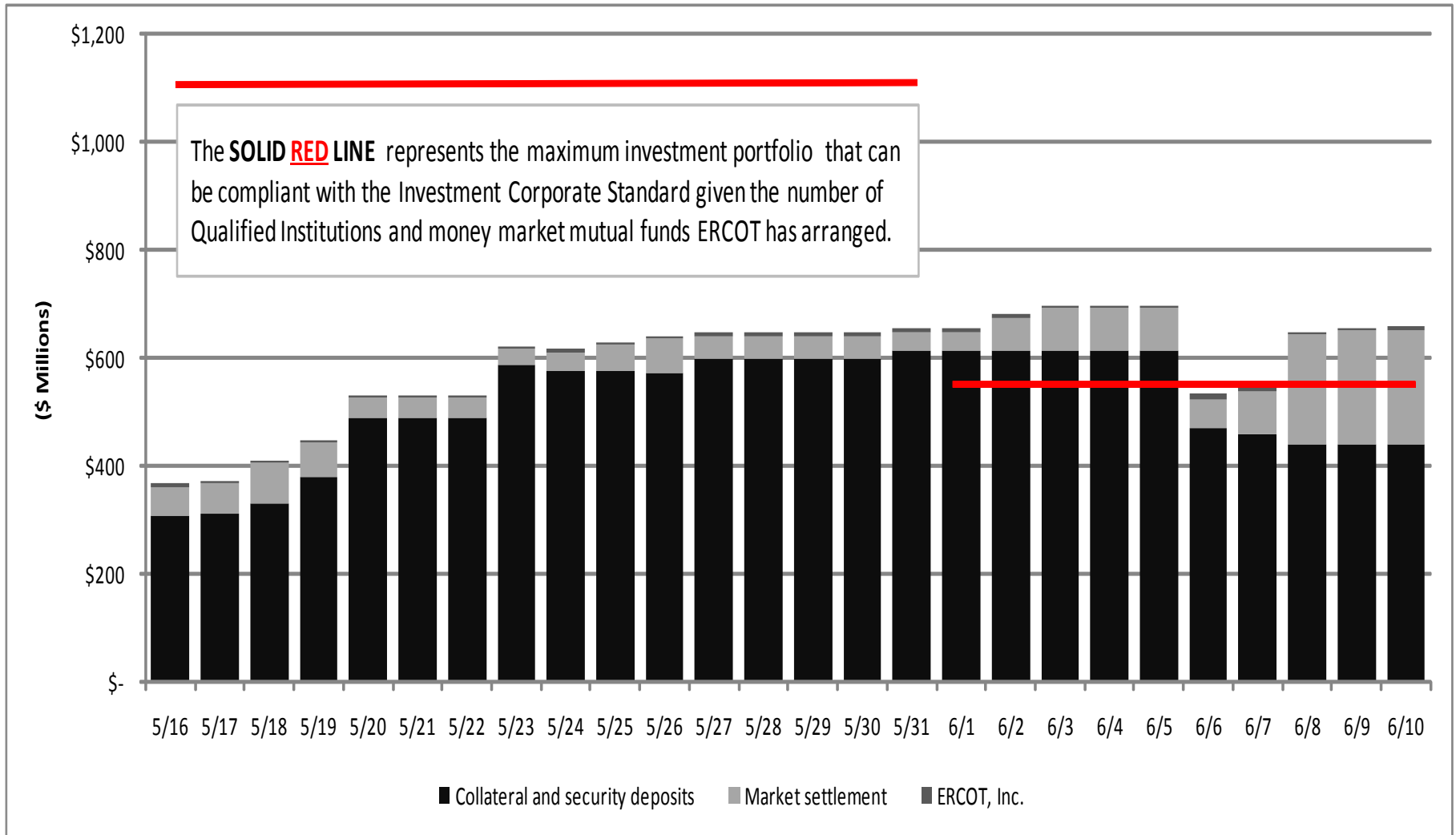
## 8. Committee Brief: Investment Report Leslie Wiley



<b>Investments (at month-end)</b>	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11
Collateral and security deposits	148.5	141.9	128.4	130.1	131.9	307.3	255.6	200.8	239.0	259.1	273.1	614.4
Market settlement	26.9	3.7	16.0	34.9	0.2	5.4	65.4	31.1	30.9	34.7	23.0	34.0
ERCOT, Inc.	4.3	7.2	8.8	1.0	5.1	4.4	6.2	7.9	7.1	4.1	9.4	7.4
<b>Total investments</b>	<b>179.7</b>	<b>152.8</b>	<b>153.2</b>	<b>166.0</b>	<b>137.2</b>	<b>317.1</b>	<b>327.2</b>	<b>239.8</b>	<b>277.0</b>	<b>297.9</b>	<b>305.5</b>	<b>655.8</b>

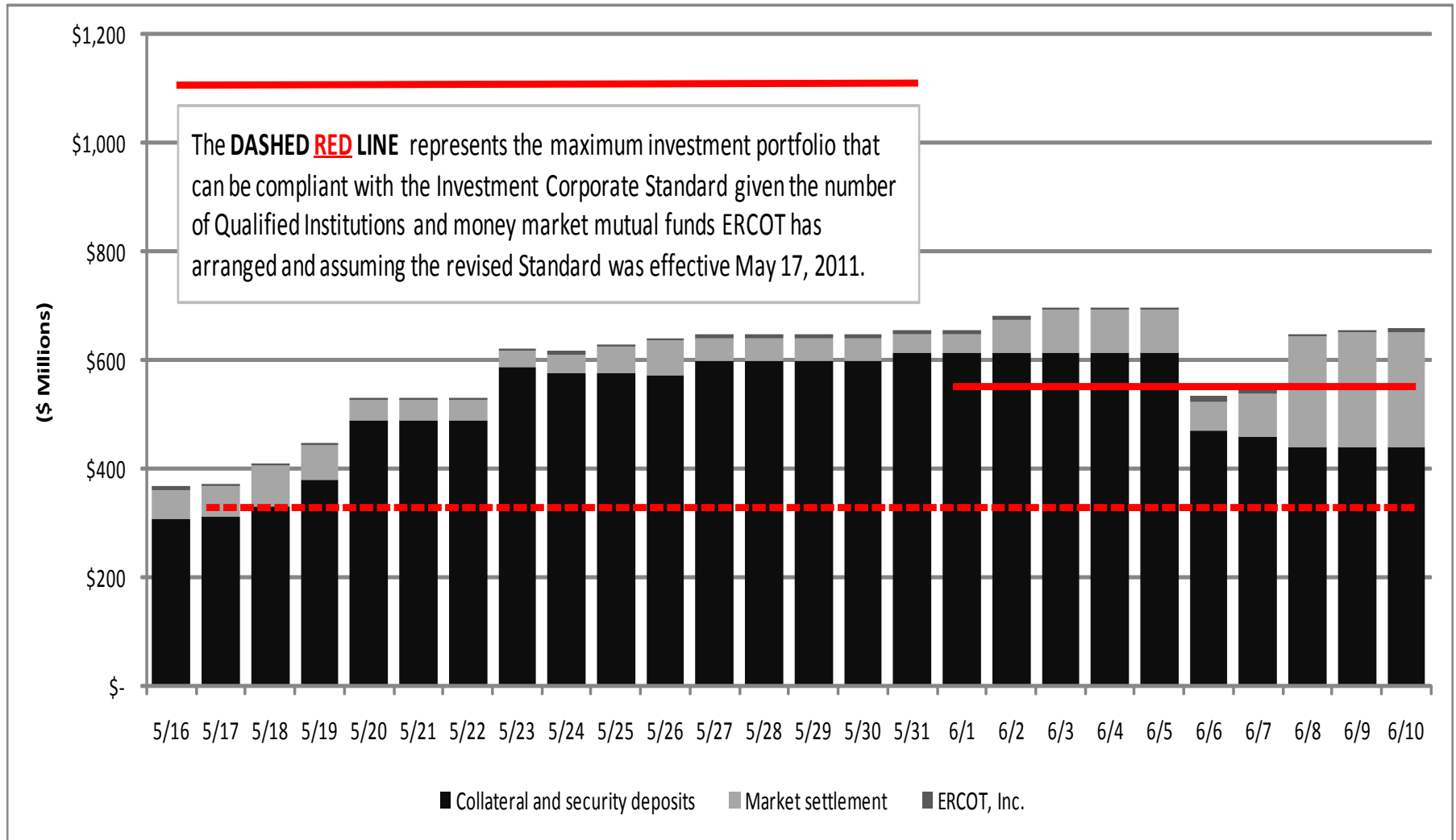
# 8. Committee Brief: Investment Report

## Leslie Wiley

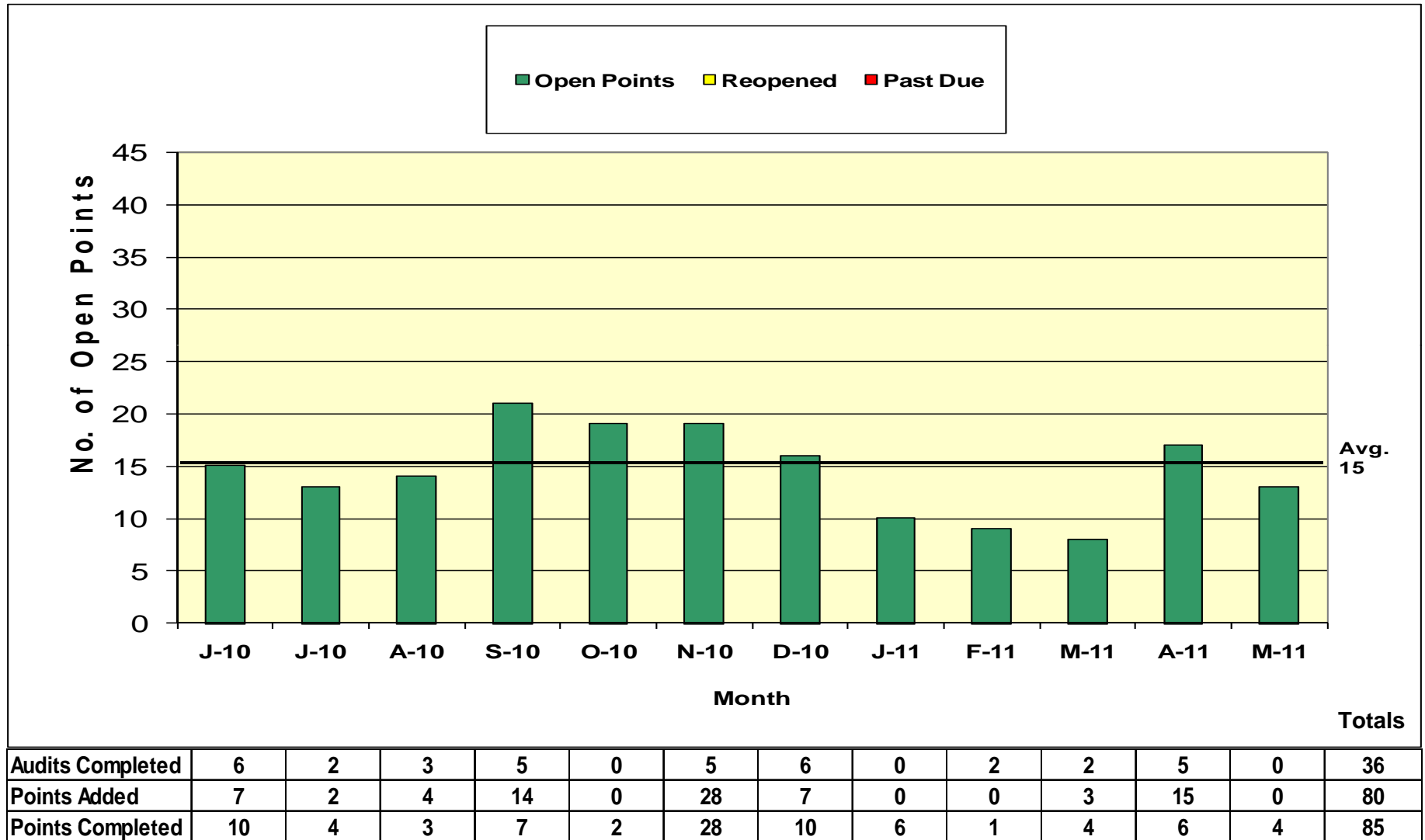


# 8. Committee Brief: Investment Report

## Leslie Wiley



## 8. Committee Brief: ICMP – Status of Open Audit Points Cheryl Moseley



All audit points except one expected to be complete by 12/31/11.



## 8. Committee Brief: ICMP – Audits Cheryl Moseley

### **Audits Completed**

(last 3 months)

#### **Internal Audits**

- Protocol 1.4 Required Audit – Independence
- Nodal Protocol 3.10(5) Required Audit – Consistent Information in Operations Models
- Payroll Overpayment to ERCOT Employee (Special Request)
- Allegis Resource Management
- Software/System Development Lifecycle
- Government Grant Contract Compliance
- Nodal Protocol 17.3 Required Audit – ERCOT Market Data Collection & Use

#### **External Audits**

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

### **Audits in Progress**

#### **Internal Audits**

- Standard for Black Start & EILS Agreements
- Q1 2011 Fraud Auditing
- Employee Compensation and Benefit Plan Practices – HR
- ADP – Payroll & Benefits
- Assessment of Completed Projects
- Control Program & ControlPath System Evaluation

#### **External Audits**

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

### **Planned Audits**

(next 3 months)

#### **Internal Audits**

- Integrated Business Application Testing
- Q2 2011 Fraud Auditing
- Enterprise Risk Management (Consulting & Advisory Services)
- Storage and Capacity Planning
- Business Continuity Plan (Including Disaster Recovery)

#### **External Audits**

- 401K Benefit Plan (Maxwell, Locke & Ritter)

## 8. Committee Brief: ICMP – Security Assessments Cheryl Moseley

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### **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 1st May 2011)**

Strategic	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Legal and Regulatory Compliance
<p> <b>Strategy Development</b></p> <p>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</p>	<p> <b>Performance Monitoring</b></p> <p>Clearly defined and actively monitored performance metrics linked to mission and goals - Performance status communicated and corrective action taken.</p>	<p> <b>Market Operations</b></p> <p>Effectively manage the evolution of the wholesale and retail markets to meet the changing business environment.</p>	<p> <b>Grid Operations</b></p> <p>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.</p>	<p> <b>Review Practices</b></p> <p>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</p>	<p> <b>Legal &amp; Legislative</b></p> <p>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</p>
<p> <b>Mission and Goals</b></p> <p>Corporate objectives and performance standards are understood and followed.</p>	<p> <b>Business Practices</b></p> <p>Business planning, processes and management standards are effective and efficient.</p>	<p> <b>Nodal Systems Stabilization</b></p> <p>Manage the deployment and stabilization of the nodal market systems</p>	<p> <b>Planning</b></p> <p>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</p>	<p> <b>Disclosure</b></p> <p>Reporting and other disclosures to intended parties is timely, accurate and effective.</p>	<p> <b>Internal Control Compliance</b></p> <p>Internal Control Compliance processes and management standards are effective, efficient, and provide stakeholders with required assurances of quality.</p>
<p>Strategic Plan has been approved since July of 2010 . Proposed 2011 KPIs under review by HR&amp;G Committee.</p>		<p>ERCOT working with stakeholders to address risk of exceeding 200,000 bid limit in balance of year CRR auction.</p>	<p>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. Options under review for implementation of a revised fee structure applicable to interconnection studies.</p>		<p>A limited SAS 70 Audit was completed in January (Type I). No control issues were identified. Preliminary testing for the SSAE16 audit is underway. No issues have been identified to date.</p>
<p> <b>Reputation</b></p> <p>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</p>	<p> <b>Workforce</b></p> <p>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</p>	<p> <b>Counterparty Credit</b></p> <p>Maintain credit risk exposure for overall market within acceptable limits.</p>	<p> <b>Bulk System Resources</b></p> <p>Market Participants construct and make available adequate bulk electric grid resources.</p>	<p> <b>Communication</b></p> <p>Internal &amp; external communications are timely and effective.</p>	<p> <b>Industry Standards</b></p> <p>Business and operational activities in compliance with all applicable regulatory, financial &amp; accounting requirements, standards, &amp; directives.</p>
<p>Reassessed reputation risk as a result of February cold weather event.</p>	<p>Employee retention risk likely to increase as economy continues to improve.</p>	<p>Color remains yellow pending the review of risk factors in the Nodal market requested by F&amp;A. Work is proceeding on the application for the CFTC exemption expected to be filed 20<sup>th</sup> June.</p>	<p>The December update of the CDR report forecasts reserve margins in 2013 and 2016 falling below the 13.75% target reserve margin. ERCOT continues to evaluate reserve margin scenarios.</p>	<p>An updated external communications plan has been issued following the February Energy Emergency Alert.</p>	<p>Compliance is believed to be on target for 'spot checks' of CIP compliance later in 2011.</p>
<p> <b>Fiscal Management</b></p> <p>ISO design requires competent, prudent and cost effective provision of services.</p>	<p> <b>Technology Infrastructure</b></p> <p>Information systems, supporting facilities and data are effectively managed and are reliable.</p>	<p> <b>Administration, Settlement &amp; Billing</b></p> <p>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</p>	<p> <b>Operational Responsibility</b></p> <p>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</p>	<p> <b>Adequacy and Integrity</b></p> <p>Robust processes exist to support management assertions embodied within financial reports.</p>	<p> <b>Regulatory Filings</b></p> <p>Evidence, testimony and other supporting materials are compelling and successful.</p>
			<p>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.</p>		

Notes:

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

Elevated risk level indicated by

Reduced risk level indicated by downward green arrow ()

## **9. Future Agenda Items: Meeting Matrix Without November Meeting**

### **Mike Petterson**

- **The Finance and Audit Committee Charter establishes the responsibilities of the Committee and reason for conducting Committee meetings**
- **Committee responsibilities can be placed in two categories:**
  1. Establish policies and provide operational guidance regarding
    - Financial matters
      - Financial reporting
      - Credit management
      - Investments
      - Budget
      - Risk management
      - Debt
    - Auditing matters
      - Internal audit
      - External audit
  2. Monitor compliance to established policies and operational guidance
- **Elimination of the November meeting can be accommodated**

ERCOT

Finance and Audit Committee

2011 Annual Meeting Planner and Future Agenda Items - ASSUMING NO NOVEMBER MEETING

Task Description	Charter Page #	Month												
		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											X		
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					A								
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	A	A							→
16 Review internal audit reports	6	A	A	A	A	A	A							→
17 Review Ethics Point issues	na	A	A	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					A	A							
27 Review and recommend debt structure	3						A							
28 Review IRS Form 990	na													
29 Review and accept 401(k) audit report	6													
30 Review and accept SSAE 16 audit report	5			A										
31 Review Committee briefs	na	A	A	A	A	A	A							→
32 Receive periodic investment report	na		A			A								→
33 Receive periodic liquidity report	na			A										
34 Quarterly Committee education on accounting developments	5			A			A							
35 Review financial institutions - market participants	6			A										
36 Receive periodic Potential Future Exposure report	na													→
37 Preapprove non-audit services	4				A									
38 Review any report by independent auditor	4	Performed on as-needed basis												
39 Review effect of regulatory accounting initiatives	5	Performed on as-needed basis												
40 Review complaints regarding financial statements	5			A	A									
41 Review press stories regarding financial statements	5	Performed on as-needed basis												
42 Periodic meeting with 401(k) auditor	na	Performed on as-needed basis												
43 Periodic meeting with SSAE 16 auditor	na	Performed on as-needed basis												
44 Review proposed audit of the nodal program	na		A											
45 Review credit procedures, practices, and judgments	na		A	A	A	A								
46 CFTC/FERC Credit Rule compliance	na				A	A	A							
47 Generation interconnection fee	na				A		A							

# 10. Other Business

## Mike Petterson

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