



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 206
September 19, 2011; 10:00am – 12:00pm*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
		Call Open Session to order and announce proxies	Jorge Bermudez	10:00am
1.	Vote	Approve general session minutes (8/15/11)	Jorge Bermudez	
2.	Discussion	Periodic Credit Work Group report	Tamila Nikazm	
3.	Discussion	ERCOT credit update (including discussion of ERCOT recommendations regarding PTP obligations in the upcoming annual CRR auctions)	Cheryl Yager	
4.	Discussion	Update on Commodities Exchange Act exemption	Mark Ruane	
5.	Discussion	Quarterly Committee education on accounting developments	Rebecca Beckham	
6.	Discussion	Review Committee briefs	Mike Petterson	
7.	Discussion	Future agenda items	Mike Petterson	
8.		Other business	Mike Petterson	
		Convene to Executive Session	Jorge Bermudez	
9.	Vote	Approve executive session minutes (8/15/11)	Jorge Bermudez	
10.	Discussion	Contract, personnel, security, compliance, risk management, litigation and regulatory matters	Jorge Bermudez	
11.	Discussion	Chief Audit Executive status report a. Internal audit status report b. Review draft 2012 internal audit plan c. EthicsPoint update	Bill Wullenjohn	
		Reconvene to Open Session		
		Adjourn meeting	Jorge Bermudez	12:00pm

** 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, October 17, 2011, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 206.*

1. Approve open session minutes (8/15/2011)

J. Bermudez

Vote to approve August 15, 2011 open session minutes



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

7620 Metro Center Drive, Room 206
Austin, Texas 78744
August 15, 2011 at 10:00 a.m.

Pursuant to notice duly given and after determination 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.

Meeting Attendance

Committee Members:

Director	Affiliation	Segment
Bermudez, Jorge (Vice Chairman)	Unaffiliated	Unaffiliated Director (Proxy for Miguel Espinosa)
Dreyfus, Mark	Austin Energy	Municipal (Beginning with Agenda Item 2)
Fehrenbach, Nick	City of Dallas	Commercial Consumer
Hendrick, Eric	Stream Energy	Independent Retail Electric Provider (REP)
Karnei, Clifton (Chairman)	Brazos Electric Power Cooperative, Inc.	Cooperative
Prochazka, Scott	CenterPoint Houston Electric LLC	Investor Owned Utility (IOU) Segment Alternate

Guest Board Members and Segment Alternates:

Director	Affiliation	Segment
Doggett, Trip	ERCOT	President and Chief Executive Officer (CEO)
Doll, Laura	Unaffiliated	Unaffiliated Director
Gent, Michehl	Unaffiliated	Unaffiliated Director
Givens, Sheri	Office of Public Utility Counsel	Residential Consumer
Gresham, Kevin	E.ON Climate & Renewables NA LLC	Independent Generator Segment Alternate
Nelson, Donna	Public Utility Commission of Texas (PUCT)	Chairman

Other Guests:

Cleary, Mike	ERCOT Senior Vice President and Chief Operating Officer
Cobos, Lori	ERCOT Associate Corporate Counsel
Day, Betty	ERCOT Vice President of Business Integration



Hancock, Misti	ERCOT Director of Finance
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
Wiley, Leslie	ERCOT Treasury Manager
Wullenjohn, Bill	ERCOT Director of Internal Audit
Yager, Cheryl	ERCOT Director, Credit

Clifton Karnei, F&A Committee Chairman, determined that a quorum was present and called the F&A Committee meeting to order at approximately 10:00 a.m. Chairman Karnei announced that Jorge Bermudez held a proxy for Miguel Espinosa and welcomed new Committee member Eric Hendrick. Chairman Karnei addressed the following Agenda Items in the order below.

Approval of August 15, 2011 Meeting Minutes (Agenda Item 1)

Chairman Karnei entertained a motion to approve the August 15, 2011 F&A Committee Meeting Minutes (Minutes).

Eric Hendrick moved to approve the Minutes as presented. Nick Fehrenbach seconded the motion. Nick Fehrenbach and Scott Prochazka abstained. The motion failed for lack of sufficient votes.

The Committee reconsidered the Minutes later in the meeting.

Recommend 2012 Base Operating Budget and Project Priority List (PPL) (Agenda Item 2)

Misti Hancock provided an overview of the 2012 Base Operating Budget and PPL to the Committee members. Ms. Hancock, Trip Doggett, Mike Petterson, and Bill Magness responded to comments and questions from the Committee members.

Mr. Bermudez moved to recommend Board approval of the 2012 Base Operating Budget and PPL as presented. Mr. Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Approval of August 15, 2011 Meeting Minutes (Agenda Item 1) - Continued

Chairman Karnei entertained another motion to approve the Minutes since the first motion failed for lack of sufficient votes.

Mr. Hendrick moved to approve the Minutes as presented. Mr. Bermudez seconded the motion. Mr. Fehrenbach and Mr. Prochazka abstained. The motion passed by voice vote.



Review Results of and Vote on Acceptance of the 2010 401(k) Audit Report (Agenda Item 3)

Mr. Fehrenbach moved to recommend Board acceptance of the 2010 401(k) Savings Plan Audit Report as presented. Mr. Bermudez seconded the motion. The motion passed by unanimous voice vote with no abstentions.

ERCOT Response to National Debt Ceiling Issues (Agenda Item 4)

Mike Petterson provided an overview of ERCOT's response to national debt ceiling issues and responded to comments and questions from the Committee members.

Review and Recommend Updated Investment Corporate Standard (Agenda Item 5)

Leslie Wiley provided an overview of proposed changes to the Investment Corporate Standard. Ms. Wiley and Mr. Petterson responded to comments and questions from the Committee members.

Update on Commodities Exchange Act (CEA) Exemption (Agenda Item 6)

Mark Ruane provided an update on CEA exemption issues and responded to comments and questions from the Committee members.

Review Committee Briefs (Agenda Item 7)

Cheryl Yager noted that the Board would be considering three Nodal Protocol Revision Requests (NPRRs) that have credit implications at the August 2011 Board meeting. Mr. Petterson noted the quarterly compliance statement regarding the Investment Corporate Standard and stated that areas of noncompliance have been previously discussed with 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:

- Revisions to the Investment Corporate Standard;
- Credit Work Group (CWG) Report;
- Standard Internal Audit Agenda Items;
- Quarterly Update on Accounting Developments, Judgments, and Risks;
- Quarterly Review of Market Participants that are also financial institutions doing business with ERCOT; and
- Update on CEA exemption issues.

Other Business (Agenda Item 9)

There was no other business considered at this time.

Convene to Executive Session (Agenda Items 10 to 12)

Chairman Karnei adjourned the F&A Committee meeting into Executive Session at approximately 11:09 p.m.

Reconvene to Open Session

Chairman Karnei reconvened the Open Session of the F&A Committee meeting at approximately



11:42 a.m. There were no voting items from Executive Session. Chairman Karnei adjourned the F&A Committee meeting at approximately 11:43 a.m.

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

Vickie G. Leady
Assistant Corporate Secretary

Nodal credit calculations

- **Pre-DAM credit validation**

- PTP obligations offset with CRRs (Q2) - NPRR 323 - Implemented in July 2011
- e-Factors/replacement for e-Factors (Q3) - Deferred until 2012 or as needed

- **CRR auction credit validation**

- Revision to collateral requirement for CRR Auction- NPRR 357- Approved by BOD, to be implemented in Q1 of 2012
- Credit Review during CRR Auction - NPRR 392- Approved by BOD
- Initial margin (A & M) **(BOY/AA)** - In Progress
- Collateralization of purchase price **(BOY/AA)** – Deferred until 2012 or as needed

Nodal credit calculations (continued)

- **CMM core systems**

- Tightening of settlement / payment cycle and related collateral requirements
 - Single Daily Invoice and Update to Credit Calculation-NPRR 347- approved by BOD in August 2011- To be implemented by Mid 2012
 - Shortening RTM Settlement and Payment Timeline-NPRR 391- Approved by TAC in September 2011
- Adequacy of collateral held for forward risk (Q2)
 - Establishes a Minimum Collateral Exposure (MCE)- NPRR 347- Approved by BOD- To be implemented by Mid 2012
- FCE calculations - CRR exposure and collateral **(BOY/AA)** – Deferred until 2012 or as needed

Netting/mutuality - First Priority Security Interest

- **ERCOT as central counterparty / other alternative (BOY/AA)**
 - CFTC Requirement; ERCOT pursuing move to a Central Counter-Party.
IRS requested to confirm tax-exempt status of CCP – In Progress

ERCOT unsecured credit policies

- **Review of the unsecured credit cap(Q1)**
 - \$50MM cap - In Progress - CWG voted to recommend on Aug 5th
 - Eliminate unsecured credit for CRR obligations – In Progress - NPRR
400 at PRS – CWG voted to recommend on Aug 31st
- **Form of LCs and guarantees**
 - New forms approved by the BOD in July 2011
- **Comparison to best practices (Q3)- In Progress**
- **Comprehensive review of assignment of unsecured credit (Q4)-
In Progress**

Review investment practices

- **Recommend changes to current investment practices (Q3) –
Deferred until 2012**



ERCOT Credit Update

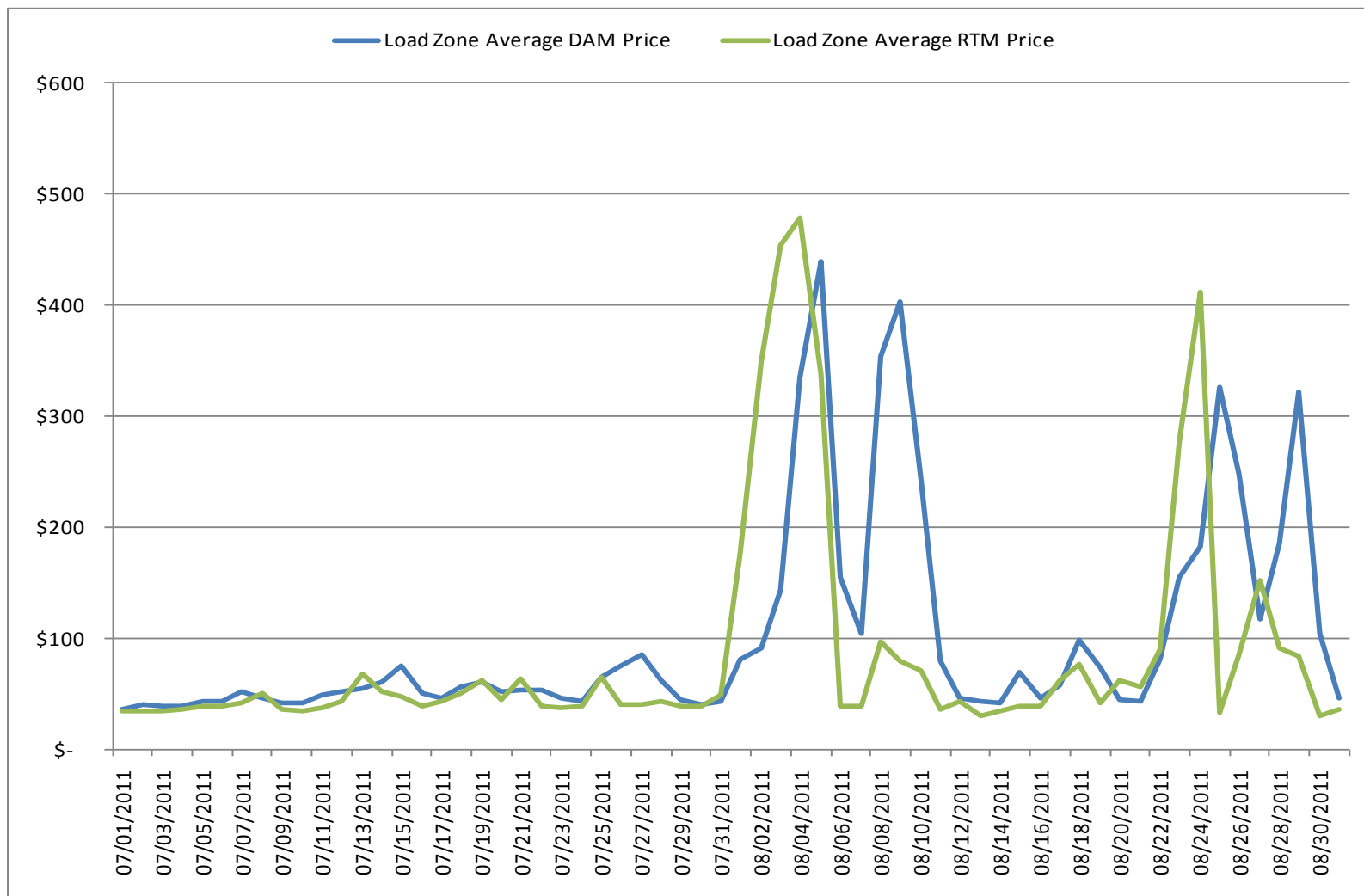
Cheryl Yager
Director, Credit

F&A Committee Meeting
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- **Credit impact of hot weather and high prices in August 2011**
 - Average Daily Load Zone Prices in July and August– DAM and RTM
 - Total Daily Statement Amounts in July and August –DAM and RTM
 - Impact on Total Potential Exposure (TPE) and credit limits
 - Impact on DAM credit parameters and credit consumption
- **Approval of source and sink Settlement Point Prices to be used in annual CRR auction**

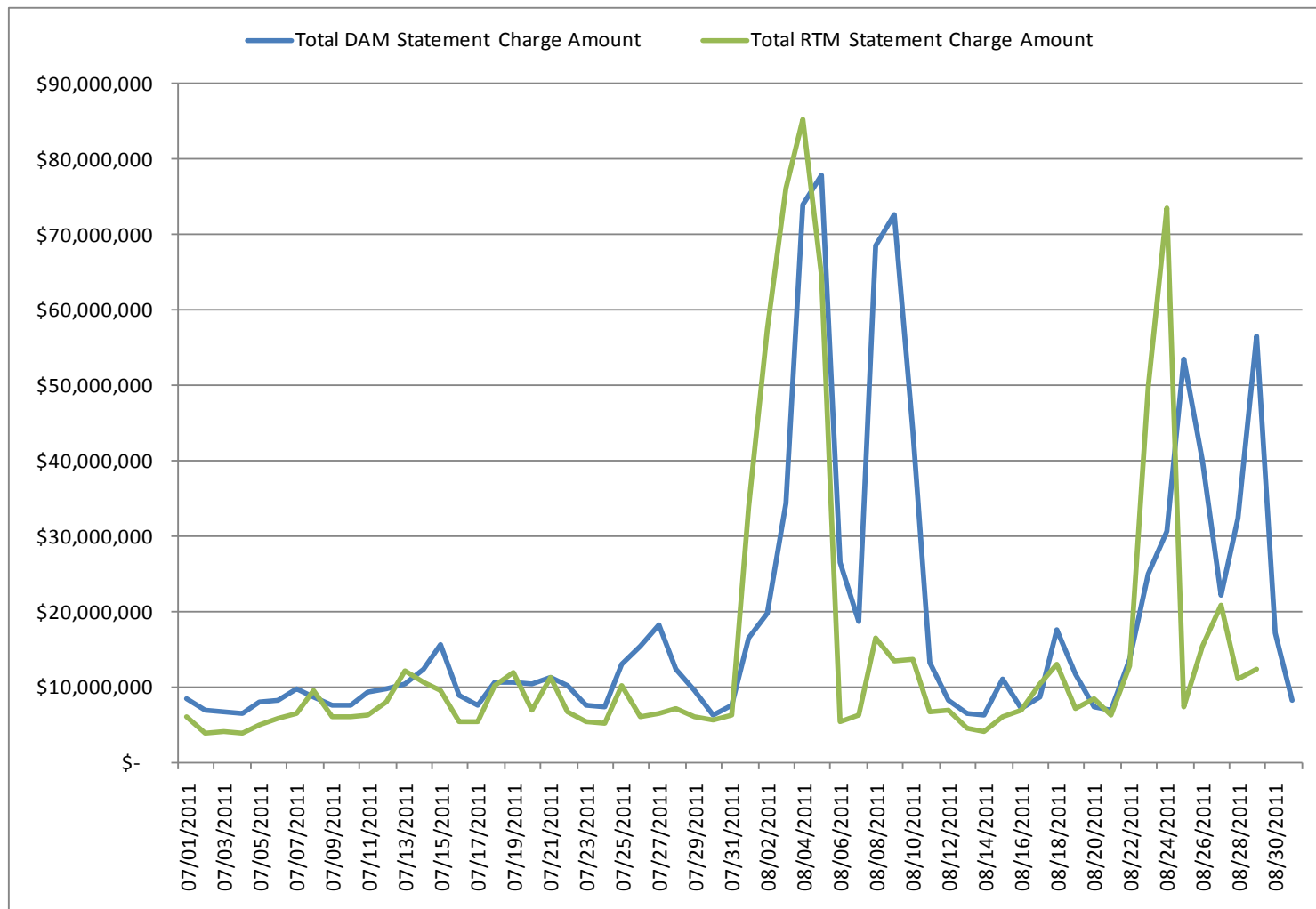
3. ERCOT Credit Update

Average Daily Load Zone Prices in July and August – DAM and RTM



3. ERCOT Credit Update

Total Daily Statement Amounts in July and August – DAM and RTM



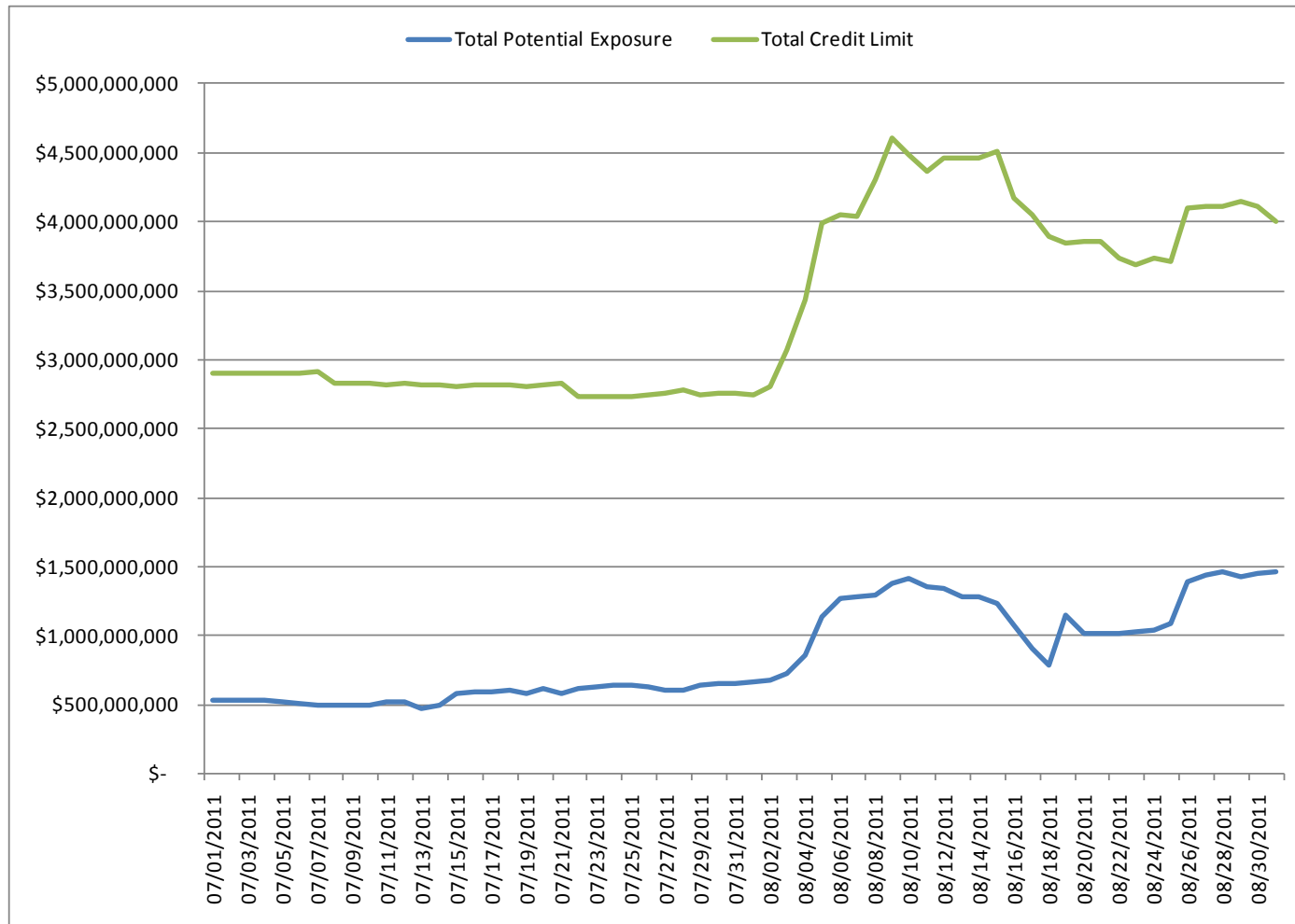
3. ERCOT Credit Update

Impact on Total Potential Exposure and credit limits

- **The high prices experienced in August resulted in**
 - An increase of approximately \$0.8 billion in Total Potential Exposure (TPE) from \$ 0.7 billion to \$ 1.5 billion
 - An increase of approximately \$1.3 billion in the Credit Limit (resulting primarily from increases in collateral held) from \$2.7 billion to \$4.0 billion
- **TPE and Credit Limits are expected to revert to normal levels over the next 30-60 days if prices continue to be moderate in September**
- **ERCOT experienced no defaults during August**

3. ERCOT Credit Update

Impact on Total Potential Exposure and credit limits Total



3. ERCOT Credit Update

Impact on DAM credit parameters and credit consumption

- **The credit parameters utilized in the DAM are based on a “look back” at historical values over the past 30 days**
 - DAM credit parameters began reflecting the high prices experienced in August 2011 causing the credit consumed in the DAM to increase.
- **Credit consumed in the DAM is expected to revert to normal levels over the next 15-30 days if prices continue to be moderate in September**

3. ERCOT Credit Update

Impact on DAM credit parameters and credit consumption

	Total Credit Consumed in the DAM		
	Lowest Daily Credit Consumed	Highest Daily Credit Consumed	Average Daily Credit Consumed
July, 2011	101,301,623	169,491,089	127,301,873
August, 2011	124,919,861	344,487,991	246,581,523

- **At the September BOD meeting, the Board will be asked to approve the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points for terms of longer than one month in conjunction with the annual Congestion Revenue Rights (CRR) Auction**
- **Collateral is required for all PTP Obligations both**
 - a) within the auction process and
 - b) for all open positions held post auction
- **Collateral requirements for all open positions are**
 - a) updated daily and
 - b) based on a combination of the Auction Clearing Price and recent historical pricing.
 - This methodology ensures that collateral requirements are responsive to recent path specific activity.

- **ERCOT has reviewed its collateral requirements for CRRs held post-auction for all open positions and believes that the collateralization methodology used reasonably mitigates the credit risk.**
- **In addition, while collateral requirements within the auction process are not customized by path, ERCOT believes that this risk is reasonably mitigated by the combination of**
 - a) the credit requirements within the auction and
 - b) the final review that ERCOT will (authorized in the recently approved NPRR 392) conduct before the auction results are posted to ensure that post-auction collateral will be sufficient.
- **ERCOT staff respectfully recommends that the ERCOT Board approve all Settlement Points - including all Resource Nodes, all Load Zones, and all Hubs—as eligible for inclusion as a source Settlement Point or a sink Settlement Point for a PTP Obligation with a term of up to one year for the next two calendar years**

Questions?



Commodities Exchange Act Exemption Status

Mark Ruane

ERCOT Vice President of Credit and Enterprise Risk Management

Bill Magness

ERCOT Vice President, General Counsel and Corporate Secretary

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ERCOT Public

As authorized by the Board in May, ERCOT is in the process of preparing an application for a Commodity Exchange Act exemption with the CFTC.

- ERCOT is continuing discussions with the CFTC with respect to the scope and terms of an exemption.
- The filing date is not yet known.
- At this time ERCOT expects to continue to seek Central Counterparty (CCP) status, which appears to provide setoff protections in bankruptcy.
- ERCOT staff has posted the portions of the draft CFTC exemption application that reference ERCOT standards and plans on the ERCOT website.

4. Update on Commodity Exchange Act exemption

Expected CFTC conditions for Commodity Exchange Act exemption

	Item	Status
1.	Reduce settlement timeline	<ul style="list-style-type: none"> NPRR 347 combines invoices for day-ahead and real time markets (approved by Board in August). NPRR 391 shortens settlement cycle by one day and eliminates Automated Clearing House (ACH) payments (September TAC vote).
2.	Two-day limit to cure collateral calls	No action necessary.
3.	Elimination of unsecured credit in CRR market	NPRR 400 filed (September PRS review).
4.	Disallowance of netting between CRR and non-CRR markets	
4.	\$50m limitation on unsecured credit	Revision to Creditworthiness Standard approved by CWG on August 4 th . Expect to request Board action at October Board meeting.
6.	Become a central counterparty (CCP)	Request for IRS letter ruling to confirm tax-exempt status of CCP is pending.
7.	Criteria for market participation	Proposed standards for participant attestation, capitalization and risk management capability verification reviewed with CWG on August 4 th . NPRR to be drafted as scope finalized. Verification standards under joint review by ISOs/RTOs and by CCRO.

Central Counterparty

- Use of a CCP structure was proposed as part of FERC order 741. The rationale is to clarify the ISO/RTO's legal status in market transactions and therefore help ensure mutuality.
- This clarification was deemed necessary by FERC to provide legal support for the right to set-off offsetting positions in bankruptcy.
- The CCP approach was adopted independently by PJM (PJM Settlement Inc.) in January 2011. In addition to providing clarity as to mutuality, PJM also argued that the CCP structure provides value to market participants wishing to optimize credit positions across different PJM markets.

Central Counterparty

- It is ERCOT staff's understanding that all ISOs/RTOs except MISO will be adopting a CCP structure. MISO maintains that the resulting mutuality lacks substance and would not be upheld.
- ERCOT external counsel has indicated that, in their opinion, establishment of a CCP would be the cleanest way to ensure set-off across ERCOT markets (including Day Ahead and Real Time) in the event of bankruptcy.
- ERCOT staff does not believe that becoming a CCP will significantly increase risk to ERCOT, Inc. given the protection in the Protocols that requires ERCOT to uplift losses to market participants in the event of a market participant default.
 - ERCOT staff believes that the language in the Protocols, along with revised contracts with Market Participants, will adequately address potential risks

Central Counterparty - Implementation

- A CCP would not be implemented until
 - a) receipt of IRS confirmation that ERCOT would maintain tax exempt status and,
 - b) final authorization from the Board of Directors.
- ERCOT is considering legal options for establishing the CCP. It is ERCOT staff's current view that a separate legal entity would not meet ERCOT's immediate needs, and there is a risk it would entail greater costs and administrative complexity.
- ERCOT banks have been notified that ERCOT is contemplating becoming a CCP.
- It is anticipated that some revisions will be required to Protocols and to the Standard Form Market Participant Agreement.
- A subgroup of the CWG interested in exploring the use of a 3rd party as a CCP are looking into the potential benefit to market participants

Questions

Current and Proposed Guidance on Audit Firms

- The Sarbanes-Oxley Act of 2002 included a number of significant provisions designed to bolster the auditor's independence from the company under audit. These included:
 - charging the audit committee with oversight of the audit
 - prohibiting firms from providing certain non-audit services to audit clients
 - requiring audit partner rotation
- The Public Company Accounting Oversight Board (PCAOB) believes these reforms have improved audit quality, but they have continued to find instances of auditors failing to apply the required level of independence, objectivity, or professional skepticism.
- The PCAOB is currently considering whether other approaches will foster a more fundamental shift in the way the auditor views its relationship with its audit client.

Current and Proposed Guidance on Audit Firms, cont.

- The PCAOB issued a concept release (No. 2011-006) on auditor independence and mandatory audit firm rotation in August 2011.
 - The PCAOB is seeking comment on whether mandatory rotation would significantly enhance auditors' objectivity and ability and willingness to resist management pressure.
 - Mandatory audit firm rotation has been considered since the 1970s.
 - Proponents of audit firm rotation believe this would free the auditor from the effects of management pressure and offer a fresh look at a company's financial reporting.
 - Opponents have expressed concerns about costs that changing auditors could impose as well the impact on audit quality in the beginning years.
 - The PCAOB notes that auditor tenure averages 28 years for the largest 100 companies and 21 years for the largest 500 companies.
 - They question whether audit committees have considered implementing a policy of audit firm rotation, and if not, why this has not been considered.

Appointment process for ERCOT's external audit firms

- Annually, ERCOT receives an external audit of the following financial areas:
 - Financial statement audit
 - Service organization control audit (previously known as SAS 70)
 - 401(k) savings plan audit
- Under ERCOT Bylaws, the Board of Directors (Board) should annually appoint the independent public accounting firm to audit ERCOT's financial statements.
- Under their charter, the Finance & Audit Committee should:
 - Recommend selection of the financial statement audit firm to the Board
 - Select and authorize engagement of an audit firm for the Service organization control and 401(k) savings plan audits
 - Provide recommendation to the Board for acceptance of each audit report
- Each audit firm should attest to their independence annually.
- ERCOT reviews competitive pricing or bids for audit services as needed.

Current external audit firms and related lengths of service

Firm	Service	Service Period	Last vendor competition
Ernst & Young LLP	Financial statement audit	2009-2011	2009
BrightLine CPAs and Associates, Inc.	Service organization control audit	2009-2011	2009
Maxwell Locke & Ritter LLP	401(k) savings plan audit	2007-2011	2006

Potential new audit services for 2011

- Under the Single Audit Act and Circular A-133, non-federal entities that spend \$500,000 or more in a year in Federal awards shall have a single audit conducted for that year.
- The A-133 audit scope centers around fair presentation of the financial statements, Federal award expenditures, internal control over Federal programs, and compliance with laws, regulations, and the provisions of the Federal contracts.
- The cost of the audit is an allowable charge to the Federal award, and the audit must be completed within nine months of the end of the audit period.
- In December 2009, ERCOT was awarded \$3.5 million in grants from the Department of Energy for transmission analysis and planning. As of August 31st, ERCOT has spent approximately \$650,000 of these funds in 2011.
- ERCOT is currently reviewing options for the upcoming A-133 audit and is determining if this work can be combined with the annual financial statement audit.

ERCOT Market Credit Status

as of 7/31/2011						as of 8/31/2011				
	# of CPs*	Total Potential Exposure (\$)	% of TPE	Total Credit Limit		# of CPs*	Total Potential Exposure (\$)	% of TPE	Total Credit Limit	
Exposure in the ERCOT Market (owed to ERCOT)										
<u><i>QSEs that meet ERCOT Creditworthiness Standards</i></u>										
Ratings over BBB-	10	48,415,771	7%	512,865,869	U	9	60,791,282	4%	581,394,409	U
<u><i>QSEs that do not meet ERCOT Creditworthiness Standards</i></u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	72	366,804,923	55%	895,861,365	S	77	1,075,230,733	73%	2,111,279,463	S
Guarantee Agreements	29	249,891,005	38%	754,430,071	S	27	347,050,637	23%	815,138,034	S
Total Exposure	111	665,111,698	100%	2,163,157,305		113	1,483,072,652	100%	3,507,811,906	
Other QSEs in the ERCOT Market (ERCOT owes)										
<u><i>QSEs that meet ERCOT Creditworthiness Standards</i></u>										
Ratings over BBB-	16	(739,990)	-8%	372,470,003	U	19	(1,108,799)	-5%	263,044,874	U
<u><i>QSEs that do not meet ERCOT Creditworthiness Standards</i></u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	89	(8,495,241)	-92%	76,129,633	S	87	(21,752,414)	-95%	83,761,021	S
Guarantee Agreements	11	-	0%	141,506,298	S	13	-	0%	122,347,563	S
Total	116	(9,235,231)	-100%	590,105,934		119	(22,861,214)	-100%	469,153,458	
<i>Total</i>	227	655,876,467		2,753,263,239		232	1,460,211,438		3,976,965,364	

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: As a result of the high prices in August 2011, TPE increased by approximately \$0.8 billion, more than doubled the TPE at July 31, 2011.

To cover this exposure, Counter-Parties increased collateral by approximately \$1.2 billion.

Summary Benchmark Report as of August 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	97	-	-				8,290	6,450	14,588
w/ Load and/or Generation	70	898,096	965,050				993,201	370,121	2,012,442
Total	167	898,096	965,050	72%	74%	78%	1,001,491	376,571	2,027,030
Above High									
w/ No Load and No Generation	28	-	-				88,923	9,484	19,952
w/ Load and/or Generation	25	106,461	93,300				382,837	60,250	151,477
Total	53	106,461	93,300	23%	9%	8%	471,760	69,734	171,430
Below Low									
w/ No Load and No Generation	4	-	-				463	1,146	2,740
w/ Load and/or Generation	8	216,249	174,452				(13,503)	27,081	336,624
Total	12	216,249	174,452	5%	18%	14%	(13,040)	28,227	339,364
Total as of August 31, 2011	232	1,220,806	1,232,801	100%	100%	100%	1,460,211	474,532	2,537,824
Total as of July 31, 2011	227	1,161,423	1,171,783				655,876	276,200	912,644

Benchmark Assumptions

		Forward Risk Estimate				
		Volume Component			Price Component	
	Historical Risk	Basis	# of days	Factor	Basis	Price volatility factor
Low Benchmark						
Counter-Parties - Load only	Outstanding receivable/payable - invoiced and estimated	30-day average total load volume	2	1.0	Avg real time price - floor - \$25, cap - \$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
High Benchmark						
Counter-Parties - Load only	Outstanding receivable/payable - invoiced and estimated	Highest total load volume over past 30-days	9	1.0	Avg real time price - floor - \$25, cap - \$150	1.5
Counter-Parties - Generation only	Outstanding receivable/payable - invoiced and estimated	Highest total generation volume over past 30-days	6	0.2	Avg real time price - floor - \$25, cap - \$150	1.5
Counter-Parties - neither Load or Generation	Outstanding receivable/payable - invoiced and estimated	Highest imbalance volume over past 30-days (real time activity)	6	1.0	Avg real time price - floor - \$25, cap - \$150	1.5
		Highest DAM sales volume over past 30-days	2	1.0	Avg real time price - floor - \$25, cap - \$150	1.5

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

6. Committee Brief: Investment Report

Leslie Wiley

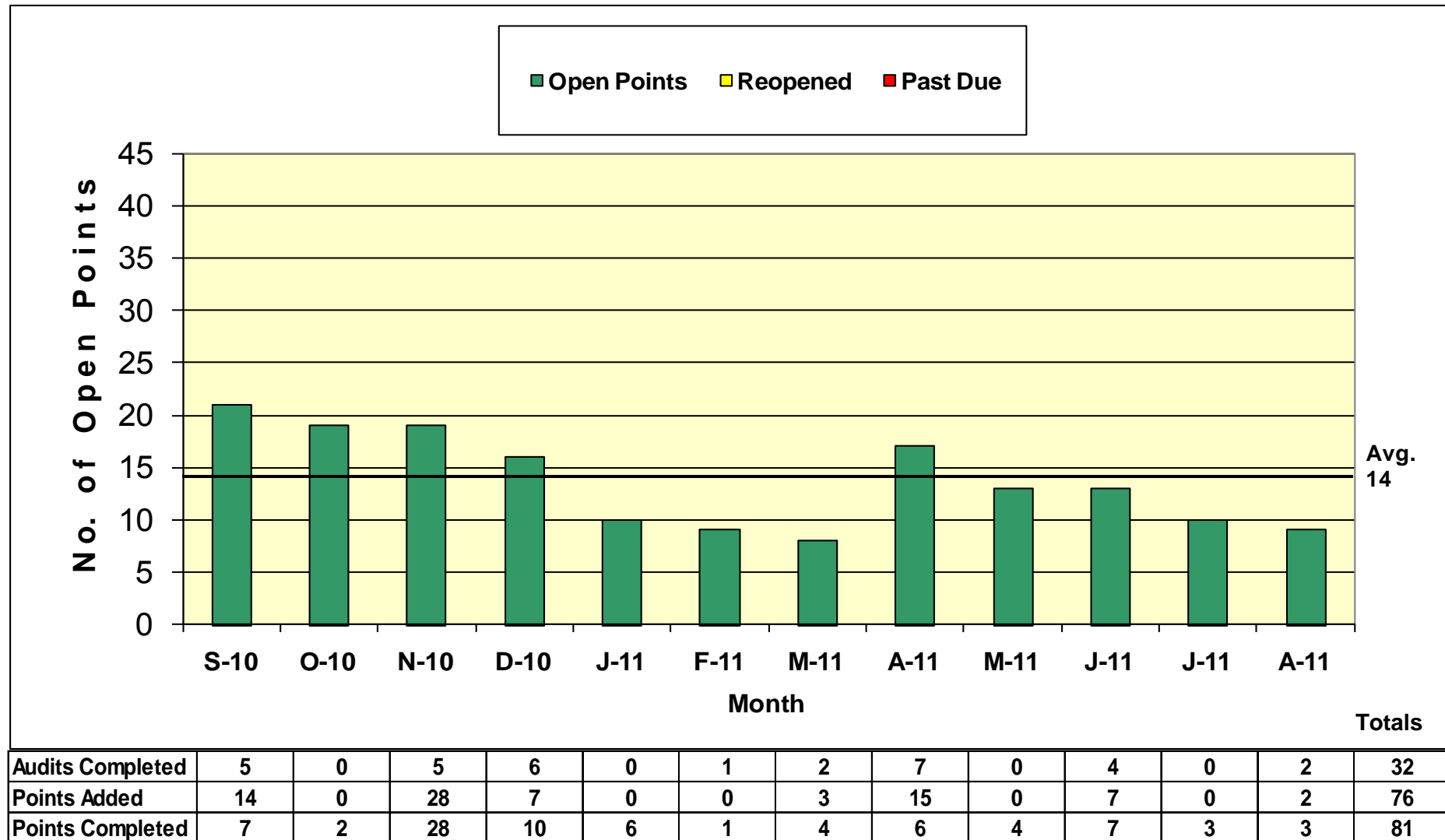
ERCOT
Summary of Investments
August 31, 2011

August 31, 2011				
Counter Party	Treasury	Treasury and Treasury Repo	Total Invested	Percentage of Investments
	----- \$ millions -----			

Goldman Sachs	\$ 50.0		\$ 50.0	9%
Western Asset	50.0		50.0	9%
Fidelity	49.0	1.0	50.0	9%
Wells Fargo	44.0	6.0	50.0	9%
Morgan Stanley		50.0	50.0	9%
UBS		50.0	50.0	9%
Federated	29.1	20.8	49.9	9%
BlackRock	34.0	15.9	49.9	9%
Invesco		49.7	49.7	9%
SSgA	49.4		49.4	9%
JPMorgan		49.4	49.4	9%
Bank of America		1.0	1.0	0%
Total	\$ 305.5	\$ 243.8	\$ 549.3	100%

6. Committee Brief ICMP: Status of Open Audit Points

Cheryl Moseley



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

6. Committee Brief: ICMP – Audits

Cheryl Moseley

Audits Completed

(last 3 months)

Internal Audits

- Q1 2011 Fraud Auditing
- Employee Compensation and Benefit Plan Practices
- ADP – Payroll & Benefits
- Standard for Black Start & EILS Agreements
- Q2 2011 Fraud Auditing
- ControlPath System
- WAN Management Fee Proposal (Special Request)

External Audits

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

Audits in Progress

Internal Audits

- Assessment of Completed Projects
- Control Program Control Self Assessment Process
- Data Center Procurement Process
- Cash & Investments
- Business Continuity Plan (Including Disaster Recovery)
- Storage and Capacity Planning

External Audits

- 2011 Type 2 SSAE 16 (SAS 70) Audit (BrightLine CPAs & Associates, Inc. – no exceptions noted during Phase 1 Testing; Phase 2 Testing starts 9/19)

Planned Audits

(next 3 months)

Internal Audits

- Business Integration Testing
- Q3 2011 Fraud Auditing
- Protocol 1.4 Required Audit – Ethics (Employee & Contractor Ethics)
- Market Credit
- Enterprise Risk Management Implementation/Integration
- Nodal Program Recognition Award Payments (Special Request)

External Audits

- None

6. 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 1st September 2011)

Strategic	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Legal and Regulatory Compliance
1 Strategy Development <i>Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.</i>	1 Performance Monitoring <i>Clearly defined and actively monitored performance metrics linked to mission and goals- Performance status communicated and corrective action taken.</i>	1 Market Operations <i>Effectively manage the evolution of the wholesale and retail markets to meet the changing business environment.</i>	1 Grid Operations <i>Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.</i>	1 Review Practices <i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.</i>	3 Legal & Legislative <i>Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.</i>
1 Mission and Goals <i>Corporate objectives and performance standards are understood and followed.</i>	1 Business Practices <i>Business planning, processes and management standards are effective and efficient.</i>	2 Nodal Systems Stabilization <i>Manage the deployment and stabilization of the nodal market systems</i>	2 Planning <i>Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.</i>	1 Disclosure <i>Reporting and other disclosures to intended parties is timely, accurate and effective.</i>	3 Internal Control Compliance <i>Internal Control Compliance processes and management standards are effective, efficient, and provide stakeholders with required assurances of quality.</i>
Strategic Plan has been approved since July of 2010 . Proposed 2011 KPIs under review by HR&G Committee.			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.		A limited SAS 70 Audit was completed in January (Type I). No control issues were identified. Testing for the SSAE16 audit is underway. No issues have been identified to date.
3 Reputation <i>Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.</i>	3 Workforce <i>Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.</i>	4 Counterparty Credit <i>Maintain credit risk exposure for overall market within acceptable limits.</i>	4 Bulk System Resources  <i>Market Participants construct and make available adequate bulk electric grid resources.</i>	2 Communication <i>Internal & external communications are timely and effective.</i>	3 Industry Standards <i>Business and operational activities in compliance with all applicable regulatory, financial & accounting requirements, standards, & directives.</i>
Increased visibility of ERCOT during recent series of EEA events.	Employee retention risk likely to increase if economy continues to improve.	Work is proceeding on the CFTC application for the CEA exemption expected to be filed in August. Elevated level due to potential credit impact of the extended period of high prices.	Elevated due to ongoing impact of drought and potential impact of EPA Cross-State Air Pollution Rule.	An updated external communications plan has been issued following the February Energy Emergency Alert.	Compliance is believed to be on target for 'spot checks' of CIP compliance later in 2011.
1 Fiscal Management <i>ISO design requires competent, prudent and cost effective provision of services .</i>	1 Technology Infrastructure <i>Information systems, supporting facilities and data are effectively managed and are reliable.</i>	1 Administration, Settlement & Billing <i>Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.</i>	3 Operational Responsibility <i>Market participant conduct their operations in a manner which facilitates consistent grid reliability.</i>	1 Adequacy and Integrity <i>Robust processes exist to support management assertions embodied within financial reports.</i>	1 Regulatory Filings <i>Evidence, testimony and other supporting materials are compelling and successful.</i>
			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 the issues.		

Notes:

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

Elevated risk level indicated by (↑). Reduced risk level indicated by downward green arrow (↓).

Numbers correspond to colors as follows:

Red - 5

Red-Yellow - 4

Yellow - 3

Yellow - Green - 2

Green - 1

6. Committee Brief: Financial Institutions That Are Market Participants – Leslie Wiley

<u>Market Participant</u>	<u>Financial Institution</u>	<u>Services Provided</u>
Bank of America, N.A. (also their subsidiary, Merrill Lynch)	Bank of America, N.A. or affiliate	Lender, bank account, money market funds
J Aron and Company	Goldman Sachs Asset Management LP	Money market funds
JPMorgan Ventures Energy Corporation	JPMorgan Chase, N.A. or affiliate	Lender, bank accounts, money market funds, purchasing card
Morgan Stanley Capital Group, Inc.	Morgan Stanley Distribution, Inc.	Money market funds
Wells Fargo Commodities	Wells Fargo Bank, N.A. or affiliate	Lender, money market funds
<i>Note: ERCOT's 401(k) has mutual fund options that may include securities from these or other market participants.</i>		

ERCOT

Finance and Audit Committee

2011 Annual Meeting Planner and Future Agenda Items - NOVEMBER MEETING CANCELLED

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					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	A								A	←		
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							A					
14 Review and approve internal audit charter	6			A									
15 Periodic meeting with Chief Audit Executive	6 & 7	A	A	A	A	A	A	A	A	A		→	
16 Review internal audit reports	6	A	A	A	A	A	A	A	A	A		→	
17 Review Ethics Point issues	na	A	A	A	A	A	A	A	A	A		→	
18 Review effectiveness of internal audit functions	6												
19 Review and approve annual internal audit plan	6									A	←		
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	A	A				
27 Review and recommend debt structure	3						A	A	A				
28 Review IRS Form 990	na							A					
29 Review and accept 401(k) audit report	5								A				
30 Review and accept SSAE 16 audit report	5			A									
31 Review Committee briefs	na	A	A	A	A	A	A	A	A	A		→	
32 Receive periodic investment report	na		A			A			A			→	
33 Receive periodic liquidity report	na			A									
34 Quarterly Committee education on accounting developments	5			A			A			A			
35 Review financial institutions - market participants	6			A						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	A	A				
47 Generation interconnection fee	na				A		A						