Finance & Audit Committee Meeting

April 16, 2012

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Item	1
Topic	Call open session to order and announce proxies
Presenter	Clifton Karnei
Purpose	Discussion

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Item	2
Topic	Approve general session minutes February 20, 2012
Presenter	Clifton Karnei
Purpose	Vote to approve general session meeting minutes from February 20, 2012

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

Electric Reliability Council of Texas, Inc.
7620 Metro Center Drive (Room 206) - Austin, Texas 78744
February 20, 2012; 1:00 pm – 4:00 pm

Pursuant to notice duly given, 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.

Committee Members:

Director	Affiliation	Segment
Bermudez, Jorge (Vice Chairman)	Unaffiliated	Unaffiliated Director
Fehrenbach, Nick	City of Dallas	Commercial Consumer (except for Agenda Items 1 through 4 and 6)
Gent, Michehl	Unaffiliated	Unaffiliated Director
Gresham, Kevin	E.ON Climate & Renewables NA, LLC	Independent Generator
Karnei, Clifton (Chairman)	Brazos Electric Power Cooperative, Inc.	Cooperative
Prochazka, Scott	CenterPoint Energy Houston Electric, LLC	Investor Owned Utility
Walsh, Judy	Unaffiliated	Unaffiliated Director

Guest Board Members and Segment Alternates:

Director	Affiliation	Segment
Doggett, H.B. “Trip”	ERCOT	President and Chief Executive Officer (CEO) (except for Agenda Items 5 and 8 through 16)
Nelson, Donna	Public Utility Commission of Texas (PUCT)	Chairman (except for Agenda Items 1 through 4 and 6)

Other Guests:

Beckham, Rebecca	ERCOT Manager of Financial Reporting
Day, Betty	ERCOT Vice President of Business Integration
Leady, Vickie	ERCOT Assistant General Counsel and Assistant Corporate Secretary
Magness, Bill	ERCOT Vice President, General Counsel and Corporate Secretary
Petterson, Mike	ERCOT Vice President of Finance and Treasury
Ruane, Mark	ERCOT Vice President of Credit and Enterprise Risk Management

Wiley, Leslie	ERCOT Manager of Treasury
Wullenjohn, Bill	ERCOT Director of Internal Audit

Call Open Session to Order and Announce Proxies (Agenda Item 1)
Trip Doggett, ERCOT President and CEO, determined that a quorum was present and called the meeting to order at approximately 1:03 p.m. Mr. Doggett announced that there were no proxies. The following Agenda Items were addressed in the order below.

Confirm Finance and Audit Committee Membership (Agenda Item 2)
Mr. Doggett confirmed the Committee Membership: Jorge Bermudez, Nick Fehrenbach, Michehl Gent, Kevin Gresham, Eric Hendrick, Clifton Karnei, Scott Prochazka and Judy Walsh. He further confirmed the number and affiliation of the Committee Members and requested that the Committee Members complete, sign and return the distributed 2012 Committee Membership Charter Compliance form which allowed each Committee Member to self identify whether he or she has financial understanding or is a financial expert.

Elect Chair of Finance and Audit Committee; Elect Vice Chair of the Finance and Audit Committee (Agenda Items 3 and 4)
Mr. Doggett entertained a nomination for the Chairman of the Committee.

Mr. Gent nominated Mr. Karnei and Mr. Bermudez as Chairman and Vice Chairman of the Committee, respectively. Ms. Walsh seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Approval of December 12, 2011 General Session Minutes (Agenda Item 6)
Chairman Karnei entertained a motion to approve the December 12, 2011 F&A Committee General Session Meeting Minutes (Minutes).

Mr. Gent moved to approve the Minutes as presented. Mr. Gresham seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Review and Assess Adequacy of Finance and Audit Committee Charter (Agenda Item 7)
Chairman Karnei reviewed and discussed the Finance and Audit Committee Charter. Chairman Karnei and Mike Petterson responded to questions and comments from Committee members. He solicited feedback for recommended changes to be considered for vote at the April 2012 Committee meeting.

Designate Secretary of the Finance and Audit Committee (Agenda Item 5)
Chairman Karnei entertained a motion to designate the Secretary of the Committee.

Mr. Bermudez moved to designate Bill Magness or his designee as Secretary of the Committee. Mr. Gresham seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Approve the Credit Work Group Charter (Agenda Item 8)
Mark Ruane presented the proposed Credit Work Group (CWG) Charter and responded to questions and comments from Committee members.

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

<u>Appoint Credit Work Group Chair and Vice Chair (Agenda Item 9)</u>

Chairman Karnei entertained a motion to confirm the CWG Chair. He noted that the confirmation of the CWG Vice Chair would be deferred to the April 2012 Committee meeting.

Mr. Fehrenbach moved to confirm Tamila Nikazm as CWG Chair. Mr. Bermudez seconded the motion. The motion passed by unanimous voice vote with no abstentions.

<u>Review and Recommend Board Approval of the Market Credit Risk Corporate Standard (Agenda Item 10)</u>

Mr. Ruane presented the proposed Market Credit Risk Corporate Standard and responded to questions and comments from Committee members.

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

<u>Review and Recommend Board Approval of the Financial Corporate Standard (Agenda Item 11)</u>

Leslie Wiley presented the proposed Financial Corporate Standard and responded to questions and comments from Committee members. After discussion, Chairman Karnei requested that ERCOT staff revise the Financial Corporate Standard to incorporate the Committee's suggested changes for further consideration and vote at the April 2012 Committee meeting.

<u>Review and Recommend Board Approval of the Investment Corporate Standard (Agenda Item 12)</u>

Ms. Wiley presented the proposed Investment Corporate Standard and responded to questions and comments from Committee members. After discussion, Chairman Karnei recommended ERCOT staff work with Mr. Fehrenbach and Mr. Bermudez on proposed language for the Investment Corporate Standard for further consideration and vote at the April 2012 Committee meeting.

<u>Review Forecast Liquidity Requirements and Debt Structure Options (Agenda Item 13)</u>

Ms. Wiley reviewed the Forecast Liquidity Requirements and Debt Structure Options and responded to questions and comments from Committee members. Chairman Karnei entertained a motion to authorize ERCOT management to issue a Request for Proposal (RFP) to restructure existing debt as requested and to provide an analysis of the RFP responses at the April 2012 Committee meeting.

Ms. Walsh moved to authorize ERCOT management to issue an RFP to restructure existing debt as requested and to provide an analysis of the RFP responses at the April 2012 Committee meeting. Mr. Prochazka seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Committee Briefs (Agenda Items 14 and 14a-f)
Rebecca Beckham presented the Committee Briefs and responded to questions and comments from Committee members.

Future Agenda Items (Agenda Item 15)
Mr. Petterson noted the following proposed agenda items for the April 2012 Committee meeting:

- 2013 Budget;
- Financial Corporate Standard;
- Investment Corporate Standard;
- Results of RFP on Debt Restructuring;
- Appointment of CWG Vice Chair; and
- Audit and Financial Statements for fiscal and calendar year ending December 31, 2011.

Mr. Petterson responded to questions and comments from the Committee members on a possible Member orientation.

Other Business (Agenda Item 16)
No other business was considered at this time.

Executive Session (Agenda Items 17-19)
Chairman Karnei adjourned the meeting into Executive Session at approximately 3:00 p.m. and reconvened Open Session at approximately 4:08 p.m.

Vote on Matters from Executive Session (Agenda Item 20)
Chairman Karnei entertained motions on two matters considered during Executive Session.

Mr. Bermudez moved to approve the ERCOT management recommendation in connection with the Contract matter noted in the Executive Session meeting materials as Agenda Item 18b. Ms. Walsh seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Prochazka moved to approve the matter as presented in the Executive Session meeting materials as Agenda Item 19a. Mr. Gent seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Adjournment
Chairman Karnei adjourned the meeting at approximately 4:10 p.m.

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

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Vickie G. Leady
Assistant Corporate Secretary

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Item	3
Topic	Review and recommend board approval of revisions to ERCOT's Surety Bond Standard Form
Presenter	Chad Seely
Purpose	Vote to recommend board approval of proposed revisions to ERCOT's Surety Bond Standard Form See Decision Template and Redlined Document at Board Agenda Item 14b.

Recommended Changes to Standard Form Surety Bond

At its July 2011 meeting, the ERCOT Board of Directors (Board), based upon a Finance & Audit (F&A) Committee recommendation, approved modifications to the standard forms of the Letter of Credit (LC) and Market Participant (MP) Guarantee Agreements with the purpose of ensuring that the standard form documents adequately protect ERCOT's and MPs' interests.

Due to very limited use, the current standard form Surety Bond was not revised at that time and has not been updated since August 2001. ERCOT Staff now proposes modifications to the standard form Surety Bond to incorporate many of the same elements that are currently in the LC and MP Guarantee Agreements.

Primary Substantive Changes Include:

1. Clarified additional Surety Bond expressed waiver provisions.
2. Addition of an evergreen provision.
3. Added additional Surety representations and warranties.
4. Clarified assignment rights.
5. Reduced call period from 5 days to 2 days.
6. Added additional Surety covenant to provide financial information if requested.
7. Updated for Nodal language.

Recommended Changes to Standard Form Surety Bond

<u>Credit Work Group (CWG) Participation</u>

- **February 29, 2012:**
  - ERCOT Staff sends out email notice, with proposed draft, to CWG asking for comments and any proposed changes to the standard form.

- **March 12, 2012:**
  - Only <u>one</u> MP submitted comments/changes to the standard form.

- **March 26, 2012:**
  - ERCOT Staff sends out email notice, with final draft, to CWG indicating additional clarifying edits, based upon comments received, to the standard form.

- **March 28, 2012:**
  - CWG discusses and unanimously recommends approval of the standard form to F&A Committee.

<u>Next Steps</u>

ERCOT Staff recommends that the F&A Committee approve the revised version of the Surety Bond and make such recommendation for approval to the Board as the new standard form for use by the market.

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Item	4
Topic	Review debt structure recommended by management and recommend debt structure for Board approval
Presenter	Leslie Wiley
Purpose	Vote to recommend board approval of the proposed debt structure

Finance and Audit Committee action requested

- **ERCOT staff is recommending the following debt restructure plan:**
    1. Restructure and reduce existing revolving debt from $225 million to $125 million.
    2. Restructure existing debt into a $80 million fixed rate facility to enhance stability and fairness of ERCOT fees.
- **Seeking a vote from Finance and Audit Committee members to recommend approval on the two proposed debt facilities to the Board of Directors contingent upon approval from the Public Utility Commission.**

Debt use benefits ERCOT

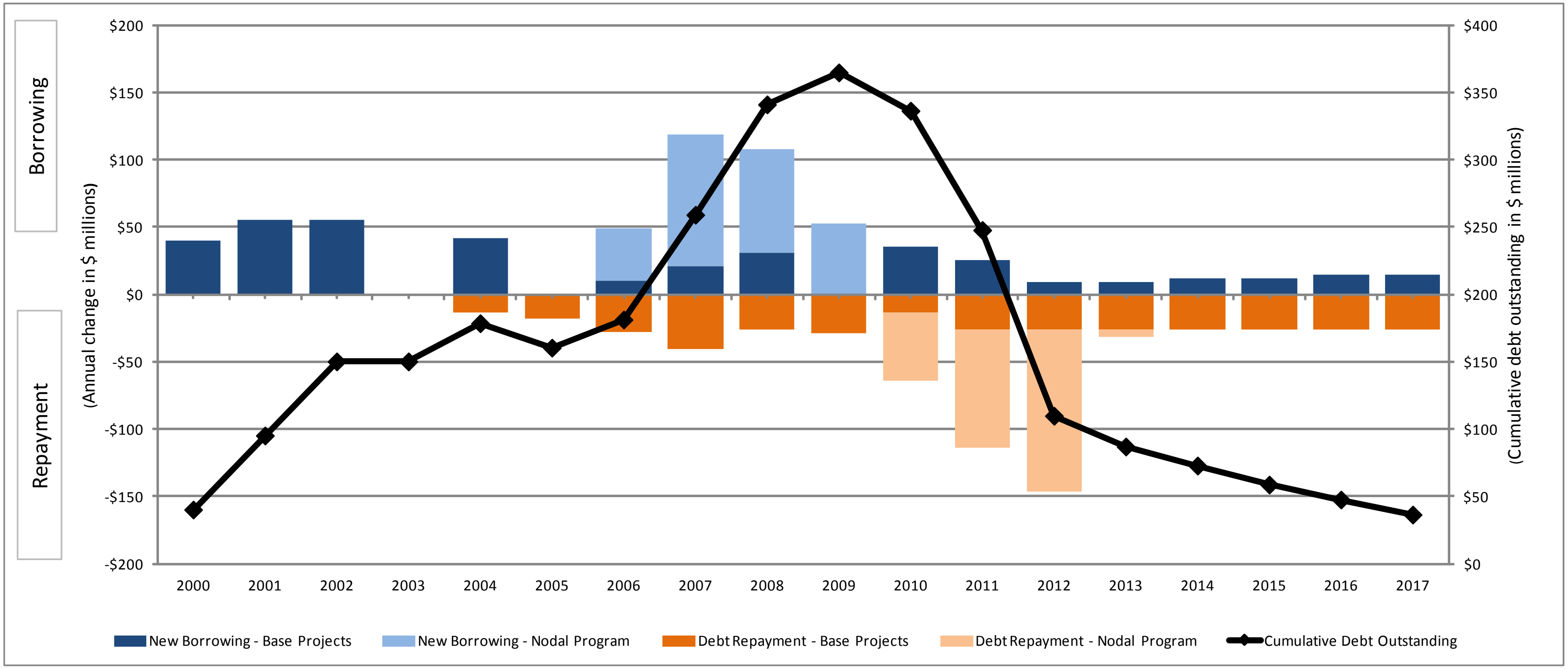
- **Provides liquidity required by board-approved policy**
  - Enhances financial flexibility
  - Meets short-term working capital needs
- **Enables smoother and more stable fees**
- **Improves the fairness of ERCOT fees**

Debt transactions are carefully considered in advance

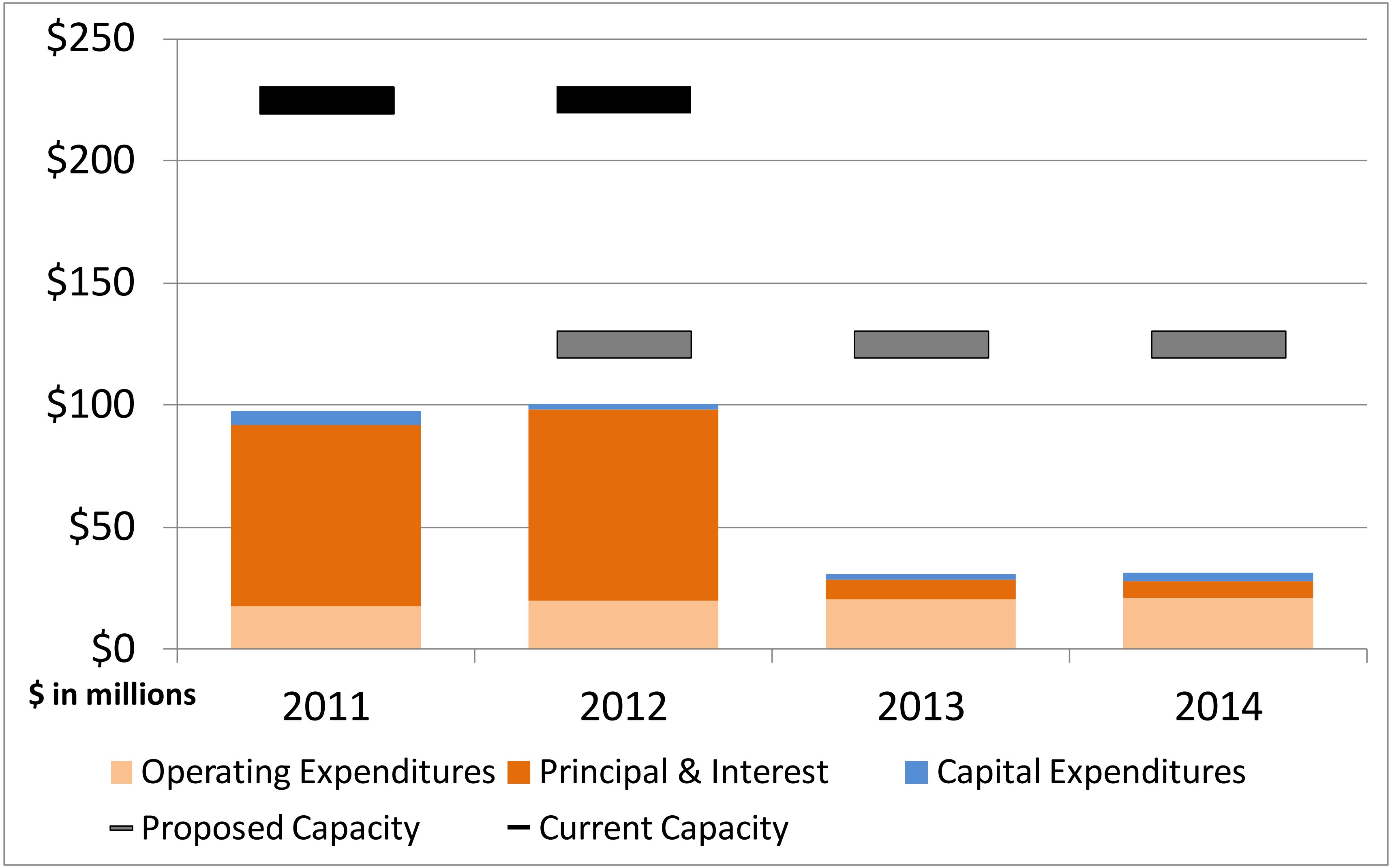
- **Board by-laws**
  - Adopt policy regarding borrowing money or establishing a line of credit
- **Board policy**
  - Approve indebtedness exceeding $1 million
- **Finance and Audit Committee charter**
  - Review and recommend annual financing plan
  - Review and recommend transactions throughout the year
- **Board-approved Financial Corporate Standard**
  - Establish constraints regarding debt use
- **Public Utility Commission of Texas rules**
  - Approve debt transactions

Debt is responsibly managed

Debt Profile Summary (2000-2017)



Proposed revolving credit facility to meet liquidity requirements



$80 million long-term debt facility

- Enhance the stability and fairness of fees by matching debt repayment to the useful life of Taylor and Bastrop facilities
- Fix a portion of outstanding debt to take advantage of historically low interest rates
- Simplify compliance with Financial Corporate Standard restrictions regarding the use of variable rate debt.

Proposed debt strategy summary

Pros	Cons
Simplify ERCOT's debt portfolio: • Three facilities rather than nine • Eliminate need for complex derivatives	Interest costs are incurred over a longer period of time
Lower annual costs: • Average rate falls from ~5% to ~ 3% • Lower overall debt	Long-term debt reduces financial flexibility
Meet liquidity and working capital needs	
Enhance ability to maintain compliance with the Financial Corporate Standard.	
Improve fairness of fees by matching debt repayment to the useful life long-lived facilities	
Create potential for maintaining existing fees in 2013	

- **ERCOT staff is recommending the following debt restructure plan.**
  1. Restructure and reduce existing revolving debt from $225 million to $125 million.
  2. Restructure existing debt into a $80 million fixed rate facility to enhance stability and fairness of ERCOT fees.
- **Seeking a vote from Finance and Audit Committee members to recommend approval on the two proposed debt facilities to the Board of Directors contingent upon approval from the Public Utility Commission.**

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Item	5
Topic	Review management's recommended 2013 budget
Presenter	Mike Petterson
Purpose	Discuss management's recommended 2013 budget

Proposed 2013 Budget Highlights

- **Rigorous Process**
- **Adequate Resources**
- **Stable Fees**

Proposed 2013 Budget
Revenue Requirements – 2012 Budget vs. 2013 Request

Line	($ Thousands)	2012 Budget	2013 Request	Variance $	Variance %	Explanations
1	Operating expenses					
2	Labor	$ 74,367.1	$ 77,165.0	$ 2,797.9	3.8	Driven by recurring growth due to merit and other salary adjustments.
3	Hardware & Software Support & Maintenance	20,114.2	19,705.7	(408.5)	(2.0)	Primarily for elimination of several maintenance contracts as a result of Data Center equipment upgrade/replacement.
4	Utility, Maintenance, & Facilities	12,456.1	11,930.9	(525.2)	(4.2)	Decrease mainly in property tax due to winning appeal in 2011 for Bastrop.
5	Outside Services	6,964.9	8,005.6	1,040.7	14.9	Driven by new reviews/studies, training, and staff augmentation.
6	Other Expenses	3,877.5	4,143.6	266.2	6.9	Mainly due to addition of Operations Training Seminar in 2013 and anticipated increases in wind forecasting subscription.
7	Employee Expenses	1,148.4	1,600.5	452.1	39.4	Increase due to reinstating management requested funding after attempt to reduce costs.
8	Equipment & Tools	877.8	982.0	104.1	11.9	Mostly attributable to addition of capacity-on-demand server rental in lieu of purchase.
9	Subtotal - Operating Expenses	119,806.1	123,533.4	3,727.3	3.1	
10	Debt Service Obligations					
11	Principal Payments	26,200.0	11,770.0	(14,430.0)	(55.1)	Debt restructuring efforts result in lower overall debt service payments.
12	Interest Expense	2,993.0	2,327.7	(665.3)	(22.2)	Debt restructuring efforts result in lower overall debt service payments.
13	Subtotal - Debt Service Obligations	29,193.0	14,097.7	(15,095.3)	(51.7)	
14	Revenue-Funded Project Expenditures					
15	Project Expenditures	15,000.0	15,000.0	-	-	
16	Debt-Funded Project Expenditures	9,000.0	9,000.0	-	-	
17	Subtotal - Revenue-Funded Project Expenditures	6,000.0	6,000.0	-	-	
18	Reliability Organization Assessment	13,062.3	13,248.6	186.4	1.4	
19	Subtotal - Revenue Requirements	168,061.3	156,879.7	(11,181.6)	(6.7)	
20						
21	Revenue Sources					
22	System Administration Fee Revenue	137,664.7	139,895.8	2,231.1	1.6	
23	Reliability Organization Assessment Fee	13,062.3	13,248.6	186.4	1.4	
24	Other Revenue	3,607.5	3,735.3	127.8	3.5	
25	2011 Carry Forward	13,726.9	-	(13,726.9)	(100.0)	Carry Forward funds, if any, will not be utilized.
26	Subtotal - Revenue Sources	168,061.3	156,879.7	(11,181.6)	(6.7)	
27						
28	System Administration Fee Calculation					
29	System Administration Fee Revenue	137,664.7	139,895.8	2,231.1	1.6	
30	Energy Consumption (GWH)	330,033.6	335,401.2	5,367.6	1.6	Per Capacity, Demand, and Reserves (CDR) report, using base economic forecast and normal weather.
31	System Administration Fee	0.4171	0.4171	(0.0000)	(0.0)	
32						
33	Total Spending Authorization Computation					
34	Revenue Requirements	168,061.3	156,879.7	(11,181.6)	(6.7)	
35	Debt-Funded Project Expenditures	9,000.0	9,000.0	-	-	
36	Total Spending Authorization	$ 177,061.3	$ 165,879.7	$ (11,181.6)	(6.3)	

Proposed 2013 Budget
Revenue Requirements

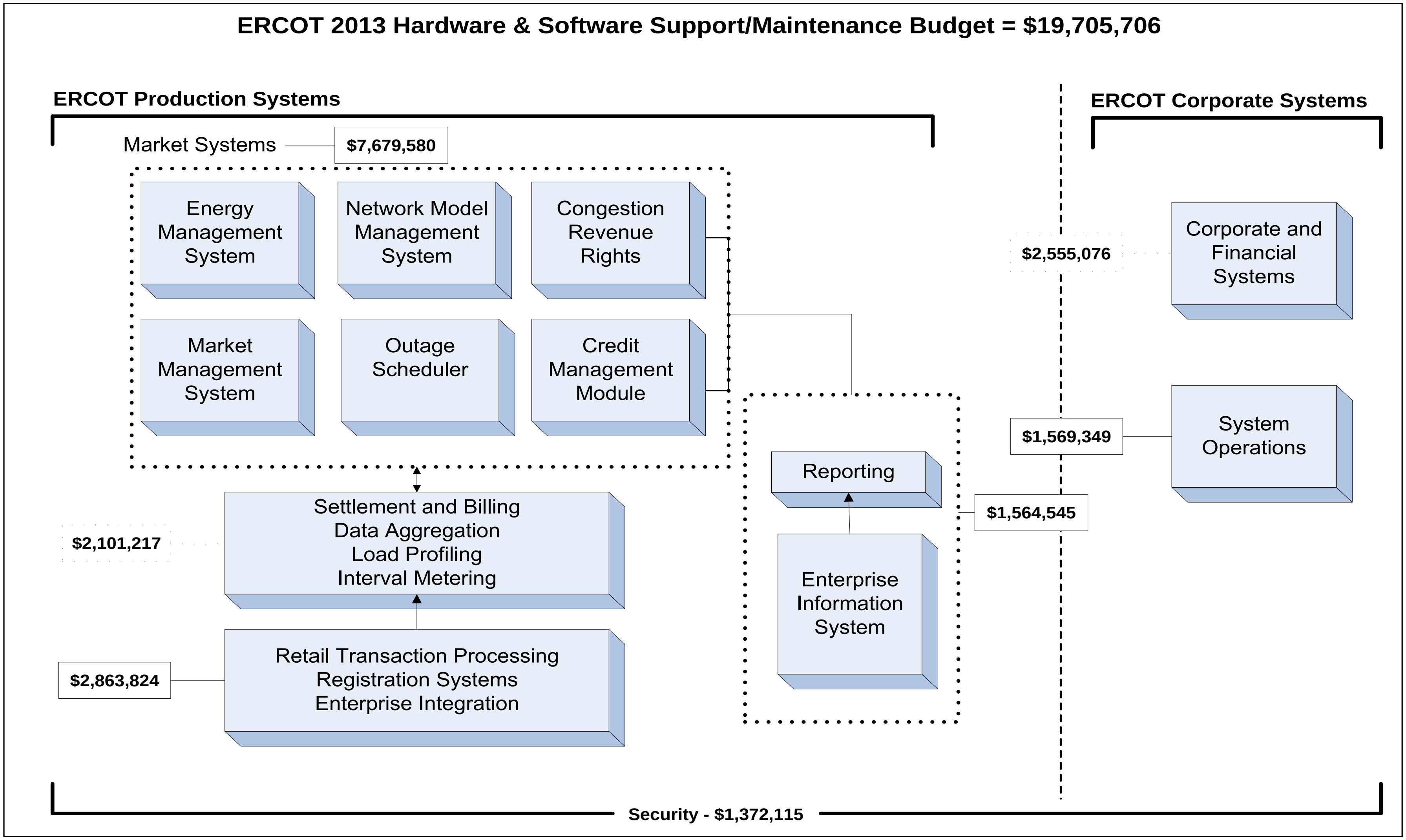
Line	($ Thousands)	2011 Actual	2012 Budget	2013 Request	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
1	Operating expenses								
2	Labor	69,142.0	74,367.1	77,165.0	80,214.6	83,386.2	86,684.7	90,115.1	93,682.7
3	Hardware & Software Support & Maintenance	9,703.8	20,114.2	19,705.7	20,012.8	20,345.2	20,709.8	21,111.5	21,531.4
4	Utility, Maintenance, & Facilities	11,187.4	12,456.1	11,930.9	12,135.7	12,357.2	12,599.7	12,866.2	13,145.1
5	Outside Services	7,349.0	6,964.9	8,005.6	8,473.4	8,197.5	8,337.2	8,496.0	8,701.2
6	Other Expenses	4,110.7	3,877.5	4,143.6	4,213.2	4,287.0	4,365.9	4,450.8	4,538.8
7	Employee Expenses	1,364.2	1,148.4	1,600.5	1,623.1	1,648.1	1,676.2	1,708.0	1,741.5
8	Equipment & Tools	740.9	877.8	982.0	995.8	1,011.2	1,028.4	1,047.9	1,068.4
9	Subtotal - Operating Expenses	103,598.0	119,806.1	123,533.4	127,668.7	131,232.4	135,402.0	139,795.6	144,409.1
10	Debt Service Obligations								
11	Principal Payments	26,200.0	26,200.0	11,770.0	11,604.3	12,093.9	8,599.1	7,540.9	5,917.8
12	Interest Expense	3,978.5	2,993.0	2,327.7	2,137.5	1,969.6	1,773.9	1,675.4	1,574.0
13	Subtotal - Debt Service Obligations	30,178.5	29,193.0	14,097.7	13,741.8	14,063.5	10,373.0	9,216.4	7,491.9
14	Revenue-Funded Project Expenditures								
15	Project Expenditures	32,357.5	15,000.0	15,000.0	20,000.0	20,000.0	25,000.0	25,000.0	25,000.0
16	Debt-Funded Project Expenditures	19,414.5	9,000.0	9,000.0	12,000.0	10,000.0	10,000.0	10,000.0	10,000.0
17	Subtotal - Revenue-Funded Project Expenditures	12,943.0	6,000.0	6,000.0	8,000.0	10,000.0	15,000.0	15,000.0	15,000.0
18	Reliability Organization Assessment	11,974.9	13,062.3	13,248.6	13,435.5	13,642.4	13,875.3	14,138.2	14,415.0
19	Subtotal - Revenue Requirements	158,694.3	168,061.3	156,879.7	162,846.0	168,938.2	174,650.3	178,150.2	181,316.0
20									
21	Revenue Sources								
22	System Administration Fee Revenue	139,533.1	137,664.7	139,895.8	145,622.6	151,453.9	156,872.2	160,040.3	162,857.4
23	Reliability Organization Assessment Fee	11,974.9	13,062.3	13,248.6	13,435.5	13,642.4	13,875.3	14,138.2	14,415.0
24	Other Revenue	3,429.2	3,607.5	3,735.3	3,787.9	3,842.0	3,902.9	3,971.6	4,043.6
25	Interest Income	6.6	-	-	-	-	-	-	-
26	Extraordinary Item Revenue	5,000.0	-	-	-	-	-	-	-
27	2010 Carry Forward	17,599.8	-	-	-	-	-	-	-
28	2011 Carry Forward	(18,849.3)	13,726.9	-	-	-	-	-	-
29	Subtotal - Revenue Sources	158,694.3	168,061.3	156,879.7	162,846.0	168,938.2	174,650.3	178,150.2	181,316.0
30									
31	System Administration Fee Calculation								
32	System Administration Fee Revenue	139,533.1	137,664.7	139,895.8	145,622.6	151,453.9	156,872.2	160,040.3	162,857.4
33	Energy Consumption (GWH)	334,547.5	330,033.6	335,401.2	349,131.2	363,111.7	376,102.0	383,697.8	390,451.7
34	System Administration Fee	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171
35									
36	Total Spending Authorization Computation								
37	Revenue Requirements	158,694.3	168,061.3	156,879.7	162,846.0	168,938.2	174,650.3	178,150.2	181,316.0
38	Debt-Funded Project Expenditures	19,414.5	9,000.0	9,000.0	12,000.0	10,000.0	10,000.0	10,000.0	10,000.0
39	Total Spending Authorization	178,108.8	177,061.3	165,879.7	174,846.0	178,938.2	184,650.3	188,150.2	191,316.0

Detailed Schedules

ERCOT Fiscal Year 2013 Budget

Labor - 2012 vs. 2013 Comparison

Line	Description	2012 Budget	2013 Request	Variance $	Variance %	Explanations
1	Salaries and wages	$ 55,553,325	$ 58,117,087	$ 2,563,762	4.6%	Increase primarily driven by annual merit.
2	Benefits, taxes and other	18,813,761	19,047,945	234,183	1.2%	Benefit burden as a percentage of salaries was reduced in 2013 based on actual historical costs.
3	**Total - Labor**	**$ 74,367,086**	**$ 77,165,032**	**$ 2,797,945**	**3.8%**	


ERCOT 2013 Hardware & Software Support/Maintenance Budget = $19,705,706
ERCOT Production Systems
Market Systems
$7,679,580
Energy Management System
Network Model Management System
Congestion Revenue Rights
Market Management System
Outage Scheduler
Credit Management Module
$2,101,217
Settlement and Billing
Data Aggregation
Load Profiling
Interval Metering
$2,863,824
Retail Transaction Processing
Registration Systems
Enterprise Integration
Reporting
Enterprise Information System
$1,564,545
ERCOT Corporate Systems
$2,555,076
Corporate and Financial Systems
$1,569,349
System Operations
Security - $1,372,115

ERCOT Fiscal Year 2013 Budget
Utility, Maintenance, & Facilities

Line	Description	2011 Actual	2012 Budget	2013 Request	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
1	**Building Maintenance**								
2	Building Security Services	$ 1,266,797	$ 1,434,506	$ 1,435,000	$ 1,455,238	$ 1,477,646	$ 1,502,873	$ 1,531,356	$ 1,561,338
3	Building Maintenance	824,435	1,064,222	1,048,888	1,063,681	1,080,059	1,098,498	1,119,317	1,141,232
4	Custodial Service	222,521	217,488	250,000	253,526	257,430	261,825	266,787	272,010
5	Miscellaneous Facilities Services	163,376	204,346	155,654	157,850	160,280	163,016	166,105	169,358
6	Grounds Maintenance	57,171	99,984	60,000	60,846	61,783	62,838	64,029	65,283
7	**Subtotal - Building Maintenance**	**2,534,301**	**3,020,547**	**2,949,542**	**2,991,141**	**3,037,198**	**3,089,050**	**3,147,594**	**3,209,221**
8									
9	**Wide Area Network (WAN)**	**2,740,769**	**2,803,319**	**2,880,000**	**2,920,617**	**2,965,590**	**3,016,220**	**3,073,385**	**3,133,558**
10									
11	**Property Tax**	**2,171,625**	**2,912,816**	**2,299,260**	**2,368,238**	**2,439,285**	**2,512,463**	**2,587,837**	**2,665,473**
12									
13	**Utilities**								
14	Electricity	2,076,019	1,924,376	2,000,000	2,028,206	2,059,437	2,094,596	2,134,294	2,176,081
15	Water/Gas/Sewer/Trash	147,678	108,996	150,000	152,115	154,457	157,094	160,071	163,205
16	Fuel Oil	49,988	72,480	75,000	76,058	77,229	78,547	80,036	81,603
17	**Subtotal - Utilities**	**2,273,686**	**2,105,852**	**2,225,000**	**2,256,379**	**2,291,123**	**2,330,237**	**2,374,401**	**2,420,889**
18	**Rent**								
19	Office Rental	849,300	877,007	900,000	912,693	926,747	942,569	960,433	979,237
20	Storage Rental	68,929	62,554	66,000	66,931	67,961	69,120	70,429	71,808
21	Miscellaneous Rental	1,071	-	-	-	-	-	-	-
22	**Subtotal - Rent**	**919,300**	**939,561**	**966,000**	**979,624**	**994,708**	**1,011,689**	**1,030,862**	**1,051,045**
23	**Telecom**								
24	Conferencing	197,873	281,242	289,100	293,178	297,693	302,775	308,514	314,554
25	Telephone	193,397	261,600	204,000	206,877	210,063	213,649	217,698	221,960
26	Internet Service	118,922	95,196	88,000	89,241	90,615	92,162	93,908	95,747
27	Frame Relay	37,479	36,000	30,000	30,423	30,891	31,418	32,013	32,640
28	**Subtotal - Telecom**	**547,671**	**674,038**	**611,100**	**619,719**	**629,262**	**640,004**	**652,133**	**664,901**
29									
30	**Total - Utility, Maintenance, & Facilities**	**$ 11,187,352**	**$ 12,456,133**	**$ 11,930,902**	**$ 12,135,718**	**$ 12,357,166**	**$ 12,599,663**	**$ 12,866,212**	**$ 13,145,087**

ERCOT Fiscal Year 2013 Budget
Outside Services - 2013 Listing

Line	Department Name	Service Description	2013 Request
1	Market Analysis	Independent Market Monitoring Services	2,900,000
2	Standards and Compliance	Protocol Services	1,029,100
3	General Counsel	Outside legal services for specialized legal knowledge and skills not possessed by in-house legal staff or not requiring a full time position (e.g., litigation, expert witness fees, court reporting fees, employment/employee benefits, information technology, intellectual property, security/compliance, tax/financing, governance, insurance/risk management, records management, etc.).	600,000
4	Retail Client Services & Analysis	PUCT mandated end user switch notifications	580,400
5	General Counsel	Expenses associated with the ongoing support and administration of the Board of Directors: • Independent member compensation • Business expense reimbursement • Special meetings and retreats	554,000
6	Technology Services Administration	Lawson hosting services which would require hardware and three support specialists to host internally. It is cost beneficial to procure external hosting.	336,000
7	Commercial Services	Settlement system software contract resource needed to support application development due to cancellation of vendor maintenance contract .	288,000
8	Resource Integration	Define processes and software to routinely validate generator dynamic model parameters using data collected from Phasor Measurement Units and Fault Recorders. Assist ERCOT in implementing this process.	192,000
9	Human Resources & Organization Dvlpmt	Specialized legal expertise in the area of Immigration Assistance, as well as, filing fees associated with hiring non-US citizens. These services assist in recruiting Power Engineers and certain Information Technology functions. A full-time position is not necessary, therefore approximately half of the estimated amount is for legal services and the remaining half is for filing fees.	190,000
10	Human Resources & Organization Dvlpmt	Partnership with University of Texas for two management leadership/training programs: • Professional Development Center (PDC) • Cockrell School of Engineering's Center for Lifelong Engineering Education (CLEE)	162,645
11	Critical Infrastructure Security	Co-hosted managed security solution to support and maintain security applications	150,000
12	Accounting & Financial Reporting	Annual financial statement audit, which must be performed externally, is mandatory to be compliant with PUCT rules. Amount includes additional fees assumed to be necessary to account for implications from Commodity Futures Trading Commission (CFTC) legislation.	145,000
13	General Counsel	Statement on Standards for Attestation Engagements (SSAE 16) audit required to be performed by external, independent certified public accounting (CPA) firm.	86,100
14	Human Resources & Organization Dvlpmt	External data and compensation reviews/comparisons for specific positions	80,000
15	Long Term Planning & Policy	Evaluation of Capacity Value (Effective Load Carrying Capability [ELCC]) of new technologies. The Generation Adequacy Task Force (GATF) has requested that ERCOT evaluate the ELCC of solar generation when greater than 300 MW of solar generation are connected to the ERCOT grid. Based on current interconnections, this could occur in 2012 or early 2013 (over 500 MW of solar currently in full interconnection study mode). Also, ERCOT will need an analysis of how to incorporate energy storage devices into the Capacity, Demand and Reserves (CDR) report.	75,000
16	Database & Storage Services	Professional Storage Services & Training (Services of Project Manager)	71,464
17	General Counsel	Senior Paralegal dedicated to support corporate functions, including procurement, vendor contracts and real estate matters	62,400
18	Settlements & Billing Operations	Contract resource to provide Verifiable Cost review and approval support	51,480
19	Training & Development	Instructor Based Training: • Excel, SQL Level 1 and 2, Cognos, Sharepoint and Other • Basic Training, Generation 101 and Generation 201	50,516
20	Facilities Management	Courier services necessary for mail collection, routing, and distribution	50,000

Line	Department Name	Service Description	2013 Request
21	Internal Audit	External Quality Assessment Review of the Internal Audit Department that is required every five years by the Internal Professional Practices Framework (IPPF) by the Institute of Internal Auditors (IIA Standard 1312 - External Assessments). As the last Quality Assessment Review (QAR) of the Internal Audit Department was performed in Q1 of 2008, an external QAR by a third party firm needs to be completed in 2013 in order to remain in compliance with the IIA Standards.	40,000
22	Resource Integration	Outside consultant review of Sub Synchronous Control Interaction studies completed by ERCOT staff to review technical accuracy	38,400
23	Business Integration	Outside Facilitation Advanced Metering Implementation Team (AMIT) meetings	37,600
24	General Counsel	Court reporting services for Board meetings	36,000
25	Settlements & Billing Operations	Consultant review of Reliability Must Run (RMR) actual cost submittals	35,000
26	Treasury	Investment rating review by independent recognized rating agency required by State law for bond issuance.	30,000
27	Accounting & Financial Reporting	Invoice Management Automation tool to allow for the automation of soft-copy invoice routing and manager approval.	20,000
28	Accounting & Financial Reporting	Required statutory audit and filing of annual Internal Revenue Service (IRS) Form 990 which provides financial information for tax-exempt entities	20,000
29	Human Resources & Organization Dvlpmt	Federal law requires independently audited benefit plan financial statements be filed via Internal Revenue Service (IRS) Form 5500	18,000
30	Accounting & Financial Reporting	Assistance with annual inventory of fixed assets	17,000
31	Human Resources & Organization Dvlpmt	Actuarial support to assist with the Financial Accounting Standards Board (FASB) 106 liability for post retiree medical benefits	15,000
32	Business Integration	Contract resource to assist with project initiation and impact analysis	14,400
33	Human Resources & Organization Dvlpmt	External hosting of Candidate Tracking System	13,600
34	Physical Security	Lenel system upgrade to newer version. System information requested by NERC auditors and Statement on Standards for Attestation Engagements (SSAE 17), and necessary to remain compliant with CIP 6R8, CIP 7R3, R4 and R5.	10,000
35	External Affairs	Media Training Seminar	6,500
36			
37		**Total - Outside Services**	**$ 8,005,605**

ERCOT Fiscal Year 2013 Budget
Outside Services - 2012 vs. 2013 Comparison

Line	Department Name	Service Description	2012 Budget	2013 Request	Variance
Mandated Outside Services					
1	Market Analysis	Independent Market Monitoring Services	$ 2,800,000	$ 2,900,000	$ 100,000
2	General Counsel	Outside legal services for specialized legal knowledge and skills not possessed by in-house legal staff or not requiring a full time position (e.g., litigation, expert witness fees, court reporting fees, employment/employee benefits, information technology, intellectual property, security/compliance, tax/financing, governance, insurance/risk management, records management, etc.).	550,000	600,000	50,000
3	Standards and Compliance	Protocol Services	1,000,000	1,029,100	29,100
4	Physical Security	Lenel system upgrade to newer version. System information requested by NERC auditors and Statement on Standards for Attestation Engagements (SSAE 17), and necessary to remain compliant with CIP 6R8, CIP 7R3, R4 and R5.	-	10,000	10,000
5	Human Resources & Organization Dvlpmt	Federal law requires independently audited benefit plan financial statements be filed via Internal Revenue Service (IRS) Form 5500.	15,000	18,000	3,000
6	General Counsel	Expenses associated with the ongoing support and administration of the Board of Directors: • Independent member compensation • Business expense reimbursement • Special meetings and retreats	554,000	554,000	-
7	Accounting & Financial Reporting	Annual financial statement audit, which must be performed externally, is mandatory to be compliant with PUCT rules. Amount includes additional fees assumed to be necessary to account for implications from Commodity Futures Trading Commission (CFTC) legislation.	145,000	145,000	-
8	General Counsel	Statement on Standards for Attestation Engagements (SSAE 16) audit required to be performed by external, independent certified public accounting (CPA) firm.	86,100	86,100	-
9	Accounting & Financial Reporting	Required statutory audit and filing of annual Internal Revenue Service (IRS) Form 990 which provides financial information for tax-exempt entities.	20,000	20,000	-
10	Human Resources & Organization Dvlpmt	Actuarial support to assist with the Financial Accounting Standards Board (FASB) 106 liability for post retiree medical benefits.	15,000	15,000	-
11	Physical Security	Managed services contract for availability and reliability of physical access control system and Internet Protocol (IP) based closed-circuit television (CCTV), which is integral to NERC CIP compliance. Physical Security staff do not have skill set or bandwidth to perform monthly patching, provide system maintenance, troubleshoot system, and resolve issues associated with the application, operating system, or hardware. Information Technology office does not provide necessary support due to non-standard hardware being utilized.	32,000	-	(32,000)
12	Physical Security	Cyber vulnerability assessment of the physical access control system as required by CIP 6 R2.2 and CIP 7 R8. Staff do not have technical skillset to perform this assessment.	80,000	-	(80,000)
13	Retail Client Services & Analysis	PUCT mandated end user switch notifications.	730,400	580,400	(150,000)
14					
15		**Subtotal - Mandated Outside Services**	**$ 6,027,500**	**$ 5,957,600**	**$ (69,900)**
16					

Line	Department Name	Service Description	2012 Budget	2013 Request	Variance
Discretionary Outside Services					
17	Commercial Services	Settlement system software contract resource needed to support application development due to cancellation of vendor maintenance contract .	$ -	$ 288,000	$ 288,000
18	Resource Integration	Define processes and software to routinely validate generator dynamic model parameters using data collected from Phasor Measurement Units and Fault Recorders. Assist ERCOT in implementing this process.	-	192,000	192,000
19	Critical Infrastructure Security	Co-hosted managed security solution to support and maintain security applications	-	150,000	150,000
20	Human Resources & Organization Dvlpmt	Partnership with University of Texas for two management leadership/training programs: • Professional Development Center (PDC) • Cockrell School of Engineering's Center for Lifelong Engineering Education (CLEE)	75,000	162,645	87,645
21	Long Term Planning & Policy	Evaluation of Capacity Value (Effective Load Carrying Capability [ELCC]) of new technologies. The Generation Adequacy Task Force (GATF) has requested that ERCOT evaluate the ELCC of solar generation when greater than 300 MW of solar generation are connected to the ERCOT grid. Based on current interconnections, this could occur in 2012 or early 2013 (over 500 MW of solar currently in full interconnection study mode). Also, ERCOT will need an analysis of how to incorporate energy storage devices into the CDR summary.	-	75,000	75,000
22	Database & Storage Services	Professional Storage Services & Training (Services of Project Manager)	-	71,464	71,464
23	General Counsel	Senior Paralegal dedicated to support corporate functions, including procurement, vendor contracts and real estate matters	-	62,400	62,400
24	Settlements & Billing Operations	Contract resource to provide Verifiable Cost review and approval support	-	51,480	51,480
25	Training & Development	Instructor Based Training: • Excel, SQL Level 1 and 2, Cognos, Sharepoint and Other • Basic Training, Generation 101 and Generation 201	-	50,516	50,516
26	Internal Audit	External Quality Assessment Review of the Internal Audit Department is required every five years by the Internal Professional Practices Framework (IPPF) by the Institute of Internal Auditors (IIA Standard 1312 - External Assessments). As the last Quality Assessment Review (QAR) of the Internal Audit Department was performed in Q1 of 2008, an external QAR by a third party firm needs to be completed in 2013 in order to remain in compliance with the IIA Standards.	-	40,000	40,000
27	Resource Integration	Outside consultant review of Sub Synchronous Control Interaction studies completed by ERCOT staff to review technical accuracy	-	38,400	38,400
28	Business Integration	Outside Facilitation Advanced Metering Implementation Team (AMIT) meetings	-	37,600	37,600
29	General Counsel	Court reporting services for Board meetings	-	36,000	36,000
30	Settlements & Billing Operations	Consultant review of Reliability Must Run (RMR) actual cost submittals	-	35,000	35,000
31	Treasury	Investment rating review by independent recognized rating agency required by State law for bond issuance.	-	30,000	30,000
32	Accounting & Financial Reporting	Invoice Management Automation tool to allow for the automation of soft-copy invoice routing and manager approval	-	20,000	20,000
33	Human Resources & Organization Dvlpmt	External data and compensation reviews/comparisons for specific positions	60,000	80,000	20,000
34	Business Integration	Contract resource to assist with project initiation and impact analysis	-	14,400	14,400
35	Human Resources & Organization Dvlpmt	External hosting of Candidate Tracking System	-	13,600	13,600
36	External Affairs	Media Training Seminar	-	6,500	6,500

Line	Department Name	Service Description	2012 Budget	2013 Request	Variance
37	Technology Services Administration	Lawson hosting services which would require hardware and three support specialists to host internally. It is cost beneficial to procure external hosting.	336,000	336,000	-
38	Human Resources & Organization Dvlpmt	Specialized legal expertise in the area of Immigration Assistance, as well as, filing fees associated with hiring non-US citizens. These services assist in recruiting Power Engineers and certain Information Technology functions. A full-time position is not necessary, therefore approximately half of the estimated amount is for legal services and the remaining half is for filing fees.	190,000	190,000	-
39	Facilities Management	Courier services necessary for mail collection, routing, and distribution	50,000	50,000	-
40	Accounting & Financial Reporting	Assistance with annual inventory of fixed assets	17,000	17,000	-
41	Training & Development	Training development support, as needed, in regards to web-based training assistance, materials, graphics art, etc.	16,000	-	(16,000)
42	Resource Integration	Develop methods and models to validate PSCAD software methodology in determining risk of subsynchronous resonance/interaction between Competitive Renewable Energy Zones (CREZ) series capacitors and generating units.	50,000	-	(50,000)
43	Training & Development	Staff augmenting services, as needed, to assist with delivery of market participant training courses	68,400	-	(68,400)
44	Long-Term Planning and Policy	Modeled wind generation patterns study for use in various planning tasks and reliability analyses. Despite known improvement needs, wind patterns developed during the Competitive Renewable Energy Zones (CREZ) study are being used for multiple planning activities. Recommended study will provide updated wind patterns that are tied to facility geography, be based on numerous improvements in wind forecasting information, and provide better correlation with weather information used for load forecasting. The patterns will allow more efficiency in transmission development and improved analysis of system reserve margin needs. In addition, this data will facilitate a Loss of Load Probability analysis that NERC is requiring be performed in 2012.	75,000	-	(75,000)
45					
46		**Subtotal - Discretionary Outside Services**	**$ 937,400**	**$ 2,048,005**	**$ 1,110,605**
47					
48		**Total - Outside Services**	**$ 6,964,900**	**$ 8,005,605**	**$ 1,040,705**

ERCOT Fiscal Year 2013 Budget
Other Expenses

Line	Description	2011 Actual	2012 Budget	2013 Request	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
1	Insurance Premiums	$ 1,797,070	$ 1,855,100	$ 1,892,202	$ 1,930,046	$ 1,968,647	$ 2,008,020	$ 2,048,181	$ 2,089,144
2	Subscriptions-Data Services & Applications	1,200,116	1,451,564	1,596,108	1,618,618	1,643,541	1,671,601	1,703,280	1,736,628
3	Sponsored Meetings	78,661	47,175	244,125	247,568	251,379	255,670	260,516	265,616
4	Dues	24,220	80,163	93,617	94,937	96,399	98,046	99,904	101,861
5	Subscriptions-Training	68,208	60,000	60,000	60,846	61,783	62,838	64,029	65,283
6	Job Posting Advertising	19,690	50,000	55,000	55,776	56,635	57,602	58,694	59,843
7	Recruiting Expense	211,227	114,000	50,000	50,705	51,486	52,365	53,357	54,402
8	Reward & Recognition	80,580	60,000	40,000	40,564	41,189	41,892	42,686	43,522
9	Report Printing	9,896	32,058	31,693	32,138	32,632	33,188	33,817	34,478
10	Employment Screening	15,294	25,000	25,000	25,353	25,743	26,182	26,678	27,200
11	Express Shipping	19,733	23,449	21,863	22,172	22,511	22,895	23,328	23,782
12	Publications	20,864	4,251	14,870	15,080	15,313	15,575	15,869	16,180
13	Corporate Events	20,010	7,000	12,000	12,170	12,357	12,568	12,806	13,056
14	Postage & Delivery	5,118	7,714	7,164	7,265	7,377	7,503	7,645	7,795
15	Tax - Sales, Excise & Use	52,535	60,000	-	-	-	-	-	-
16	Miscellaneous	487,438		-	-	-	-	-	-
17	**Total - Other Expenses**	**$ 4,110,662**	**$ 3,877,475**	**$ 4,143,642**	**$ 4,213,238**	**$ 4,286,992**	**$ 4,365,945**	**$ 4,450,790**	**$ 4,538,790**

ERCOT Fiscal Year 2013 Budget
Insurance Premiums - 2012 vs. 2013 Comparison

Line	Description	2012 Budget	2013 Request	Variance
1	Excess Liability	$ 1,316,957	$ 1,343,297	$ 26,339
2	Board of Directors & Officers	248,361	253,329	4,967
3	Property	121,950	124,389	2,439
4	Workers' Compensation	76,224	77,749	1,524
5	Pollution	25,843	26,360	517
6	Commercial General Liability	24,125	24,607	483
7	Crime/Theft	20,208	20,612	404
8	Fiduciary Liability	13,871	14,149	277
9	Automobile	7,560	7,712	151
10	**Total - Insurance Premiums**	**$ 1,855,100**	**$ 1,892,202**	**$ 37,102**

ERCOT Fiscal Year 2013 Budget

Subscriptions - Data Services

Line	Description	2011 Actual	2012 Budget	2013 Request	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
1	Wind Generation Forecasting Software	$ 606,496	$ 612,000	$ 672,000	$ 686,112	$ 700,520	$ 715,231	$ 730,251	$ 745,586
2	Generation and transmission data integration tool for energy scheduling and trading systems	158,458	146,438	146,438	146,438	146,438	150,831	155,356	160,017
3	Credit Subscriptions	18,584	25,800	136,907	138,838	140,976	143,383	146,100	148,960
4	Modeling Software tools to support internal load forecasting	108,660	108,660	115,278	117,698	120,170	122,694	125,393	128,152
5	Economic Forecasting Data	36,795	122,500	113,760	115,364	117,140	119,140	121,398	123,775
6	Information Technology industry research and related services	59,855	81,299	81,299	82,446	83,716	85,145	86,759	88,458
7	Daily fuel index price (FIP) subscription	59,734	62,864	62,040	62,915	63,884	64,975	66,206	67,502
8	Subscription to Employee Performance Management portal	54,402	55,388	56,772	55,604	56,772	57,964	59,182	60,424
9	Compensation and Benefit data subscriptions	10,657	45,913	46,000	46,649	47,367	48,176	49,089	50,050
10	Weather forecasting software for load forecasting	42,897	44,184	45,510	46,465	47,441	48,437	49,503	50,592
11	Enterprise Vulnerability Intelligence data	26,667	27,000	37,667	38,198	38,786	39,448	40,195	40,982
12	Miscellaneous Other	16,912	119,517	82,438	81,890	80,330	76,176	73,848	72,130
13	**Total - Subscriptions -Data Services**	**$ 1,200,116**	**$ 1,451,563**	**$ 1,596,108**	**$ 1,618,618**	**$ 1,643,541**	**$ 1,671,601**	**$ 1,703,280**	**$ 1,736,628**

ERCOT Fiscal Year 2013 Budget

Employee Expenses

Line	Description	2011 Actual	2012 Budget	2013 Request	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
1	Travel	$ 960,918	$ 725,732	$ 1,045,918	$ 1,060,672	$ 1,077,006	$ 1,095,391	$ 1,116,153	$ 1,138,010
2	Cellular Phone	217,207	231,770	236,421	239,756	243,448	247,604	252,297	257,237
3	College Education Reimbursement	31,530	64,865	150,000	152,116	154,459	157,095	160,073	163,207
4	Remote System Access	103,485	85,856	112,639	114,228	115,987	117,967	120,203	122,557
5	Professional Dues	51,037	40,178	55,551	56,335	57,202	58,179	59,282	60,442
6	**Total - Employee Expenses**	**$ 1,364,177**	**$ 1,148,400**	**$ 1,600,529**	**$ 1,623,107**	**$ 1,648,102**	**$ 1,676,236**	**$ 1,708,007**	**$ 1,741,454**

ERCOT Fiscal Year 2013 Budget
Equipment & Tools

Line	Description	2011 Actual	2012 Budget	2013 Request	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
1	Hardware < $1,000	$ 144,861	$ 236,051	$ 246,751	$ 250,231	$ 254,084	$ 258,422	$ 263,320	$ 268,475
2	Software < $1,000	182,282	158,406	175,000	177,468	180,201	183,277	186,751	190,407
3	Equipment Maintenance	119,553	156,000	156,000	158,200	160,636	163,378	166,474	169,733
4	Equipment & Tools < $1,000	112,902	115,065	119,992	121,685	123,559	125,668	128,051	130,558
5	Office Supplies	95,191	84,124	104,775	106,253	107,894	109,737	111,811	113,995
6	Equipment Rental	38,791	31,716	83,160	84,333	85,631	87,093	88,743	90,480
7	Chemical Supplies	33,271	52,488	52,500	53,240	54,060	54,983	56,025	57,122
8	Misc Equip Repairs	2,780	31,359	31,200	31,640	32,127	32,675	33,294	33,946
9	Vehicle Maintenance	11,285	12,635	12,600	12,778	12,975	13,197	13,447	13,710
10	**Total - Equipment & Tools**	**$ 740,914**	**$ 877,844**	**$ 981,978**	**$ 995,828**	**$ 1,011,167**	**$ 1,028,430**	**$ 1,047,916**	**$ 1,068,426**

2013 Budget for Project Portfolio is $15 M

Key Areas of Focus (Project Categories)	2013 Budget Range
Technical Foundation	**$9.1 M-$16.8 M**
• Required maintenance and upgrades	
• Technical evolution and performance	
• Systemic growth	
Business Strategy	**$6.5M-$11.5M**
• Market driven enhancements and efficiencies	
• ERCOT strategic initiatives	
Efficiencies / Enhancements	**$3.3 M-$5.9 M**
• Internally driven operational improvements	
• Enhanced customer service	
Regulatory	**$0**
• Required by Legislature, PUCT, NERC, FERC or legal ruling	

ERCOT Fiscal Year 2013 Budget
Project Priority List Detail

Line	Project Category	2013 Rank	Project Name	Budget Range
1	Technical Foundation	**1**	Settlement System Upgrade	$2.0M-$2.5M
2	Technical Foundation	**2**	EMS Upgrade	$2M-$4M
3	Technical Foundation	**3**	REC Enhancements	$500k-$1M
4	Technical Foundation	**4**	CRR Upgrade to v12.3	$100k-$250k
5	Technical Foundation	**5**	Cognos 10.x Upgrade	$500k-$1M
6	Technical Foundation	**6**	Capacity growth - storage/comp.	$250k-$500k
7	Technical Foundation	**7**	UC4 Automation Upgrade v9	$250k-$500k
8	Technical Foundation	**8**	Replace Sun DSEE	$500k-$1M
9	Technical Foundation	**9**	Replace Sun IDM	$500k-$1M
10	Technical Foundation	**10**	Minor Cap - Critical - 2013	$500k-$1M
11	Technical Foundation	**11**	Data Center Growth & Asset Replacement - 2013	$2M-$4M

ERCOT Fiscal Year 2013 Budget
Project Priority List Detail

Line	Project Category	2013 Rank	Project Name	Budget Range
12	Business Strategy	**1**	Cyber Security Project #5	$700k-$800k
13	Business Strategy	**2**	Cyber Security Project #6	$50k-$100k
14	Business Strategy	**3**	Certified Data Product Subscription Standardization	$100k-$250k
15	Business Strategy	**4**	EPS Metering DB Redesign	$250k-$500k
16	Business Strategy	**5**	FIP Definition Revision	$100k-$250k
17	Business Strategy	**6**	Wind Forecasting Change to P50, Sync with PRR841	$50k-$100k
18	Business Strategy	**7**	AIL Calculation & Credit Reports Publish Corrections	$100k-$250k
19	Business Strategy	**8**	Sync with PRR787, Add Non-Compliance Language to QSE Performance Standards	$100k-$250k
20	Business Strategy	**9**	Proxy Energy Offer Curve	<$50k
21	Business Strategy	**10**	Incremental Update Capability - Phase 2	$2M-$4M
22	Business Strategy	**11**	MP Online Data Entry - Ph 2	$1M-$2M
23	Business Strategy	**12**	2013 NPRR/SCR Funds	$2M-$3M

ERCOT Fiscal Year 2013 Budget
Project Priority List Detail

Line	Project Category	2013 Rank	Project Name	Budget Range
24	Efficiencies / Enhancements	**1**	MP Online Data Entry - Ph 1	$300k-$350k
25	Efficiencies / Enhancements	**2**	CMS and MIR Replacement	$500k-$1M
26	Efficiencies / Enhancements	**3**	Macomber Map NERC SA/Compliance Enhancements	$75k-$100k
27	Efficiencies / Enhancements	**4**	Secure File Transfer	$50k-$100k
28	Efficiencies / Enhancements	**5**	EMIL and View by Protocol Enhancements	$100k-$250k
29	Efficiencies / Enhancements	**6**	Replace N2N System	$50k-$100k
30	Efficiencies / Enhancements	**7**	Contract Mgmt Software	$100k-$250k
31	Efficiencies / Enhancements	**8**	Control Room AV Wall Upgrade	$1M-$2M
32	Efficiencies / Enhancements	**9**	Control Room Console Upgrade	$250k-$500k
33	Efficiencies / Enhancements	**10**	Control Room Electrical/Mechanical Upgrade	$250k-$500k
34	Efficiencies / Enhancements	**11**	OTS Enhancements	$100k-$250k
35	Efficiencies / Enhancements	**12**	ERCOT Website Enhancements - 2013	$250k-$500k

ERCOT Fiscal Year 2013 Budget
Summary of Estimated Income Sources

Line	Description	Protocols Reference	Calculation/Rate/Comment	2013 Request $	2013 Request %	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
1	ERCOT System Administration Fee	9.7.1	$0.4171 per MWh	$ 139,895,824	89.0%	$ 145,622,622	$ 151,453,906	$ 156,872,165	$ 160,040,340	$ 162,857,414
2	NERC Electric Reliability Organization Fee	NA	A federally mandated, pass-through charge established to recover an amount approved by FERC for the ERCOT region's share of the annual operating costs of the Electric Reliability Organization.	13,248,627	9.0%	13,435,475	13,642,358	13,875,264	14,138,233	14,415,040
3	Private Wide-Area Network Fee	9.7.6	Recovery of costs associated with the wide area network	2,820,000	2.0%	2,859,771	2,899,510	2,944,314	2,994,897	3,047,736
4	Generation Interconnection Study Fees	NA	Security screening study fee: Project Size <= 150 MW; Fee = $5,000 Project Size > 150 MW; Fee = $7,000 Full screening study fee: $15 per MW	300,000	0.0%	304,231	308,916	314,189	320,144	326,412
5	Membership Dues	NA	$2,000 for corporate members and $500 for associate and adjunct members	320,000	0.0%	324,513	329,510	335,135	341,487	348,173
6	Operations Training Seminar	NA	Cost Sharing	215,250	0.0%	218,286	221,647	225,431	229,703	234,201
7	Blackstart Training	NA	Cost Sharing	65,000	0.0%	65,917	66,932	68,074	69,365	70,723
8	Qualified Scheduling Entity Application Fee	9.7.5	$500 per entity	7,500	0.0%	7,606	7,723	7,855	8,004	8,160
9	Competitive Retailer Application Fee	9.7.5	$500 per entity	7,500	0.0%	7,606	7,723	7,855	8,004	8,160
10				.						
11			**Total**	**$ 156,879,701**	**100.0%**	**$ 162,846,026**	**$ 168,938,224**	**$ 174,650,282**	**$ 178,150,176**	**$ 181,316,018**

Debt Scenarios

ERCOT Fiscal Year 2013 Budget

Revenue Requirements - Scenario for Retiring $120 Million Debt by December 2013

Line	($ Thousands)	2011 Actual	2012 Budget	2013 Request	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
1	Operating expenses								
2	Labor	69,142.0	74,367.1	77,165.0	80,214.6	83,386.2	86,684.7	90,115.1	93,682.7
3	Hardware & Software Support & Maintenance	9,703.8	20,114.2	19,705.7	20,012.8	20,345.2	20,709.8	21,111.5	21,531.4
4	Utility, Maintenance, & Facilities	11,187.4	12,456.1	11,930.9	12,135.7	12,357.2	12,599.7	12,866.2	13,145.1
5	Other Expenses	7,349.0	6,964.9	8,005.6	8,473.4	8,197.5	8,337.2	8,496.0	8,701.2
6	Outside Services	4,110.7	3,877.5	4,143.6	4,213.2	4,287.0	4,365.9	4,450.8	4,538.8
7	Employee Expenses	1,364.2	1,148.4	1,600.5	1,623.1	1,648.1	1,676.2	1,708.0	1,741.5
8	Equipment & Tools	740.9	877.8	982.0	995.8	1,011.2	1,028.4	1,047.9	1,068.4
9	Subtotal - Operating Expenses	103,598.0	119,806.1	123,533.4	127,668.8	131,232.4	135,402.0	139,795.6	144,409.1
10	Debt Service Obligations								
11	Principal Payments	26,200.0	26,200.0	123,375.0	11,821.6	12,066.4	8,304.5	7,106.0	5,344.4
12	Interest Expense	3,978.5	2,993.0	75.0	-	-	-	-	-
13	Subtotal - Debt Service Obligations	30,178.5	29,193.0	123,450.0	11,821.6	12,066.4	8,304.5	7,106.0	5,344.4
14	Revenue-Funded Project Expenditures								
15	Project Expenditures	32,357.5	15,000.0	15,000.0	20,000.0	20,000.0	25,000.0	25,000.0	25,000.0
16	Debt-Funded Project Expenditures	19,414.5	9,000.0	9,000.0	12,000.0	10,000.0	10,000.0	10,000.0	10,000.0
17	Subtotal - Revenue-Funded Project Expenditures	12,943.0	6,000.0	6,000.0	8,000.0	10,000.0	15,000.0	15,000.0	15,000.0
18	Reliability Organization Assessment	11,974.9	13,062.3	13,248.6	13,435.5	13,642.4	13,875.3	14,138.2	14,415.0
19	Subtotal - Revenue Requirements	158,694.3	168,061.3	266,232.0	160,925.8	166,941.1	172,581.7	176,039.8	179,168.5
20									
21	Revenue Sources								
22	System Administration Fee Revenue	139,533.1	137,664.7	249,248.1	143,702.4	149,456.8	154,803.6	157,930.0	160,709.9
23	Reliability Organization Assessment Fee	11,974.9	13,062.3	13,248.6	13,435.5	13,642.4	13,875.3	14,138.2	14,415.0
24	Other Revenue	3,429.2	3,607.5	3,735.3	3,787.9	3,842.0	3,902.9	3,971.6	4,043.6
25	Interest Income	6.6	-	-	-	-	-	-	-
26	Extraordinary Item Revenue	5,000.0	-	-	-	-	-	-	-
27	2010 Carry Forward	17,599.8	-	-	-	-	-	-	-
28	2011 Carry Forward	(18,849.3)	13,726.9	-	-	-	-	-	-
29	Subtotal - Revenue Sources	158,694.3	168,061.3	266,232.0	160,925.8	166,941.1	172,581.7	176,039.8	179,168.5
30									
31	System Administration Fee Calculation								
32	System Administration Fee Revenue	139,533.1	137,664.7	249,248.1	143,702.4	149,456.8	154,803.6	157,930.0	160,709.9
33	Energy Consumption (GWH)	334,547.5	330,033.6	335,401.2	349,131.2	363,111.7	376,102.0	383,697.8	390,451.7
34	System Administration Fee	0.4171	0.4171	0.7431	0.4116	0.4116	0.4116	0.4116	0.4116
35									
36	Total Spending Authorization Computation								
37	Revenue Requirements	158,694.3	168,061.3	266,232.0	160,925.8	166,941.1	172,581.7	176,039.8	179,168.5
38	Debt-Funded Project Expenditures	19,414.5	9,000.0	9,000.0	12,000.0	10,000.0	10,000.0	10,000.0	10,000.0
39	Total Spending Authorization	178,108.8	177,061.3	275,232.0	172,925.8	176,941.1	182,581.7	186,039.8	189,168.5

ERCOT Fiscal Year 2013 Budget

Revenue Requirements - Scenario for Retiring $120 Million Debt by December 2017

Line	($ Thousands)	2011 Actual	2012 Budget	2013 Request	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
1	Operating expenses								
2	Labor	69,142.0	74,367.1	77,165.0	80,214.6	83,386.2	86,684.7	90,115.1	93,682.7
3	Hardware & Software Support & Maintenance	9,703.8	20,114.2	19,705.7	20,012.8	20,345.2	20,709.8	21,111.5	21,531.4
4	Utility, Maintenance, & Facilities	11,187.4	12,456.1	11,930.9	12,135.7	12,357.2	12,599.7	12,866.2	13,145.1
5	Other Expenses	7,349.0	6,964.9	8,005.6	8,473.4	8,197.5	8,337.2	8,496.0	8,701.2
6	Outside Services	4,110.7	3,877.5	4,143.6	4,213.2	4,287.0	4,365.9	4,450.8	4,538.8
7	Employee Expenses	1,364.2	1,148.4	1,600.5	1,623.1	1,648.1	1,676.2	1,708.0	1,741.5
8	Equipment & Tools	740.9	877.8	982.0	995.8	1,011.2	1,028.4	1,047.9	1,068.4
9	Subtotal - Operating Expenses	103,598.0	119,806.1	123,533.4	127,668.8	131,232.4	135,402.0	139,795.6	144,409.1
10	Debt Service Obligations								
11	Principal Payments	26,200.0	26,200.0	31,491.6	32,133.2	33,444.9	30,713.9	30,102.3	14,168.6
12	Interest Expense	3,978.5	2,993.0	2,327.7	2,137.5	1,969.6	1,773.9	1,675.4	-
13	Subtotal - Debt Service Obligations	30,178.5	29,193.0	33,819.3	34,270.7	35,414.5	32,487.8	31,777.8	14,168.6
14	Revenue-Funded Project Expenditures								
15	Project Expenditures	32,357.5	15,000.0	15,000.0	20,000.0	20,000.0	25,000.0	25,000.0	25,000.0
16	Debt-Funded Project Expenditures	19,414.5	9,000.0	9,000.0	12,000.0	10,000.0	10,000.0	10,000.0	10,000.0
17	Subtotal - Revenue-Funded Project Expenditures	12,943.0	6,000.0	6,000.0	8,000.0	10,000.0	15,000.0	15,000.0	15,000.0
18	Reliability Organization Assessment	11,974.9	13,062.3	13,248.6	13,435.5	13,642.4	13,875.3	14,138.2	14,415.0
19	Subtotal - Revenue Requirements	158,694.3	168,061.3	176,601.3	183,374.9	190,289.2	196,765.1	200,711.6	187,992.7
20									
21	Revenue Sources								
22	System Administration Fee Revenue	139,533.1	137,664.7	159,617.4	166,151.5	172,804.9	178,987.0	182,601.8	169,534.1
23	Reliability Organization Assessment Fee	11,974.9	13,062.3	13,248.6	13,435.5	13,642.4	13,875.3	14,138.2	14,415.0
24	Other Revenue	3,429.2	3,607.5	3,735.3	3,787.9	3,842.0	3,902.9	3,971.6	4,043.6
25	Interest Income	6.6	-	-	-	-	-	-	-
26	Extraordinary Item Revenue	5,000.0	-	-	-	-	-	-	-
27	2010 Carry Forward	17,599.8	-	-	-	-	-	-	-
28	2011 Carry Forward	(18,849.3)	13,726.9	-	-	-	-	-	-
29	Subtotal - Revenue Sources	158,694.3	168,061.3	176,601.3	183,374.9	190,289.2	196,765.1	200,711.6	187,992.7
30									
31	System Administration Fee Calculation								
32	System Administration Fee Revenue	139,533.1	137,664.7	159,617.4	166,151.5	172,804.9	178,987.0	182,601.8	169,534.1
33	Energy Consumption (GWH)	334,547.5	330,033.6	335,401.2	349,131.2	363,111.7	376,102.0	383,697.8	390,451.7
34	System Administration Fee	0.4171	0.4171	0.4759	0.4759	0.4759	0.4759	0.4759	0.4342
35									
36	Total Spending Authorization Computation								
37	Revenue Requirements	158,694.3	168,061.3	176,601.3	183,374.9	190,289.2	196,765.1	200,711.6	187,992.7
38	Debt-Funded Project Expenditures	19,414.5	9,000.0	9,000.0	12,000.0	10,000.0	10,000.0	10,000.0	10,000.0
39	Total Spending Authorization	178,108.8	177,061.3	185,601.3	195,374.9	200,289.2	206,765.1	210,711.6	197,992.7

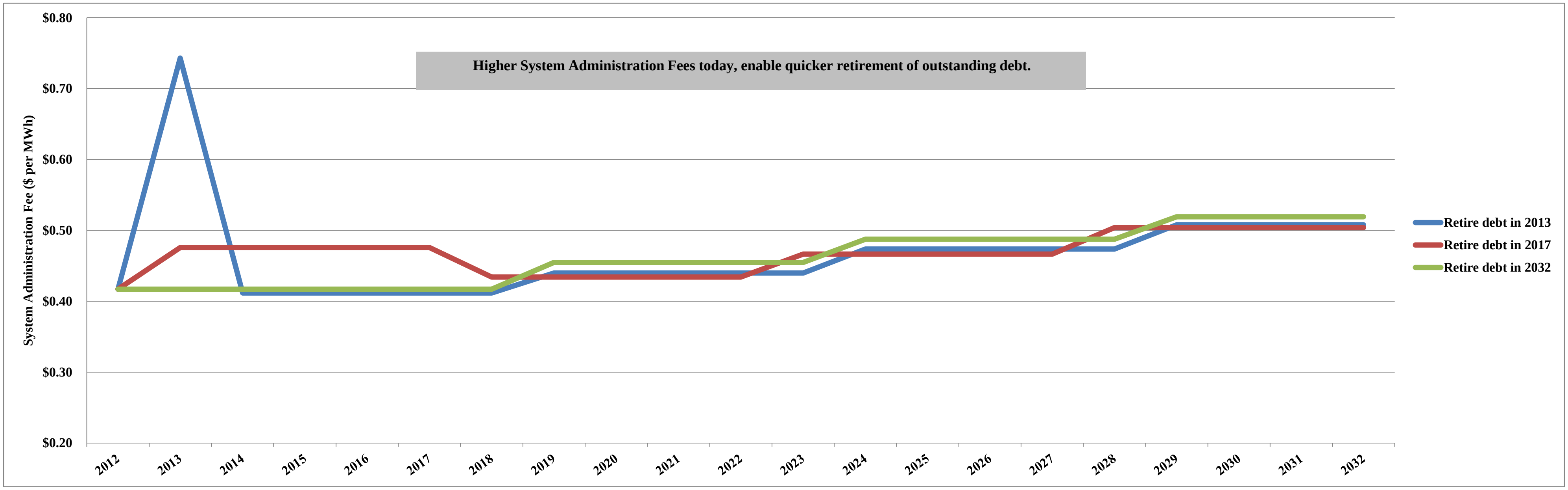
ERCOT Fiscal Year 2013 Budget

Net Present Value for Future Fees to be Collected - Comparison of Three Debt Retirement Scenarios

	Cumulative Net Present Value				
	Year 1	**Year 5**	**Year 10**	**Year 15**	**Year 20**
Retire Debt in 2013	$ 135,097,009	$ 744,239,393	$ 1,333,613,878	$ 1,867,435,204	$ 2,349,007,471
Retire Debt in 2017	$ 135,097,009	$ 719,904,438	$ 1,330,093,398	$ 1,864,120,278	$ 2,347,991,915
Retire Debt in 2032	$ 134,447,009	$ 646,998,340	$ 1,251,461,550	$ 1,801,853,806	$ 2,295,593,153

Assumptions:
1. Discount factor of 5% assuming current rates with expectation of rise in interest rates.
2. Labor growing by 4% year over year.
3. All other operating expenses growing by current inflation rates year over year.

ERCOT Fiscal Year 2013 Budget
System Administration Fee Profiles - Comparison of Three Debt Retirement Scenarios



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Retire debt in 2013	0.4171	0.7431	0.4116	0.4116	0.4116	0.4116	0.4116	0.4398	0.4398	0.4398	0.4398	0.4398	0.4738	0.4738	0.4738	0.4738	0.4738	0.5078	0.5078	0.5078	0.5078
Retire debt in 2017	0.4171	0.4759	0.4759	0.4759	0.4759	0.4759	0.4342	0.4342	0.4342	0.4342	0.4342	0.4666	0.4666	0.4666	0.4666	0.4666	0.5038	0.5038	0.5038	0.5038	0.5038
Retire debt in 2032	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171	0.4547	0.4547	0.4547	0.4547	0.4547	0.4876	0.4876	0.4876	0.4876	0.4876	0.5193	0.5193	0.5193	0.5193

Item	6
Topic	Review adequacy of and recommend board approval of the Finance and Audit Committee charter
Presenter	Clifton Karnei
Purpose	Vote to recommend board approval of the Finance and Audit Committee charter See decision template and redlined document at Board Agenda Item 14c

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Item	7
Topic	Review adequacy of and recommend Credit Work Group charter
Presenter	Mark Ruane
Purpose	Vote to recommend board approval of Credit Work Group charter

Committee Approval of Credit Work Group Charter

The Credit Work Group Charter requires that:

"This Charter shall be reviewed and ratified at least annually by the F&A Committee."

- The Charter was last reviewed and ratified by the F&A Committee at its February 20th 2012 meeting.
- At its March 28th 2012 meeting the CWG voted revisions to the CWG charter:
  - Remove membership restriction to "Corporate" Members of ERCOT
  - Limiting CWG participation to one employee per Entity and its affiliates
  - Require annual designation of voting segment when members can participate in multiple market segments
- On the same date the CWG voted to recommend that the F&A Committee ratify the CWG Charter as amended.
- Charter document with redlined revisions is attached.

Electric Reliability Council of Texas, Inc.

ERCOT Credit Work Group Charter

I. Purpose and Authority

The Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) established the ERCOT Credit Work Group (CWG) as a group of credit professionals to help ensure that appropriate procedures are implemented to mitigate credit risk in the ERCOT Region in a manner that is fair and equitable to all Market Participants.[1]

The CWG will review all sections of the ERCOT Protocols that impact creditworthiness requirements or collateral calculations and provide recommendations to the Finance and Audit Committee of the Board (the F&A Committee), with a copy to the Chair and Vice Chair of the Technical Advisory Committee (TAC). The CWG will provide comments to the TAC subcommittees when Nodal Protocol Revision Requests (NPRRs) or other actions have credit implications.

II. Reporting Relationships

- The CWG reports to the F&A Committee of the Board as a working group and is not a subcommittee of either the Board or TAC.

III. ERCOT Credit Work Group Functions

The functions of the CWG include, but are not limited to:

- Providing input on credit matters as requested by the F&A Committee or by TAC or TAC subcommittees

[1] Capitalized terms used in this document shall have the meanings ascribed to them in the ERCOT Protocols unless otherwise noted.

- Providing input regarding NPRRs that impact credit in accordance with this Charter and Board approved credit policies
- Providing input regarding the ERCOT Creditworthiness Standards

In addition, the CWG may, from time-to-time, make recommendations to existing or proposed systems, projects, plans, ERCOT Protocols and policies and procedures of ERCOT impacting credit issues.

The CWG shall not engage in any activities that conflict with or violate ERCOT Protocols or the ERCOT Employee Ethics Agreement.

The CWG shall at all times comply with the Antitrust Guidelines for Members of ERCOT Committees, Subcommittees and Working Groups.

The CWG shall not have direct responsibility or authority over ERCOT staff. Although the CWG will recommend courses of action, the responsibility for implementation of policies or procedures shall rest with ERCOT staff.

In carrying out its responsibilities, the CWG shall be guided by industry best practices.

IV. Credit Work Group Administration

Each ~~Corporate~~ Member of ERCOT may designate one employee that meets the Qualifications Guidelines for Credit Work Group Membership as a voting member to participate in the activities and attend meetings of the CWG. An Entity and its affiliates that are Members of ERCOT shall have no more than one voting member. The voting member shall designate a voting segment on an annual basis. The Consumer representatives on the Board may each designate one person that meets the Qualifications Guidelines for Credit Work Group Membership, as a voting member to participate in the activities and attend meetings of the CWG.

All designations of CWG members must be sent to ERCOT's Credit Manager.

The Chair and Vice-Chair of the CWG shall be elected annually by the CWG membership and confirmed by vote of the F&A Committee. If the Chair or Vice-Chair steps down during his or her term, the CWG will hold a special election to fill the vacant position within 60 days and the vote will be confirmed by the F&A Committee.

The CWG Chair shall report at least semi-annually to the F&A Committee regarding the state of credit practice within ERCOT. In addition, the CWG Chair shall notify the F&A Committee Chair of significant credit issues as they arise.

In order to discharge its responsibilities, the CWG may form temporary or *ad hoc* task forces. The CWG Chair, with CWG approval, shall appoint the chair for each task force for a term of one year or the duration of the task force whichever is less. Each task force chair may serve in that role for no more than two consecutive one year terms. The CWG shall direct these task forces and make assignments as necessary.

All task forces are responsible for reporting planned activities/projects and results to the CWG for review. All task force actions are subject to CWG review.

V. Meetings

A. Quorum

In order to take action, a quorum must be present. At least one CWG member from four of the seven market Segments listed below must be present (including participation by telephone) at a meeting to constitute a quorum: Independent REPs (and Aggregators), Independent Generators, Independent Power Marketers, Municipals, Cooperatives, Investor Owned Utilities, and Consumers.

Each CWG member or CWG member's company represented on CWG may designate, in writing, an Alternate Representative or proxy who may attend meetings and vote on the CWG member's behalf. Alternate Representatives must be employees of the same company as the CWG member designating them or may be agents with a contractual obligation to represent the interest of the company designating them. Alternative Representatives count toward establishing a quorum at a CWG meeting; proxies do not. If a CWG member wishes to designate an Alternate Representative or proxy, the CWG member must send to ERCOT notification of the designation of such Alternative Representative or proxy in advance of any meeting and the designation shall be valid for the time period designated by the CWG member.

B. Meeting Schedule and Notification

The CWG shall meet at least quarterly to review credit policy. In addition, the CWG shall meet as needed to address issues as they arise such as NPRRs. Meeting notices and agendas shall be sent to the CWG distribution list and posted on the ERCOT website at least one (1) week prior to the CWG meeting unless an urgent condition requires shorter notice. If the CWG Chair or Vice Chair has declared a meeting urgent, meeting notices shall be sent to the distribution list and posted on the ERCOT website and shall clearly identify the condition requiring the shorter notice. Except in cases of urgent matters, all agenda items requiring a vote of CWG must be published at least one week prior to the meeting at which the vote will take place. In the case of an urgent matter, all agenda items requiring a vote of CWG shall be published as soon as possible prior to the meeting at which the vote will take place and the circumstances causing the urgency shall be clearly identified. All CWG meetings may be attended by any interested observer. Call-in numbers will be provided for those persons wishing to attend via telephone. CWG members may participate in the meeting and vote via telephone. If third-party confidential information is presented during a meeting, all persons except for CWG members may be excluded from the portion of the meeting at which such confidential information is discussed. Confidential information will not be presented to CWG members participating by telephone.

C. Voting

Votes: At all meetings, each Segment shall have one (1) vote. CWG members present at the meeting (including participation via telephone) and participating in the vote shall receive an equal fraction of its Segment's vote.

Abstentions: In the event that a CWG member abstains from a vote, the Segment vote shall be allocated equally among the CWG members casting a vote.

Voting: In matters determined by the CWG Chair to require a vote of CWG or when any CWG member requests a vote on an issue, each CWG member shall have one (1) vote except that a CWG member holding a valid proxy for another CWG member shall have one (1) vote plus one vote for each proxy held. A motion passes when (A) a majority of the aggregate of the fractional Segment votes are: (i) affirmative, and (ii) a minimum total of three (3) and (B) a minimum of 67% of voting individuals meet Qualification guidelines.

Any dissenting party shall have the right to request time to present its position to the F&A Committee if such dissenting party chooses to do so.

E-mail Voting: An e-mail vote is permitted provided a Notification is distributed to the CWG distribution list. A Notification must include a detailed description of the issue or proposition on which the vote will occur. A request for an e-mail vote shall be initiated only by the CWG Chair or Vice Chair. A quorum of CWG members must participate in the e-mail vote.

Participation requires casting a vote or abstaining. Votes shall be submitted to ERCOT for tallying by the close of two (2) Business Days after ERCOT staff circulates the Notification of the vote. Votes are tallied in the same manner as a regular meeting. The final tally shall be distributed to the CWG distribution list and posted on the ERCOT MIS Public Area.

D. Conduct of Meetings

The CWG Chair, or Vice-Chair in the Chair's absence, shall preside at all meetings and is responsible for preparation of agendas. In the absence of the CWG Chair or Vice-Chair, another CWG member shall preside at the meeting. The CWG members shall be guided by Robert's Rules of Order in the conduct of CWG meetings. ERCOT staff shall be responsible for recording minutes of CWG meetings and distributing and posting on the ERCOT MIS Public Area the minutes and other communications to all CWG members and any other parties who express an interest in receiving such information. ERCOT staff shall endeavor to distribute and post the draft minutes of each meeting with materials being distributed for the next meeting. Generally, at the beginning of a CWG meeting, the minutes of the prior meeting shall be reviewed and approved by CWG.

CWG members and Alternate Representatives must meet the qualifications as identified on the attached Qualifications Guidelines for Credit Work

Group Membership. The F&A Committee shall review the requirements for membership in the CWG annually.

This Charter shall be reviewed and ratified at least annually by the F&A Committee.

Additional Questions on the ERCOT Credit Work Group

For additional questions on ERCOT's Credit Work Group and creditworthiness requirements, please contact the ERCOT Credit Manager, Vanessa Spells at (512) 225-7014 or by email at vspells@ercot.com.

Qualification Guidelines for Credit Work Group Membership

Other than a CWG member appointed by a Consumer Board member, each CWG member must be an employee of a ~~Corporate~~ Member of ERCOT (as defined in the ERCOT By-~~L~~laws) in good standing. All CWG members and Alternate Representatives representing a ~~Corporate~~ Member must be actively engaged in or responsible for the credit activities of such ~~Corporate~~ Member.

All CWG members and Alternate Representatives~~alternate members~~ must have experience in at least one or more of the following fields:

- Risk management (preferably credit risk management)
- Credit management and analysis
- Development and/or execution of credit risk policies and procedures
- Establishment and control of credit limits and terms
- Finance and/or loan administration
- Credit ratings analysis
- Commercial credit analysis
- Financial analysis

CWG members are encouraged to be active participants on the CWG.

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Item	8
Topic	Receive periodic report on Credit Work Group activity
Presenter	Tamila Nikazm
Purpose	Discuss Credit Work Group activity

Periodic Report on Credit Work Group Activity

Completed

- Recommended updates to the Credit Work Group Charter
- Recommended approval of updates to Surety Bond Standard Form

In flight

- Annual review of Day Ahead Market Collateral Parameters Process as required by Protocols
- Review of proposed updates to Creditworthiness Standards
- Review of NPRR 438 – Minimum Counter-Party Requirements
- Review credit impacts of potential increase in price caps/power balance penalty curves

Item	9
Topic	Review and recommend board approval of the Financial Corporate Standard
Presenter	Leslie Wiley
Purpose	Vote to recommend board approval of the Financial Corporate Standard See Decision Template and Redlined Document at Board Agenda Item 14d

- **The Financial Corporate Standard's objective is to assure financial stability with ERCOT's strategic plan and ERCOT's budget.**

- **The Board of Directors established the standard, which is reviewed annually. The Board must approve any modifications to the document. Seeking a vote from Finance and Audit Committee members.**

The Financial Corporate Standard defines:

- **Revenue funded portion of capital expenditures**
- **Fixed to Floating interest rate ratio on debt**
- **Targeted liquidity factors:**
  1. **Six months of forecasted Debt Service**
  2. **Two months average operating and Maintenance expenses net of administrative fee receipts**
  3. **Two months of budgeted project expenditures**
  4. **Two months of CRR repayment obligations net of CRR receipts.**

- **ERCOT's proposed changes**
  1. Strategic Financial Plan and Budget on page two contains title clean up
  2. Strategic Financial Plan and Budget on page two also contains the elimination of specifying which agency ERCOT will maintain an investment grade debt rating but it will be nationally recognized
  3. Adjusted the overspending of the Budget or under collection of revenue to be reported promptly.
- ERCOT is seeking a vote from Finance and Audit Committee members to recommend the Board of Directors adopt ERCOT's revised Financial Corporate Standard

Item	10
Topic	Review and recommend board approval of the Investment Corporate Standard
Presenter	Leslie Wiley
Purpose	Vote to recommend board approval of the Investment Corporate Standard See Decision Template and Redlined Document at Board Agenda Item 14e

- **The Investment Corporate Standard's objective is to document the guidelines and related activities for the investment and management of funds held by ERCOT.**

- **The Board of Directors established the standard, which is reviewed annually. The Board must approve any modifications to the document. Seeking a vote from Finance and Audit Committee members.**

The Investment Corporate Standard defines:

- **Investment Objectives**
  1. **Safety**
  2. **Liquidity**
  3. **Return on investment**
- **Investment Instruments**
  1. **Qualified Institutions**
  2. **Money Market Mutual Funds**
- **Investment Constraints**
  1. **Maximum in Qualified Institutions**
  2. **Maximum in Money Market Mutual Funds**
  3. **Treasury Funds**

Proposed Changes

Current	Proposed Change	Benefit
Investment Monitoring consists of Credit Analysis.	Adding the following monthly analysis to investment monitoring: •100 Percent Treasury Analysis •Concentration Analysis •Repurchase Agreement Analysis •Direct Treasury Transaction Analysis	More analysis to help identify potential issues in a more timely manner.
No more than 10 percent of the portfolio shall be invested with any single Qualified Institution or Money Market Fund provided that in no event shall investments in any single Qualified Institution or Money Market Fund exceeds $50 million	Eliminate the $50 million restriction. The 10 percent minimum would remain in place	This would allow ERCOT the flexibility to allow for large increases in cash while remaining diversified among the current 12 funds
Cannot invest directly in treasury purchases	Reinstate allowance for treasury purchases. Any direct treasury purchase would be approved by the Finance and Audit Committee prior to purchase.	ERCOT would have flexibility to invest additional dollars

- **ERCOT is seeking a vote from Finance and Audit Committee members to recommend the Board of Directors adopt ERCOT's revised Investment Corporate Standard**

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Item	11
Topic	Authorize engagement of the independent auditor to perform non-audit services
Presenter	Rebecca Beckham
Purpose	Vote to recommend board approval of the engagement of the independent auditor

Approval of Non-Audit Services provided by Independent Auditor

- Per the Finance and Audit Committee charter, “the Committee shall approve the provision of all auditing and non-audit services (in excess of $5,000) by the independent auditor to the Company in advance of the provision of those services and shall also approve the fees for all non-audit services provided by the independent auditor.”

- Additionally, “the Committee shall consider whether the independent auditor’s performance of any non-audit services is compatible with the external auditor’s independence.”

- Ernst & Young’s (E&Y) review of ERCOT’s 2011 IRS Form 990 is specifically limited to the review of the tax forms prepared by ERCOT staff and does not accommodate tax advisory services.

- Based on the complexity of the IRS Form 990, ERCOT seeks preapproval to engage E&Y to provide up to $10,000 of advisory services where necessary in connection with 2011 IRS Form 990.

- In 2010, no advisory fees were incurred, but ERCOT incurred $8,200 in 2009 and $20,000 in 2008.

Item	12a
Topic	Review committee briefs
Presenter	Mike Petterson
Purpose	Review report on financial institutions that are also Market Participants

Market Participants that are also Financial Institutions

Market Participant		**Financial Institution**		**Services Provided**
Bank of America, N.A. (also their subsidiary, Merrill Lynch)		Bank of America, N.A. or affiliate		Lender, bank account
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

Note: ERCOT's 401(k) has mutual fund options that may include securities from these or other market participants.

Item	12b
Topic	Review committee briefs
Presenter	Mike Petterson
Purpose	Options for committee member training

Options for committee member training

- At each meeting of the Finance and Audit Committee, staff proposes to offer educational materials relevant to the activity of the Committee through three channels:
  - Direct presentation
  - Independent reading materials
  - Reference to seminars and conferences offered by third parties

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The quarter close

A look at this quarter's financial reporting issues

Directors edition

March 22, 2012

What's inside

pwc

What you need to know—Q1–2012

Welcome to the first quarter 2012 edition of *The quarter close*. We're off and running on a new year, and so are the regulators and standard setters. There's plenty of activity planned for 2012: wrapping up the priority standard-setting projects, proposing changes to the auditor's report, and deciding the future of private company standard setting...not to mention the possibility of a proposal on IFRS in the United States.

Whether you think we're headed for a photo finish or just mid-way through a marathon, it promises to be another action-packed year in financial reporting. Here's a preview of what's making news this quarter:

Front and center. The FASB and IASB's joint projects are back in the spotlight as the boards make progress (together!) on financial instruments. However, working out the details on leases is proving to be a challenge. Also top of mind for many, including the SEC: continued economic uncertainty in the Eurozone and what it means for U.S. companies.

Accounting hot topics. Here we feature newly effective guidance for 2012, including the standard on fair value. Don't miss out on our other hot topics either: the distinction between acquiring a business versus a group of assets, valuation allowances, and more.

Hot off the press. Recent FASB releases include new balance sheet offsetting disclosures. We also summarize changes coming to the COSO framework.

Introducing...Audit reporter. We've added a separate section with the latest audit news—including feedback on mandatory audit firm rotation—and why it should matter to you.

And lots more. We also highlight the SEC's recent focus on the use of pricing services and the latest on the very public debate over private company standard setting. And, we touch on the hot button issues for the 2012 proxy season.

Front and center

New "lease" on life for straight-line expense?

After lengthy discussions about lease accounting this quarter, the FASB and IASB decided to revisit a familiar but lingering issue: expense "front loading" for lessees. Good news for those who believe that straight-line expense makes more sense for certain leases. The catch: each board seems to favor a different fix.

Boards eye two approaches

The first approach—supported by the FASB—would create a second category of "operating-type" leases, similar to today. The boards haven't changed their minds about recording these leases on the balance sheet, but the asset would be amortized in a way that, when combined with interest on the lease liability, generally gets closer to straight-line expense. Only "finance-type" leases would result in front-loaded expense.

The IASB supports a different model dubbed the "underlying asset" approach. Under this approach, amortization is based on the anticipated consumption of the leased asset. For some assets, such as real estate, the approach would produce something close to straight-line expense on an overall basis. At the other end of the spectrum, arrangements such as long-term equipment leases would have more front-loaded expense. Applying the IASB's approach could be challenging and require information not readily available to the lessee.

Will either get to the finish line?

Neither approach appears to be a silver bullet. The first requires developing criteria to determine how to separate leases into the two types. The boards considered—and ultimately abandoned—a similar idea last year. The second approach seems appealing because it applies a single model to all leases, but some FASB members are concerned about its complexity.

Stay tuned…the next few months will be important in determining where the boards go from here. The boards plan to pick-up the discussion again after conducting targeted outreach with preparers, users, and auditors.

Financial instruments—new hope for a converged solution

On the other hand, the boards appear to be making strides toward convergence on financial instruments. Go figure. Not long ago, the classification and measurement phase of this project seemed destined to be "non-converged." However, the IASB recently announced it would reopen its standard on classification and measurement for limited improvements. The boards subsequently agreed to work together on key differences.

They started in earnest during their February board meetings. So far, the boards have found common ground on certain issues, including agreeing that financial instruments should be measured at fair value through net income if the contractual cash flows are not solely payments of principal and interest. The boards will tackle more topics next month.

Eurozone uncertainty—has it hit home?

"Austerity" was the word of the year in 2010 according to Merriam-Webster. What will it be in 2012? With a series of sovereign debt downgrades, depressed growth, and persistent deficits, "Eurozone" might be in the running. Speculation continues about the possibility of defaults and the future of the Euro itself. How does it all factor into the U.S. financial landscape?

...more than half of U.S. CEOs say their businesses have been affected financially by the ongoing sovereign debt crisis in Europe and a third are changing their strategies, as a result.

Source: PwC's 15th Annual Global CEO Survey

The most obvious impact: European government debt held by companies and pension plans. Don't assume that just financial institutions are affected, though, as many companies have direct or indirect exposures to troubled European economies. For example, many U.S. companies have European operations, transact with European companies, or even count European governments among their customers. Below we highlight some of the potential implications. Not surprisingly, the SEC has also weighed in with some reminders about disclosing risks.

SEC to registrants: ditch the "boilerplate"

If you think just adding a new "risk factor" will do the trick, you may want to reconsider. In January, the SEC provided some direction to companies for disclosing their foreign exposures and other related risks. The SEC's main goals: increasing comparability and providing investors with better information. This guidance comes on the heels of SEC comments on a similar theme at December's AICPA National Conference on Current SEC and PCAOB Developments.

What kind of disclosure is the SEC looking for? Specific and disaggregated. For example, the SEC is asking companies to provide disclosures separately by country, segregated between sovereign and non-sovereign counterparties, and by financial statement category. The SEC is also looking for insight into how management is monitoring and mitigating exposures.

Which countries are relevant in this analysis? The SEC doesn't name names, but refers to countries experiencing significant economic, fiscal, or political strains that increase the likelihood of default. The specific countries meeting these criteria may change over time and aren't limited to those in Europe.

Pharmaceutical and Life Sciences Industry Alert 2011-03 explores the accounting implications of the current European economic environment. Not your industry? It's still worth a look, as many of the considerations are also relevant to companies in other industries.

Accounting hot topics

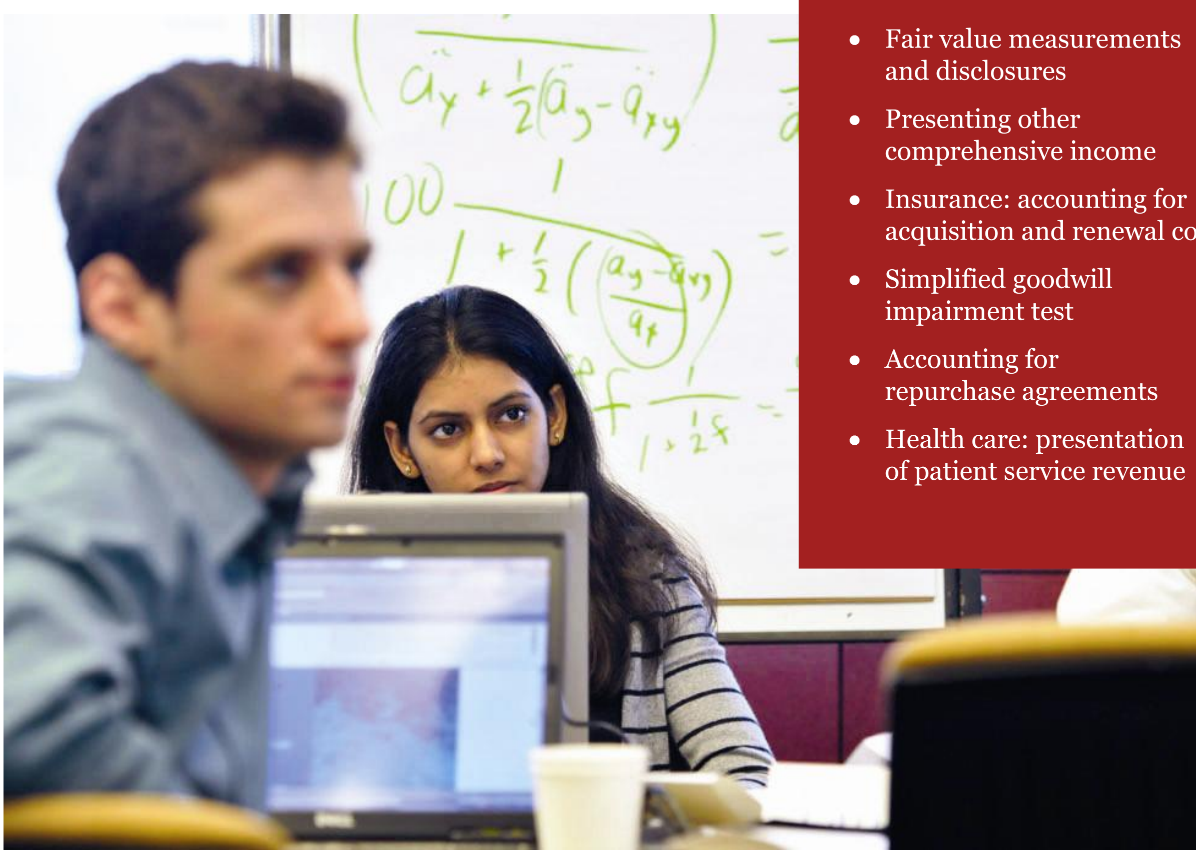
A new year usually means new financial reporting requirements, and 2012 is no exception. Guidance on fair value and other comprehensive income—both effective this quarter—will impact just about everyone.

Before moving on, be sure to make note of these other newly effective standards:

- Simplified goodwill impairment test: While many companies early adopted this guidance last year, the elective qualitative test is officially effective in 2012.
- Accounting for repos: This guidance amends the criteria for assessing whether a repurchase agreement (aka "repo") is a sale or a financing.
- Health care revenue: Health care companies will follow new rules for recognizing and presenting patient service revenue and the related bad debt provision.
- Insurers' accounting for acquisition costs: New guidance narrows the definition of costs eligible for deferral by insurance entities.

What's new in 2012

- Fair value measurements and disclosures
- Presenting other comprehensive income
- Insurance: accounting for acquisition and renewal costs
- Simplified goodwill impairment test
- Accounting for repurchase agreements
- Health care: presentation of patient service revenue



Fair value measurements and disclosures—what's really changed?

We described it several quarters back as a "tune up" of the fair value standard. At first glance, the new fair value guidance might seem to be a non-event. That may be true for some companies, but don't dismiss the possibility that it could change how certain financial instruments are valued. Also, you'll likely need time to prepare the new disclosures that are effective this quarter.

Limits placed on use of premiums and discounts

One notable change: limits on the ability to apply premiums or discounts when valuing financial instruments. For example, companies may no longer use so-called "blockage factors" in any fair value measurement.

What's a blockage factor and why is this important? It's a discount used to reflect the impact of selling a large block of securities at one time. This could affect, for example, measuring the fair value of equity securities accounted for individually, but held in blocks, that represent a noncontrolling interest. Before the new guidance, a company might have reflected a discount (in a "Level 2" or "Level 3" fair value measurement) if a market participant would have included a discount when pricing the securities.

New "Level 3" disclosures

Companies that have "Level 3" fair value measurements (that is, measurements based on significant unobservable inputs) face a host of new quantitative and qualitative disclosures. The standard does, however, provide some relief for nonpublic companies.

Companies will also get a break from some of the quantitative disclosures if they obtain fair value information from third-party sources. Even with this exception, though, you might want to consider additional disclosures about how you are using third parties to support fair value measurements. The SEC continues to increase its scrutiny in this area—a topic we discuss further under "SEC matters."

For a Q&A on the disclosure requirements, see Dataline 2012-02, *New fair value measurement standard—Implementation guidance for new disclosure requirements*.

Business or asset—first impressions can be deceiving

When it comes to deciding whether something is a business or a group of assets, you can't always rely on your instincts. Some acquired groups don't look like businesses in the traditional sense, but still meet the accounting definition. Some examples include certain types of outsourcing arrangements, licensing arrangements, and property acquisitions.

So, why does it matter?

For starters, the accounting for transaction costs, in-process research and development (IPR&D), excess purchase price (goodwill), and contingent consideration differs significantly depending on whether a business or a group of assets has been purchased. There are other implications as well, including the accounting for disposals. And, SEC rules require financial statements for acquired businesses—but not assets—that are significant.

Indicators that it's a "business"

Here's the official definition: a business is an integrated set of activities and assets that is capable of producing outputs and providing a return to investors. What does that mean? We can't cover all of the nuances here, but this cheat sheet should get you started:

Business versus asset indicators: a cheat sheet	
Business combination	**Asset acquisition**
Key business processes acquired	No processes acquired or only administrative processes acquired
A market participant could manage the assets to provide a return to its owners	A market participant could not manage the assets to provide a return to its owners without combining them with other assets
Key elements are missing but can be easily replicated or obtained	Key elements are missing and cannot be easily replicated or obtained
Key employees hired	No employees hired
Able to produce "Day 1" outputs	Not able to create economic benefits
Presence of goodwill	No goodwill present

For further information, see our recent Mergers & Acquisitions—A snapshot: *Did I buy a group of assets or a business? Why should I care?*

Valuation allowance assessments—what tips the scale?

We're talking about valuation allowances again, really? Believe it. But this time we're exploring a more positive angle: for companies experiencing improved financial conditions, when's the right time to release a deferred tax asset valuation allowance?

The guidance is the same whether you're assessing when to record or release an allowance. That is, a company needs to weigh the evidence, both positive and negative. A good place to start: comparing the evidence that supported initially recording the allowance to the evidence available today.

While there's no "bright line," cumulative losses in recent years represent significant negative evidence that can be difficult to overcome. Finally beginning to put cumulative losses behind you? If so, be sure to document the events leading up to the turnaround. And, companies with expiring net operating losses or other expiring tax attributes may need to schedule out future taxable income to assess whether they need to maintain a partial valuation allowance.

Don't forget about disclosures

As always, timely and transparent disclosure is important in this area…and a favorite topic of the SEC. This includes, for example, providing a "heads up" about potential valuation allowance releases in the near future. So, be sure to keep disclosures in mind to the extent positive evidence may tip the scale in 2012.

Only time will tell…an update on expired U.S. tax provisions

In our last edition of *The quarter close — Directors edition,* we discussed several longstanding beneficial corporate tax provisions that expired at the end of 2011. Many were hoping these provisions—including the federal research credit and the deferral of taxation of certain foreign earnings—would be reinstated, similar to the eleventh hour decision made at the end of 2010. However, as we approach the end of the first quarter, the only thing that has "passed" is time.

It's not entirely a lost cause. The Obama Administration's fiscal year 2013 budget proposes making the research credit permanent and extending other provisions retroactively. But the timing of any decisions in this area is uncertain—and could even be delayed until after this year's presidential election.

So, what to do in 2012?

Hope for the best, but don't base your accounting on the assumption that these provisions will be reinstated. For that, you'll need to wait until legislation passes and is signed into law. Until then, companies should factor the impact of the expirations into their annual estimated effective tax rates.

For more discussion of the Obama Administration's budget proposal and recent proposals for tax reform, refer to the following WNTS Insights publications: *President Obama's FY2013 budget includes business and individual tax increase proposals* and *Obama Administration releases business tax reform framework*.

Hot off the press

Balance sheet offsetting—it's all about disclosure

The FASB and IASB initially took on the balance sheet offsetting project with hopes of finding common ground. A win for convergence? Not quite. The boards were successful in converging disclosure requirements, but not the balance sheets of companies reporting under U.S. GAAP and IFRS.

> *...using disclosures to bridge differences in offsetting requirements was plan "B" for both boards.*
>
> *Source: Hans Hoogervorst, IASB Chairman, December 16, 2011*

The sticking point: master netting agreements

The proposal issued jointly by the FASB and IASB early in 2011 would have achieved the goal of convergence. But many U.S. companies objected to the proposal's strict requirements for offsetting a recognized financial asset and liability. User feedback was mixed, suggesting a desire for both gross and net information.

The FASB later decided (by a narrow margin) to allow an exception—existing today under U.S. GAAP—to permit netting of derivatives, repurchase agreements, and related collateral subject to master netting agreements. That decision left the current offsetting guidance under U.S. GAAP unchanged. The IASB, on the other hand, decided not to provide a similar exception.

New disclosures effective 2013

Unable to agree on the accounting, the boards turned to the next best thing: converged disclosure requirements. The boards believe the disclosures will allow investors to better compare financial statements prepared under U.S. GAAP and IFRS, and improve transparency about how companies mitigate credit risk.

So what's new? Entities will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet. The standard also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. The disclosures are required beginning in 2013.

For more information, refer to In brief 2011-53, *FASB issues final standard on balance sheet offsetting disclosures*.

COSO framework gets a facelift

By now, "COSO" has become a household name—at least in the financial reporting world. Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) almost twenty years ago, the COSO framework is now widely used by companies to design and evaluate their internal control systems. Recently, COSO released proposed updates to the framework for public comment.

Proposed changes to the framework

The updated framework retains many aspects of the original, including the definition and the familiar five components of internal control. So what's new? The updated framework:

- Provides seventeen key principles for use in developing and evaluating the effectiveness of internal controls systems
- Broadens the financial reporting objective to address internal and external, financial and non-financial reporting objectives
- Increases the focus on operations, compliance, and non-financial reporting objectives
- Addresses the significant changes that have occurred to business models and technology and their associated risks

Too much, not enough, or just right?

The COSO Board surveyed a broad range of stakeholders prior to developing the proposed updated framework. A large majority of the over 750 respondents were in favor of making incremental improvements to the framework's core principles, but not a complete overhaul. For others, the update may not go far enough. There are only a few more days to comment before the March 31 deadline—so let the COSO Board know what you think.

Up next: COSO plans to release a companion document on internal control over external financial reporting in the late spring or early summer. Both documents should be ready in final form by the end of the year.

For more information, see In brief 2011-54, *COSO releases updated "Internal Control—Integrated Framework" for public comment*.

SEC matters

The SEC has a long to-do list for 2012—including continued implementation of the Dodd-Frank Act[1]. What's the latest on Dodd-Frank? In late December, the SEC adopted final rules on disclosures about mine safety information. But most are looking ahead to final rules on conflict minerals, as well as proposals on clawbacks and pay ratio disclosures. The SEC's current timeline has these developments slated for the first half of the year. Stay tuned for more on these highly anticipated rules.

SEC drills down on use of pricing services

Fair value measurements and disclosures have been under the microscope for some time—even more so after the financial crisis. The latest focus: use of third-party pricing services. The PCAOB has been vocal in the past about the auditor's responsibility in this area, but the SEC is now starting to zero in on management's responsibilities.

The SEC started the conversation at December's AICPA National Conference on Current SEC and PCAOB Developments. The message was clear: expect questions about the use of third-party pricing services during the comment letter process. And, the SEC is starting to make good on that promise.

What are the SEC's expectations?

Management is ultimately responsible for a company's fair value measurements and disclosures. When obtaining pricing information from a third party, management needs enough information to conclude the data is reliable, and that the company has complied with the accounting and disclosure requirements (including identifying the appropriate classification within the fair value hierarchy). Additionally, management is responsible for maintaining and assessing the effectiveness of the related internal controls.

Three key areas of management's responsibility over third-party information include:

- Understand the underlying information sources and processes used by the third party
- Assess the judgments made by third parties and conclude on their reasonableness
- Identify, document, and test controls over the information received

Actions to take now

Now's a good time to reassess processes and documentation in this area. When it comes to financial statement disclosures, the more transparent, the better. In this case, the SEC is asking for more disclosure about how pricing services are used and the company's internal controls in place over pricing information. So, you may want to re-evaluate—and possibly augment—disclosures in this area, with the SEC's expectations in mind.

[1] The Wall Street Reform and Consumer Protection Act (Dodd-Frank) was enacted in July 2010.

IFRS developments

SEC says more on IFRS coming "soon"

Once again, anticipation is building over the SEC's decision about whether, when, and how to incorporate international standards into the U.S. financial reporting system. SEC Chief Accountant Jim Kroeker dropped hints this quarter that the SEC staff is close to finalizing a report on IFRS, but he declined to provide a more detailed timeline.

I don't feel any pressure at all to go along with anybody…I feel pressure to do the right thing for U.S. markets and U.S. investors.

Source: Mary Schapiro, SEC Chairman, Reuters, "U.S. SEC Chief Resists Pressure on Global Accounting," February 24, 2012

I do believe that the U.S. will ultimately come on board. Quite simply, they need us and we need them.

Source: Hans Hoogervorst, IASB Chairman, January 23, 2012

Ultimately, it's expected that any move toward IFRS will include a FASB endorsement process that will play out over a period of years, and result in some differences between U.S. and international standards—at least initially.

Audit reporter

"Active" definitely describes the PCAOB's standard-setting agenda. And as we've pointed out before, it's no longer just about the auditor. Investors, audit committees, and management all have a stake in some of the PCAOB's proposals. To help you get a handle on the recent activity, here are some of the more notable developments.

Franzel appointed to PCAOB

This quarter, a new PCAOB member, Jeanette M. Franzel, was appointed by the SEC. Franzel was previously a managing director of the U.S. Government Accountability Office (GAO). Back in 2003, the GAO studied—and ultimately recommended against—mandatory audit firm rotation. Why is this worth noting? Audit firm rotation is at the top of the list of issues the PCAOB is currently examining. We discuss audit firm rotation further below.

Auditor's reporting model: a quick update

We should hear more news next quarter on another high-profile topic: the auditor's reporting model. The PCAOB's concept release covered a lot of ground, ranging from increased use of emphasis paragraphs to the possibility of an auditor's discussion and analysis. The PCAOB plans to issue a proposed standard soon. We don't yet know which aspects of the PCAOB's concept release will be retained in the forthcoming proposal, but the auditor's report is likely to change as a result of this initiative.

Other standard-setting updates

The comment period recently ended for a proposal on audit transparency. As a refresher, the proposal would require disclosure in the audit report of the name of the lead audit engagement partner and certain other participants in the audit. We expect the PCAOB's final say on this matter by the end of the year. Most recently, the PCAOB issued new proposals in February that address an auditor's evaluation of related party transactions, significant unusual transactions, and the company's financial relationships with its executive officers.

Mandatory audit firm rotation not embraced by respondents

During the latter half of 2011, PCAOB chairman James Doty urged constituents to provide feedback on mandatory audit firm rotation. It appears his call was answered. The PCAOB received over 600 letters in response to its concept release on auditor independence, which largely focused on mandatory audit firm rotation. The variety of stakeholders who responded—including audit firms, preparers, and investors—is an indication that the potential impact extends beyond just the auditing profession.

It's too early to tell where the European Commission's recent proposal on auditor term limits[2] is headed. For a variety of reasons, though, the majority of respondents to the PCAOB's concept release do not support mandatory audit firm rotation. Concerns include whether there is enough evidence that auditor term limits would improve audit quality and whether they pass a cost-benefit test. Additionally, some believe that mandatory audit firm rotation encroaches on the audit committee's responsibility to evaluate and select a company's independent auditor.

Any proposal for reform must be evaluated against the standard of whether it will improve overall audit quality and the reliability of financial reporting and thereby benefit investors…

Source: PwC's comment letter to the PCAOB, December 14, 2011

It's likely the debate has just begun on this topic. Up next: the PCAOB will hold public panel discussions with various stakeholders later this month. And, there's still a chance to provide your view—the PCAOB recently announced it is re-opening the comment letter period until April 22.

PCAOB proposal turns focus to audit committees

In December, the PCAOB revived a proposal on auditor communications with audit committees, originally issued back in March 2010. The revised proposal carries forward substantially all of the required communications in the PCAOB's existing guidance with certain enhancements, and incorporates feedback from the initial proposal.

[2] The European Commission published in November 2011 a series of proposals that include, among other proposals, mandatory audit firm rotation after six years (nine years if joint audits are performed). Refer to the Q4 2011 *The quarter close — Directors edition* for further discussion.

The proposal may not be viewed as ground-breaking—many of the items contemplated are already being communicated in some form to audit committees. However, the guidance would promote consistency in this area. Comments on the proposal were due at the end of February.

More broadly, I see this re-proposal [as] a step toward a more robust Board focus on what we can do to support the work of audit committees.

Source: Daniel L. Goelzer, former PCAOB member, December 20, 2011

Perhaps more noteworthy, this proposal could signal the beginning of increased outreach by the PCAOB to audit committees. PCAOB members have referred to efforts in the works to provide assistance to audit committees in carrying out their audit oversight role, including questions audit committees might ask auditors about PCAOB inspections and their impact on the audit. Expect to hear more on this topic in the future.

On the horizon

FASB's 2012 goals for new proposals:

	Q2	2H
FASB/IASB joint projects		
Financial instruments: disclosures	✓	
Financial instruments: impairment, classification and measurement*		✓
Leases*		✓
Insurance contracts		✓
Other projects		
Liquidation basis of accounting	✓	
Disclosure framework (discussion paper)	✓	
Nonpublic entities: fair value disclosures	✓	
Nonfinancial assets: asset vs. entity-based guidance		✓

*Re-exposure

The debate goes on over several proposals—including revenue, consolidations, investment property entities, and investment companies—but the FASB plans to add more to the mix before the end of the year. Look for progress to be made on the remaining FASB/IASB joint projects as well as several FASB-only initiatives. Expect this timeline to be fluid if last year was any indication. Also to be seen: how any decision from the SEC on IFRS will affect the FASB's agenda.

For more project updates, ask about our upcoming edition of *Setting the standard*, expected later this month.

Private company standard setting...the responses are in

More than 7,300 responses...including about 7,000 form letters. No matter how you look at it, though, there's a lot of interest in the Financial Accounting Foundation's[3] (FAF) proposal to create a Private Company Standards Improvement Council. The council would make recommendations to the FASB about when and how to modify U.S. GAAP for private companies. The sticking point for many is that the FASB would have to ratify the council's recommendations.

Most of the responses opposing the FAF's proposal were nearly carbon copies of each other. Many opponents of the proposal commented that there should be an independent standard-setting board for private companies. On the other hand, supporters of the FAF's proposal recognize the need for a greater focus on private companies, but are concerned about the implications of introducing another standard-setting body. Supporters also point out that the FASB should address complexity more broadly since it affects both private and public companies.

> *The Foundation's plan provides the most effective opportunity for the Board to work closely with the Council to simplify U.S. GAAP for all companies.*
>
> *Source: PwC's comment letter to the Financial Accounting Foundation, December 21, 2011*

The FAF continues to collect feedback and has hosted four separate roundtables to discuss the proposal. We expect the FAF to announce a final plan in the spring. For a summary of the key components of the FAF's proposal, see In brief 2011-41, *Financial Accounting Foundation lays out its plan to improve standard setting for private companies*. You also might be interested in our Point of view documents on complexity and private company standard setting: *Reducing complexity—Our proposal to address this challenge* and *Setting private company accounting standards*.

Corporate governance

What to expect this proxy season

Now that we're heading into the 2012 proxy season, what topics are expected to be front and center? Recent editions of *To the point* and *BoardroomDirect* share our insights on the hot button issues. Here's a sampling:

Executive compensation

In the second year of "say on pay," executive compensation remains a key area of focus. It's true that last year, a majority of shareholders voted in favor of executive compensation plans. But this year brings a new twist: shareholders will now be looking to see if any changes were made in response to last year's votes.

[3] The Financial Accounting Foundation is the organization responsible for the oversight of the FASB.

[Say-on-pay] is giving boards a powerful incentive to clarify disclosure to shareholders, and to make a clear, coherent case for the compensation plans they have approved.

Source: Mary L. Schapiro, SEC Chairman, December 15, 2011

Corporate political spending

Investors are increasingly calling for companies to disclose their corporate political spending. We anticipate continued interest in this area, especially given the upcoming presidential election. SEC Commissioner Luis A. Aguilar recently put out a call for the SEC to step in to require disclosures of political spending; however, it remains to be seen if and when this topic will make its way onto the SEC's already crowded agenda.

Proxy access

The courts struck down mandatory proxy access last year, but proxy access isn't really gone. It's still permitted on a company-by-company basis (also known as "private ordering"). This is the first season shareholders can submit proposals to amend the company bylaws to allow for direct proxy access. So, expect to see plenty of activity in this area.

Environmental issues

"Green" issues also continue to be hot topics, including requests for greater disclosures about certain operations or policies. Examples include sustainability, "fracking" operations[4], and climate change.

Introducing…*Continuing the conversation*

This quarter we introduced a new publication, *Continuing the conversation*, which will explore topics of interest to the governance community. In our inaugural edition, *Board renewal,* we address the importance of diversity in the boardroom, with a focus on diversity of gender and race. It continues a conversation we started at a Fall 2011 *Opportunities for Women in the Boardroom* event hosted by PwC and the National Association of Corporate Directors (NACD).

Our second edition, *Directors speak,* explores concerns voiced by director participants at recent audit committee peer exchanges hosted by the *PwC Center for Board Governance*. Topping the list of issues: the SEC's enforcement agenda and whistleblower bounty program, CEO succession planning, "say on pay," and IT risk.

Continuing the conversation is available on our Center for Board Governance website.

[4] Hydraulic fracturing, or fracking, uses the high-pressure injection of water, sand, and chemicals into a gas-bearing shale rock formation to extract natural gas.

Other governance publications

The following publications are also available on our Center for Board Governance website.

Key questions for audit committees

Our latest edition of *Key questions for audit committees* outlines questions audit committees should be asking at year-end and throughout the year. The global capital markets rely heavily on the quality of financial statements. Audit committees play a critical role in overseeing the integrity of the company's financial reporting. These questions are intended to help audit committees with their oversight responsibilities.

Topics addressed include key accounting issues in an uncertain economy, areas of continued regulator scrutiny, emerging risks related to information technology, compliance with anti-corruption laws and regulations, and the impact of potential tax reform.

Current developments for directors

This annual publication focuses on the critical governance issues directors and senior executives face. This year's publication includes a special focus section on how companies worldwide address uncertainty in the markets and governments, a growing talent management problem, and emerging technologies.

To the point: Current issues for boards of directors

The Spring 2012 edition of *To the point* includes articles on the implications of new NYSE broker voting restrictions, highlights of PwC's 15th Annual Global CEO Survey, and the director's role in mergers and acquisitions.

Edited by:

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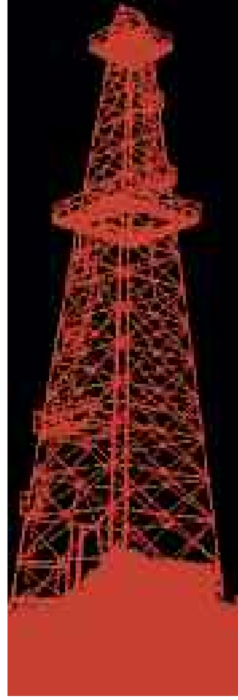
The quarter close — Directors edition is prepared by the Center for Board Governance in the National Professional Services Group of PwC. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. To access additional content on accounting and reporting issues, register for CFOdirect Network (www.cfodirect.pwc.com), PwC's online resource for financial executives.

ENERGY



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Commissioner about what's
going on and coming down in
this intricate industry.

Course materials will be available for download via website from May 10-June 1, 2012.

Course materials will *NOT* be provided on CD-ROM at site.

DAY ONE

THURSDAY MAY 17, 2012

7:00 A.M. Registration and Breakfast

8:00 A.M. Regulatory and Legislative Update on the Utility Industry

Learn about recent regulatory and legislative changes affecting electricity and telecommunications markets in Texas and current issues of the day of the Public Utility Commission.

Brian H. Lloyd/Executive Director/Public Utility Commission of Texas/Austin

9:00 A.M. Tapping the Potential of Small Customer Demand Response

Discover how transmission and distribution utilities are well on their way to installing 6.5 million advanced meters for residential and small commercial customers in the competitive choice areas of the ERCOT Region. Data from these meters provides a rich environment for creative new retail products in dynamic pricing, load management and demand response. Explore how some of those products may look, contribute to market efficiency and grid reliability. Take a look at various factors that may be inhibiting the growth of these products.

Paul Wattles/Supervisor, Demand Response/Electric Reliability Council of Texas (ERCOT)/Taylor

10:00 A.M. Break

10:15 A.M. State and Federal Issues Facing the Oil and Gas Industry

Review pertinent oil and gas-related legislation from the 82nd Texas Legislative Session. Provides a snapshot of the recent, current, and ongoing statutory and regulatory challenges surrounding the development of hydrocarbons in Texas. Gain an overview of industry's attempts to meet or defeat those challenges. Identify the areas of concern on the horizon for Texas' Independent producers as they work toward achieving energy independence via the boom of Texas shale plays while continuing to protect the health and safety of the state's citizens and the environment.

Teddy Carter/Director of Public Affairs/Texas Independent Producers and Royalty Owners Association (TIPRO)/Austin

11:15 A.M. Rate Adjustment Mechanisms: Changing the Ratemaking Process Across the U.S.

Discover how these periodic reviews and adjustment mechanisms are changing the face of ratemaking across the U.S. Discuss the regulatory and legislative developments supporting the implementation of these mechanisms. Learn how annual review mechanisms support utility infrastructure investment, reduce regulatory lag and the cost of litigation. Explore why these mechanisms help a utility deliver the long-standing promise to customers to provide a safe, reliable and efficient system.

Gary L. Smith/Director of Rates & Regulatory Affairs/Atmos Energy Corporation/Dallas

12:15 P.M. Networking Lunch

1:15 P.M. Energy Trends

Discuss overall trends in the energy industry and the risks and opportunities created by these trends for different market participants. Review economic impacts of shale gas production and derivatives and emissions regulations.

Paul Campbell/Partner, Energy & Resources Industry/Deloitte & Touche, LLP/Houston

2:15 P.M. We're Not Tilting at Windmills: CREZ Program Monitoring and Reporting

Texas is a world leader in the development of renewable wind energy and is currently engaged with one of the largest construction programs to build new transmission lines in the United States. This program is call CREZ (Competitive Renewable Energy Zones). Get an overview and review some of the challenges associated with monitoring, tracking and reporting on such a large and complex program.

Steven Farmer, CCC/Project Controls Manager/RS&H/Austin

3:15 P.M. Break *Sponsored by:*

CALPINE

3:30 P.M. The Psychology of Fraud: A Glimpse Inside the Mind of the Perpetrator

Determine what brings a person to the point of committing a fraudulent act against their organization and the level of variance in the reasons that is staggering. Gain an introduction to the psychology of fraud, why people do what they do and how this understanding can help you in design proper fraud prevention methodologies.

Steven Dawson, CPA, CFE/President/Dawson Forensic Analytics, PLLC/Lubbock

4:30 P.M. 2012: The Year of Energy Price Extremes

This year is sure to be a year of BIG volatility in energy prices. Will oil prices hit all-time highs while natural gas hits record lows? How about gasoline prices at the pump? Where is there energy market headed? Discuss these topics as well as weather forecasts for the upcoming summer and winter season.

Alan Lammey/Energy Analysts/WeatherBELL Analytics

5:30 P.M. Adjourn and Networking Reception

Join your colleagues for a reception.

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DAY TWO

FRIDAY
MAY 18, 2012

7:00 A.M. Registration and Breakfast

8:00 A.M. Perspectives from a Texas Railroad Commissioner on Oil and Gas Markets, the Energy Industry, Environmental Issues, PLUS Other Things Completely Unrelated to Railroads

Delve into how the oil and gas industry is a critical component of the Texas economy and what happens in Texas energy markets affects the national economy, as well. The Railroad Commission of Texas, the oldest regulatory agency in the state and one of the oldest in the country, oversees and plays a key role in how Texas oil and gas markets operate and develop. Hear from a former chairman of the Public Utility Commission and current commissioner at the Railroad Commission of Texas who will provide insights on emerging and developing issues in the oil and gas markets and on the energy industry in general.

Barry T. Smitherman/Commissioner/Railroad Commission of Texas/Austin

9:00 A.M. Charting a Sensible Path to U.S. Energy Security

Energy in all its forms, powers the economy, but America's energy policies today can only be described as "ad hoc." For long-term energy security the U.S. must craft a comprehensive and sensible energy strategy focused on developing all of our domestic energy resources, including fossil fuels and nuclear power.

Bernard Weinstein, Ph.D./Associate Director, Maguire Energy Institute/Cox School of Business, Southern Methodist University/Dallas

10:00 A.M. Break

Course materials will be available for download via website from one week before until two weeks after the conference (May 10-June 1, 2012).

Course materials will *NOT* be provided on CD-ROM at site.

10:15 A.M. Welcome to the Jungle: NERC CIP and Smart Grid

NERC reliability regulations have been impacting the power of industry since 2005, driving a significant amount of change. Much of this change has focused around cyber security, as mandated and defined in the NERC CIP requirements, which also define which assets muct be managed in line with the standards. Version 5 of NERC CIP introduces numerous changes, but one of the more interesting questions remains: where do Smart Grid technologies evolve and deployments take place, the answer is still unclear and requires untangling the way that these technologies match up against NERC definitions.

Rob Shein/Cyber Security Architect/HP/Herndon, VA

11:15 A.M. GASB, FASB and Convergence Update

Address new accounting prounouncements and other activity proposed by GASB. Gain a high-level summary of the boards' activities from U.S. GAAP perspective along with relevant, high-level industry impacts. Gain an overview of the SEC's activities relatives to its IFRS Work Plan and related industry responses.

Zach Deakins, CPA/Senior Manager/Deloitte & Touche, LLP and EEI-AGA Industry Accounting Fellow/Houston
Tracey Guidry Cooley/Director/Deloitte & Touche, LLP

12:15 P.M. Networking Lunch

1:15 P.M. Credit Implications for Regulated Utilities and Unregulated Power Companies in Texas

Be part of the cutting edge as Moody's describes the credit implications for regulated utilities and unregulated power companies with material operations in Texas. Discuss its views regarding the Texas regulatory and political environment and review selected issuers to comparable peers.

Jim Hempstead/Senior Vice President, Project and Infrastructure Finance Group/Moody's Investors Service/New York, NY

2:15 P.M. Managing the Risk of Health Care Reform

Explore the implementation of the primary elements of Health Care Reform on January 1, 2014 that will create a colossal shift in how health insurance is delivered. Look into the original legislation which provided a framework, but the details evolve and change almost daily. Even with the lack of clarity around many implementation details, the greatest risk for an employer is to not have a clear, tactical action plan. Gain an update on the latest legislative and regulatory changes and guidance regarding health care reform.

Charisse K. McCumber/Senior Consultant & Shareholder/Holmes Murphy & Associates/Dallas

3:15 P.M. Break

3:30 P.M. Water, Water, NOT Everywhere! What Are We Going to Drink?

Explore how 2011's drought left some of Texas's smaller cities completely without water. It's because energy and water are so intertwined, Texas must start planning for the future. Examine what Texas is doing to plan for the future water resources and how those resources will be allocated for energy usage.

Suzanne Zarling/Executive Manager, Integrated Resource Planning/Lower Colorado River Authority/Austin

4:30 P.M. Adjourn

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REGISTRATION AND BREAKFAST: 7:00 a.m. both days
BREAK TIMES: 10:00 a.m. and 3:15 p.m. on both days
LUNCH: Provided by TSCPA as part of the registration fee from 12:15 p.m. to 1:15 p.m. both days
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TSCPA EARLY BIRD DISCOUNT: Receive a $50 discount when registrations are made on or before April 26, 2012. TSCPA is not responsible for checks or registrations delayed or lost in the mail. Discount does not apply to government rate conference fees.
CPE HOURS: 18 (CPE hours based on actual attendance)
CONDITIONS: Satisfactory meeting room temperatures are difficult to maintain. Always bring a sweater or jacket to ensure comfort. Casual attire is acceptable.
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ROOM RATE: $179 single/double; $204 triple; $229 quad. A limited number of rooms have been reserved at this rate, and are booked on a first-come, first-serve basis. When making reservations, please identify yourself as a TSCPA Energy Conference registrant. You are responsible for your own reservations and cancellations. Call 1-800-233-1234 or 512-477-1234 for Hyatt Reservations.
PARKING (AT TIME OF PRINT): $7 for self-parking; $21 valet. Parking fees are subject to change and are not included as part of registration fee.
HOTEL CUT-OFF DATE: May 2, 2012 **CHECK-IN TIME:** 3:00 p.m. **CHECK-OUT TIME:** Noon
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TAX INFORMATION: The IRS will allow only 50 percent of all expenses for business meals/entertainment as deductible for tax purposes. The definition of meals includes continental breakfast, refreshment breaks, lunches and receptions at professional conferences/seminars, including taxes and gratuities. The portion of your registration fee for this conference that applies to meals is $150.

DESIGNED FOR: Accounting, finance and legal professionals involved in the natural gas and electric industries.
PREREQUISITE: None
COURSE LEVEL: Update

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DAY ONE MONDAY ◆ MAY 21, 2012

7:00 a.m. | **Registration and Breakfast**

8:00 a.m. | **Non-For-Profit Financial Reporting: The Road Ahead**

Learn more about the significant changes that are impacting financial reporting and the road ahead for not-for-profit entities. Gain an overview of recent accounting developments resulting from international convergence projects, activities of the FASB Not-for-Profit Advisory Committee and the FASB, standard setting for private companies and not-for-profit and highlights of the AICPA Audit Guide Update Project.

Gregory B. Capin, CPA/Partner/CapinCrouse LLP/Atlanta, GA

9:45 a.m. | **Break** *Sponsored by*

Lane Gorman Trubitt, PLLC
Accountants & Advisors

10:00 a.m. | **CONCURRENT SESSION I**

Please select one of the following courses:

011 | **Worker Exploitation: Failure to Pay Overtime by Nonprofit Organizations**

Discuss the overtime rules so organizations will know when it is due. Discover when the rules mandate overtime pay when an employee also volunteers for the employer. Review the overtime rules when employees travel or work at employer's special events.

Frank Sommerville, JD, CPA/Dallas and Houston

012 | **Raising Money Without Raising Issues**

Examine how nonprofit organizations, especially how those exempt from tax under section 501(c)(3) of the IRS, are subject to a variety of legal regimes. Cover various Texas state laws that apply to common fundraising activities. Focus on charitable raffles, poker tournaments, bingo, sales tax and certain issues related to alcoholic beverages.

Katherine E. David/Attorney/Strasburger, Price, Oppenheimer, Blend/San Antonio

013 | **Nonprofit 101**

Learn more about nonprofits for those new to the world of nonprofit organizations and gain an introduction to some of the basic intricacies of the world. Discuss 10 key areas that are critical to understanding the world of nonprofit organizations. Explore unique aspects of accounting and reporting for nonprofits with an overview of the fundamental accounting standards for those new to the nonprofit world. Discover the specific accounting and reporting guidance just for nonprofits.

William A. Albright/Partner/Albright Hill & Sumpter, PC/Dallas

11:30 a.m. | **Luncheon Presentation- Play Nice Together: Five Generations Coexisting in Today's Workplace**

Discover how recognizing, understanding and appreciating the differences of today's generational workforce can strengthen your organization.

Janet McEwen/Director of Corporate Development/American Society of Radiologic Technologists/Albuquerque, NM

12:30 p.m. | **Break (Time to get to class)**

12:45 p.m. | **CONCURRENT SESSION II**

Please select one of the following courses:

021 | **Defining and Dealing with the Unique Tax Aspects of Religious Organizations**

Study the unique tax laws encountered by religious organizations that do not apply to most nonprofit organizations. Discuss these unique areas, including how to define religious organizations, and how to deal with ministerial payroll and other current topics.

Elaine Luedecke Sommerville, CPA/Shareholder/Sommerville & Associates, PC/Arlington

022 | **Internal Controls and Fraud Prevention and Detection for Small to Mid-Size Nonprofits (Panel Discussion)**

Many are familiar with recommended internal control procedures, but implementation can be a challenge for small to mid-sized nonprofit organizations. Find out how companies adequately segregate duties without hiring additional staff. Learn to use cost effective mitigating controls to help prevent fraud and learn practical applications for implementing internal controls with limited resources, including specific examples from a panel of diverse backgrounds.

Maureen A. Mixtacki, CPA/Nonprofit Financial Management Consultant/Dallas
Neely D. Duncan, CPA, CFE, FCPA/Audit Principal/Lane Gorman Trubitt, PLLC/Dallas
William (Bill) Moss, CPA/Sole Practitioner/William R. Moss, CPA/Richardson

023 | **More Than You Ever Wanted to Know about Fundraising and Special Event Reporting**

Gain an in-depth discussion of various fundraising activities and how these are reported on Form 990. Get examples of key differences between financial reporting and tax reporting of these activities to enable you to prepare your Tax Form 990 or to be able to track the information accurately for your tax preparer.

David Oveson/Partner/Lane Gorman Trubitt, PLLC/Dallas
Courtney Weldon/Supervisor/Lane Gorman Trubitt, PLLC/Dallas

2:00 p.m. | **Break**

2:15 p.m. | **CONCURRENT SESSION III**

Please select one of the following courses:

031 | **Lobbying and Political Activities by Nonprofits**

Discuss the rules governing lobbying and political activities by nonprofits. Get an explanation of the differences between 501(c)(3) and 501(c)(6) organizations related to limits on lobbying and restrictions on political activities. Examine lobbying disclosure issues at the state and federal level and also gift and ethics rules at the state and federal level. Review PACs, Super PACS, and other ways to support candidates.

Ronald M. Jacobs/Chair, Political Law Practice/Venable, LLP

032 | **Endowments: Understanding the "What and Where" for Reporting and Disclosure Under GAAP and the Form 990**

Gain an overview of UPMIFA and an understanding of endowments from an accounting focus and tax perspective. Explore spending policies, use of earnings, and extended Form 990 disclosures. Learn how the new disclosures interrelate with GAAP requirements and how they should be handled for organizations with endowments or quasi endowments, when the organization is not audited.

Rebecca M. DaVee, CPA/Owner/DaVee CPA/Mansfield

033 | **Review of Federal Employment Tax Requirements of Determining Taxable Fringe Benefits**

Review the federal employment tax requirements of the most commonly provided fringe benefits with emphasis on identification and reporting of taxable benefits, education/tuition reimbursement, and regulations regarding use of company assets including change in cell phone regulations.

Deborah Spyker/Executive Director, Tax Controversy and Risk Management Services, Employment/Ernst & Young, LLP/Denver, CO

3:45 p.m. | **CONCURRENT SESSION IV**

Please select one of the following courses:

041 | **But...We're Tax Exempt, Right?**

Learn all about property tax, sales tax, franchise tax, hotel tax and unclaimed property for nonprofit organizations.

Paul Majors, CPA/Officer/Middleton Burns & Davis, PC/Dallas

042 | **Single Audit: Compliance with the Single Audit Act**

So, you have spent over $500,000 in federal or state funds, now what? Understand the requirements of a single audit. Delve into the specifics of the 14 compliance requirements included in the compliance supplement as well as controls that should be in place to ensure compliance with these requirements.

Angela Dunlap, CPA/Partner/Grant Thornton, LLP/Dallas

043 | **The Social Media Revolution**

What methods are you using to communicate with clients, donors, employees, and your community? If you rely on email, direct mail and your web site, your message may not be reaching the intended audience. Find out how your organizations can effectively use social media as a strategic marketing tool to maximize your organization's exposure and further its mission.

Kim Young/Owner/The Forrest & The Trees/Dallas

5:00 p.m. | **Adjourn**

5:00-6:30 pm | **NETWORKING OPPORTUNITY**

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DAY TWO TUESDAY ◆ MAY 22, 2012

7:00 a.m. | **Registration and Breakfast**

8:00 a.m. | **CONCURRENT SESSION V**

Please select one of the following courses:

051 | **Intermediate Sanctions**

Private inurement – most organizations have a total prohibition against inurement but many working for and with nonprofits do not understand the concept of private inurement. Find out how private 501(c)(4) or (c)(3) organizations must also comply with provisions of IRC Section 4958 and manage the potential risk of intermediate sanctions that may be assessed against officers, directors and trustees as well as other related individuals.

Donald E. Rich, Jr./Tax Partner/KPMG

052 | **Grant Compliance and Reporting: Escaped OMB Circular A-133 Single Audit Thresholds, What Other Grant Reporting or Compliance Requirements Could Exist?**

An OMB Circular A-133 Single Audit may not be required. But, what other state, federal and granting agency reporting requirements could be required? To appropriately determine funding for A-133 audit threshold purposes, counting the value of donated property and other non-cash assistance is required. State and federal granting agency programmatic and financial reports will apply even when an A-133 audit is not required.

Buck Brockman, CPA/Chief Audit Executive/Southwest research Institute/San Antonio

053 | **You Did What? Managing Your Retirement Plan's Fiduciary Responsibilities**

Discuss fiduciary responsibilities surrounding retirement plans, including information on how to know whether or not you might be considered a fiduciary. Gain an overview of fiduciary responsibilities, requirements surrounding plan operations, certain IRS and DOL regulations, documentation requirements, common errors and compliance relief options.

Amy Michie/Partner/Sutton Frost Cary, LLP/Arlington
Kim Crawford/Partner/Sutton Frost Cary, LLP/Arlington

9:15 a.m. | **Break (Time to check out of hotel)**

9:30 a.m. | **CONCURRENT SESSION VI**

Please select one of the following courses:

061 | **Unrelated Business Income**

Get informed of the history and definition of unrelated business income. Learn from numerours examples and case studies of circumstances and activities that result in UBI, how it is reported, available deductions, and current trends in IRS examinations.

David J. Trimmer, CPA/Partner/Argy, Wiltse & Robinson, PC/McLean, VA

062 | **Legislative Update**

Study the federal and state legislative activities impacting Texas not-for-profit organizations, including the actions of the 82nd Texas Legislature, and the U.S. Congress at the Federal Agencies.

John M.Sharbaugh, CCAE/Executive Director/CEO/Texas Society of CPAs/Dallas

063 | **Blood From A Stone: Negotiating the Best Insurance Deal in a Firming Market**

As the insurance landscape changes, and we shift away from the buyer's market we have enjoyed for years, discover how the future will favor the well-prepared in an informative session geared to equip the insurance buyer and those advising them with knowledge and strategies to manage the cost of risk in a hostile environment.

John Liske, CPCU/Partner/McQuery Henry Bowles Troy/Dallas
Ryan Bowles, CIC/Partner/McQuery Henry Bowles Troy/Dallas

10:45-11:00 a.m. | **Break (Time to check out of hotel)**

11:00 a.m. | **CONCURRENT SESSION VII**

Please select one of the following courses:

071 | **Federal Tax Update for Nonprofits**

Now that the Form 990 has settled down, there are still numerous changes and clarifications being provided to nonprofits through court decisions, new legislation and private letter rulings. Focus on the new guidance flowing from these three sectors to assist nonprofits in staying in compliance, as well as review changes and clarifications on the 2011 Form 990.

R. Michael Sorrells, CPA/National Director Nonprofit Tax Services/BDO USA, LLP

072 | **Foundation Update**

Charitable foundations, including private, community and corporate represent a wide diversity of structures and purposes each having unique regulations and reporting requirements. Staff and boards should understand the federal and state legal requirements, applicable accounting and auditing provisions, tax reporting, limitations on political activities and unrelated business activities and business holding to ensure compliance of their charitable organization.

Nancy Jones/President/Community Foundation of North Texas/Fort Worth

073 | **Revenue Recognition: Sticky Issues**

Has your organization ever received funds and wondered if you're properly recording them? One of the biggest challenges facing a nonprofit organization relates to revenue recognition and its proper classification. This is due to the fact that revenue and support may be generated from a variety of sources. Focus on "sticky" issues, such as nonreciprocal vs exchange transaction, promises to give vs intentions to give, and conditional vs. nonconditional.

Ben Kohnle, PCA/Partner/Grant Thornton, LLP/Dallas

Noon | **Luncheon Presentation-The 2012 Economy: Outlook for Business and Investors**

Gain an overview of the international, national and statewide events and conditions that are likely to influence the US and Texas economy in 2011 and beyond. Focus on the outlook for job growth and investment markets.

Dr. Mark G. Dotzour/Chief Economist and Director of Research/Real Estate Center at Texas A&M University/College Station

1:00-1:15 p.m. | **Break (Time to get back to class)**

1:15 p.m. | **CONCURRENT SESSION VIII**

Please select one of the following programs:

081 | **Common Audit Deficiencies and Reporting of Level of Internal Control Comments: Both for Single Audit and Financial Statement Audits**

Discuss how internal control reporting is affected in both a financial statement audit and what is reported in a single audit. What triggers a finding? What triggers disqualification for low-risk auditee status in future years? What is the required reporting of immaterial noncompliance in the management letter? All of these questions will be answered, plus how to talk to your auditor about compensating controls.

Troy D. Langsdale, CPA/Partner, Health Care/CliftonLarsonAllen, LLP/Richardson

082 | **Governance and Board Member Responsibilities**

Examine how governing boards of nonprofit organizations have come under scrutiny as never before. Explore scrutiny from their own members and constituents and from the media and funding organizations. CPAs and others who serve on the boards of directors of nonprofit organizations need to be aware of their responsibilities for governing the organization, including overseeing management's policies, assessing controls, and review of information and support systems. Get an overview of the CPA's role in serving as a member of a nonprofit's governing board.

David Rosenberg, JD/Partner/Thompson & Knight, LLP/Dallas
Mike Bourland, JD/Partner/Bourland, Wall & Wenzel, PC/Fort Worth

083 | **All You Ever Wanted to Know about Applying for Grants and Being Successful**

Writing the grant proposal is the first step, but properly administering the grant often falls on the shoulders of an agency's accountant. Discuss the components of a grant proposal, developing, managing, and reporting on grant budgets, and ensuring compliance with key grant requirements. Gain an understanding of the criteria funders use to determine whether your grant proposal gets funded or rejected. Learn what makes a project attractive to a funding agency, and how to write a compelling case for your grant proposal.

Michael K. McCoy/Grants Administrator/Meadows Foundation/Dallas

2:30 p.m. | **Break**

2:45 p.m. | **Want to Know Where Herman Cain Went Wrong? Curious About "Obama Care's" Status? What Liability do you Have for Foreign Nationals Working for You?**

Learn how to weave your way through the labyrinth of employment issues, including ADA, FMLA, FLSA, and Worker's Compensation and examine ways to lessen the chance of a harassment/discrimination claim as well as the potential benefits and risks associated with performance management.

Terry S. Boone, JD/Sole Practitioner/Arlington

4:00 p.m. | **Adjourn**

GENERAL INFORMATION

Registration and Breakfast: 7:00 a.m. both days
Break Times: 9:45 a.m. and 2:00 p.m. on Day One; 9:15 a.m. and 2:30 p.m. on Day Two.
New: Networking Opportunity 5-6 p.m. in Dallas Ballroom, 3rd Floor, after end of Day One.
Lunch: Provided by TSCPA as part of the registration fee 11:30 a.m. - 12:30 p.m. on Day One and 11:00 a.m. - 12:00 p.m. on Day Two.
Fee: Early Bird TSCPA member: $385/Early Bird Nonmember: $560/TSCPA member: $435/Nonmember: $610
TSCPA Early Bird Discount: Receive a $50 discount when registrations are made on or before April 30, 2012. TSCPA is not responsible for checks or registrations delayed or lost in the mail.
CPE Hours: 18 CPE hours based on actual attendance.
Conditions: Satisfactory meeting room temperatures are difficult to maintain. Please bring a sweater or jacket to ensure comfort. Casual attire is acceptable.
Program Site: The Westin Galleria, Dallas
Accommodations: The Westin Galleria Dallas, 13340 Dallas Parkway, Dallas, TX 75240; phone 972/934-9494, fax 972/851-2869.
Room Rate: $199 single/double. A limited number of rooms have been reserved at this rate, and are booked on a first-come, first-serve basis. The guest room rates will be offered three days prior and three days after Friday, May 20, 2012–Tuesday, May 22, 2012, subject to availability. All guest room rates are quoted exclusive of applicable state and local taxes (currently 15%). Rooms will be held until 6:00 p.m. on day of check in. *When making reservations, please identify yourself as a Texas Society of CPAs Nonprofit Organizations Conference registrant.* YOU ARE RESPONSIBLE FOR YOUR OWN RESERVATIONS AND CANCELLATIONS
Starwood Meeting Link:
https://www.starwoodmeeting.com/StarGroupsWeb/booking/reservation?id=1111082049&key=D9459
Parking rates: More than 10,000 complimentary, self-parking spaces are available in the Galleria Complex. Valet parking prices are $15 for day use or $25 for overnight use. (Prices reflected at time of print). Parking charges are not included as part of the registration fee.
Hotel Cut-Off Date: Monday, April 30, 2012
Check-In Time: 3:00 p.m.
Check-Out Time: 11:00 a.m.

POLICIES

All TSCPA seminars and conferences are instructor-led programs. Other program formats such as satellite broadcasts, live web casts and online/text self-study will be designated accordingly.

Cellular Phones: Please turn off cellular phones while in session rooms.
Children: Participants are not allowed to bring children into any TSCPA-sponsored CPE program.
Recording Devices: All audio and video recording devices are prohibited in session rooms without prior written permission from the speaker and the TSCPA CPE Foundation.
Smoking: Smoking is prohibited in all Westin properties.
Registration: The registration form must be accompanied by the fee (check, VISA, MasterCard or American Express). Make your check payable to the TSCPA CPE Foundation. For CPE inquiries only, call the CPE InfoLine at 800/428-0272 or, in the Dallas area at 972/687-8500. Registrations are accepted under the policies and procedures listed in the 2012 CPE *Registers.* You may fax your registration to TSCPA at 800/207-0273 or 972/687-8696 if you are paying by credit card.
Participant Cancellations, Transfers, and Substitutions will be accepted with no administration fee ON or BEFORE the program date by contacting the TSCPA CPE InfoLine at 800/428-0272 or in the Dallas area at 972/687-8500. **NO-SHOWS FORFEIT THE ENTIRE REGISTRATION FEE.**
Tax Information: The IRS will allow only 50 percent of all expenses for business meals/entertainment as deductible for tax purposes. The definition of meals includes continental breakfast, refreshment breaks, lunches and receptions at professional conferences/seminars, including taxes and gratuities. The portion of your registration fee for this conference that applies to meals is $155.

Designed for: Accountants in practice and industry who need an in-depth update of recent standards of particular importance to small business and nonprofit organizations.
Prerequisite: None
Course Level: Update

TSCPA CPE REGISTRATION

Please type or print. Photocopies accepted.
TSCPA Registered Sponsor #260

Name: ______________________ CPA Certificate # ____________

Firm: ______________________

Address: ______________________

City: ______________ State: ________ Zip________

Business Phone: ______________ Home Phone:______________

E-mail Address: ______________________

2012 NONPROFIT ORGANIZATIONS CONFERENCE

PROGRAM NUMBER	PROGRAM DATE	PROGRAM CITY	PROGRAM FEES
NPOC01	May 21-22, 2012	Dallas	Early Bird TSCPA member: $385 Early Bird Nonmember: $560 TSCPA member: $435 Nonmember: $610

CHECK ONE CATEGORY:

☐ Pay member fee if you are a TSCPA member, other state society member, or non-CPA staff of a member of TSCPA.
Society Name: ______________

☐ Pay nonmember fee if you are licensed in Texas but are not a member of TSCPA.

Please select one topic for each Concurrent Session:

SESSION I	SESSION II	SESSION III	SESSION IV	SESSION V	SESSION VI	SESSION VII	SESSION VIII
☐ 011	☐ 021	☐ 031	☐ 041	☐ 051	☐ 061	☐ 071	☐ 081
☐ 012	☐ 022	☐ 032	☐ 042	☐ 052	☐ 062	☐ 072	☐ 082
☐ 013	☐ 023	☐ 033	☐ 043	☐ 053	☐ 063	☐ 073	☐ 083

TSCPA Early Bird Discount: Receive a $50 discount when registrations are made on or before April 30, 2012. TSCPA is not responsible for checks or registrations delayed or lost in the mail.

☐ I have special needs under the Americans with Disabilities Act. Attach a written description.

☐ I request a vegetarian meal.

TOTAL $ ____________

MATERIALS WILL BE AVAILABLE FOR DOWNLOAD VIA INTERNET BEGINNING 5/14/12 AT A SPECIFIC WEB ADDRESS MADE KNOWN UPON RECEIPT OF REGISTRATION CONFIRMATION.

☐ Check ☐ VISA ☐ MasterCard ☐ AMERICAN EXPRESS *Amount $* ____________

Credit Card Number: ______________________ Exp. Date _____/_____

Cardholder's Name: ______________ Cardholder's Signature: ______________

Mail your check and registration form to TSCPA CPE Foundation, Inc.; P.O. Box 797308; Dallas, TX 75379;
or Fax credit card registrations to 972/687-8696 or 800/207-0273; or phone your registration to the CPE InfoLine at 800/428-0272 (972/687-8500 in the Dallas area).
Or register on-line at www.tscpa.org

Item	12c
Topic	Review committee briefs
Presenter	Mike Petterson
Purpose	Periodic reports on investments

Concentration Report

Instrument	Date	ERCOT Value	Percent of ERCOT Portfolio	Total Fund Amount
Treasuries	03/31/12	$294,384,755	64%	$110,646,683,000
Repurchase Agreements		$164,627,832	36%	$44,912,842,705
Total		**$459,012,587**	**100%**	**$155,559,525,705**

Investment Summary

Summary of Investments March 31, 2012				
Counter Party	Treasury	Treasury and Treasury Repo	Total Invested	Percentage of Investments
	---- $ millions ----			
BlackRock	46.0		46.0	10%
Dreyfus	$ 46.0		46.0	10%
Federated	46.0		46.0	10%
Goldman Sachs	$ 46.0		$ 46.0	10%
Invesco		46.0	46.0	10%
JPMorgan		46.0	46.0	10%
Morgan Stanley		46.0	46.0	10%
SSgA	45.0		45.0	10%
Wells Fargo		46.0	46.0	10%
Western Asset	46.0		46.0	10%
Total	$ 275.0	$ 184.0	$ 459.0	100%

Concentration Report

ERCOT Investment	SECURITY	SECURITY TYPE	ICD TICKER	PAR Value	MATURITY	Percent Weight of ERCOT
$3,571,704	RBS SECURITIES INC REPO	REPO	IJTXX	$1,000,000,000	03/23/2012	2.17%
$3,571,704	HSBC SECURITIES USA INC REPO	REPO	IJTXX	$1,000,000,000	03/23/2012	2.17%
$3,571,704	RBS SECURITIES INC REPO	REPO	IJTXX	$1,000,000,000	03/23/2012	2.17%
$3,571,704	DEUTSCHE BANK SECURITIES INC REPO	REPO	IJTXX	$1,000,000,000	03/27/2012	2.17%
$2,143,023	BARCLAYS CAPITAL INC REPO	REPO	IJTXX	$600,000,000	03/27/2012	1.30%
$1,785,852	BARCLAYS CAPITAL INC REPO	REPO	IJTXX	$500,000,000	03/23/2012	1.08%
$1,482,275	MERRILL LYNCH PFS INCORPORATED REPO	REPO	IJTXX	$415,005,000	03/23/2012	0.90%
$1,428,682	DEUTSCHE BANK SECURITIES INC REPO	REPO	IJTXX	$400,000,000	03/23/2012	0.87%
$892,926	BARCLAYS CAPITAL INC REPO	REPO	IJTXX	$250,000,000	03/28/2012	0.54%
$357,170	DEUTSCHE BANK SECURITIES INC REPO	REPO	IJTXX	$100,000,000	03/28/2012	0.22%
$9,149,447	Societe Generale	REPO	MISXX	$1,000,000,000	03/19/2012	5.56%
$5,581,163	UBS Securities LLC	REPO	MISXX	$610,000,000	03/19/2012	3.39%
$5,489,668	RBS Securities Inc	REPO	MISXX	$600,000,000	03/19/2012	3.33%
$2,973,570	BNP Paribas Securities Corp	REPO	MISXX	$325,000,000	03/19/2012	1.81%
$2,461,201	Deutsche Bank Securities Inc	REPO	MISXX	$269,000,000	03/19/2012	1.50%
$2,287,362	Wells Fargo Securities LLC	REPO	MISXX	$250,000,000	03/19/2012	1.39%
$2,287,362	Barclays Capital Inc	REPO	MISXX	$250,000,000	03/21/2012	1.39%
$2,150,120	ABN Amro Securities LLC	REPO	MISXX	$235,000,000	03/19/2012	1.31%
$1,974,130	Barclays Capital Inc	REPO	MISXX	$215,765,000	03/19/2012	1.20%
$1,372,417	Bank of Nova Scotia	REPO	MISXX	$150,000,000	03/19/2012	0.83%
$1,235,175	Credit Agricole CIB	REPO	MISXX	$135,000,000	03/19/2012	0.75%
$914,945	TD Securities USA	REPO	MISXX	$100,000,000	03/23/2012	0.56%
$914,945	HSBC Securities USA	REPO	MISXX	$100,000,000	03/19/2012	0.56%
$914,945	Deutsche Bank Securities Inc	REPO	MISXX	$100,000,000	03/21/2012	0.56%
$686,209	Credit Suisse Securities USA	REPO	MISXX	$75,000,000	03/28/2012	0.42%
$457,472	BNP Paribas Securities Corp	REPO	MISXX	$50,000,000	04/04/2012	0.28%
$274,483	JP Morgan Securities LLC	REPO	MISXX	$30,000,000	03/19/2012	0.17%
$137,242	Goldman Sachs Co	REPO	MISXX	$15,000,000	03/19/2012	0.08%
$4,905,600	ROYAL BK SCOTLNDCAYMAN VAR	REPO	PISXX	$1,250,000,000	03/01/2012	2.98%
$3,924,480	BNP Paribas Secs Corp Repo UST Parsec	REPO	PISXX	$1,000,000,000	03/01/2012	2.38%
$3,420,675	SG Americas Sec Tri Party CB Repo	REPO	PISXX	$871,625,000	03/01/2012	2.08%
$3,139,584	Credit Suisse Secs USA Repo UST	REPO	PISXX	$800,000,000	03/01/2012	1.91%
$2,354,688	Barclays Capital Incorporated	REPO	PISXX	$600,000,000	03/01/2012	1.43%
$1,177,344	Barclays Capital Incorporated Repo Ust Brccap	REPO	PISXX	$300,000,000	03/01/2012	0.72%
$1,177,344	Credit Suisse Secs Usa Repo Ust Csfbco	REPO	PISXX	$300,000,000	03/01/2012	0.72%
$981,120	DEUTSCHE BANK SECURITIES REPO UST DB	REPO	PISXX	$250,000,000	03/01/2012	0.60%
$981,120	Credit Suisse Securities USA	REPO	PISXX	$250,000,000	03/06/2012	0.60%
$981,120	Deutsche Bank Securities Repo Ust Db	REPO	PISXX	$250,000,000	03/07/2012	0.60%
$981,120	Barclays Capital Incorporated Repo Ust Brccap	REPO	PISXX	$250,000,000	03/02/2012	0.60%

Concentration Report

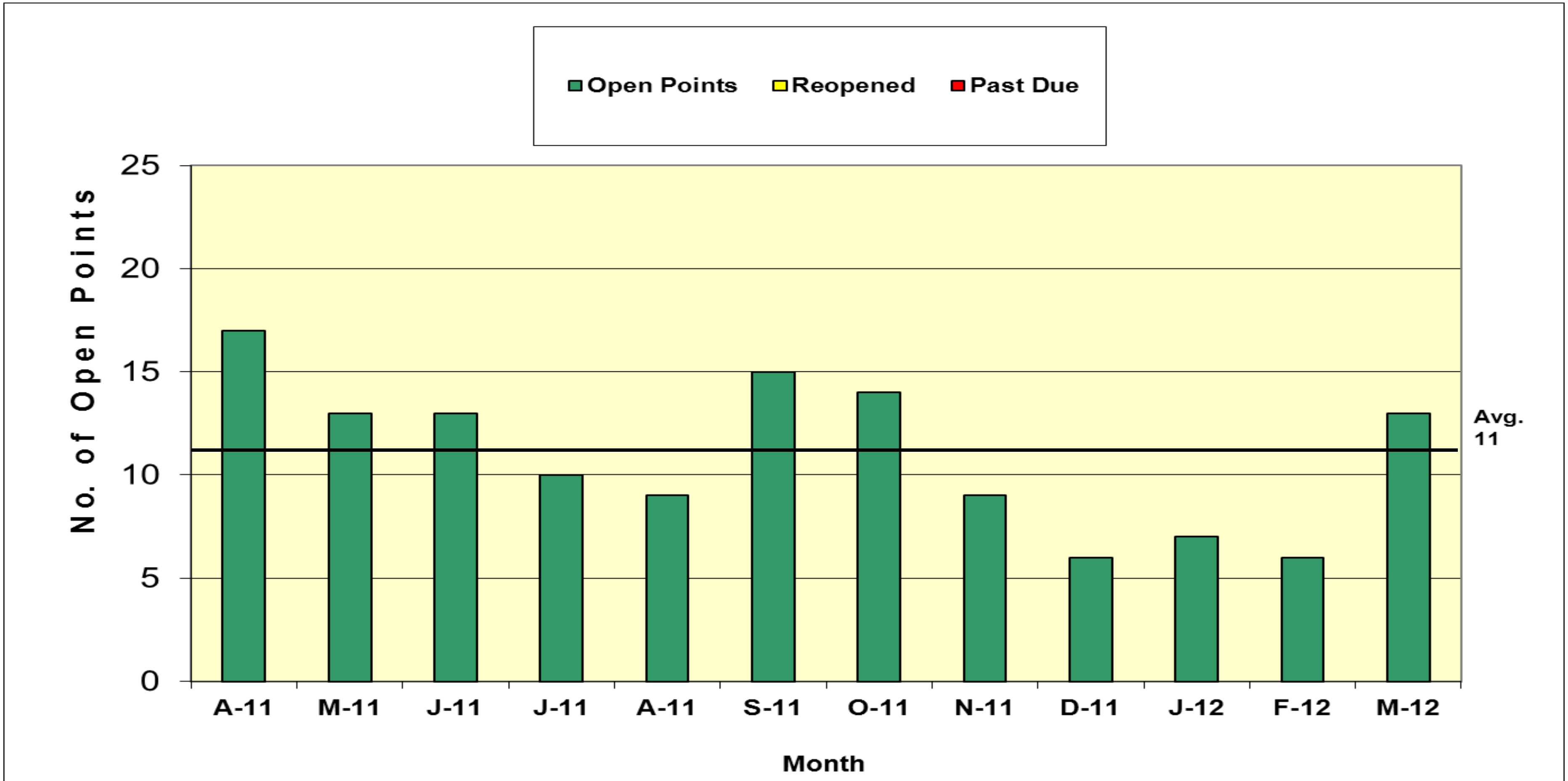
ERCOT Investment	SECURITY	SECURITY TYPE	ICD TICKER	PAR Value	MATURITY	Percent Weight of ERCOT
$981,120	CREDIT SUISSE SECS USA REPO UST CSFBCO	REPO	PISXX	$250,000,000	03/01/2012	0.60%
$588,672	MORGAN STANLEY AND CO REPO UST MORGCO	REPO	PISXX	$150,000,000	03/01/2012	0.36%
$588,672	DEUTSCHE BANK SECURITIES REPO UST DB	REPO	PISXX	$150,000,000	03/01/2012	0.36%
$490,560	MERRILL PIERCE FENNER SM REPO UST MERPFS	REPO	PISXX	$125,000,000	03/01/2012	0.30%
$392,448	Goldman Sachs CO Repo Ust Goldmn	REPO	PISXX	$100,000,000	03/01/2012	0.24%
$2,052,939	RBC Capital Markets Corp	REPO	SCTZZ	$700,000,000	03/01/2012	1.25%
$2,052,939	BNP Paribas Securities Corp	REPO	SCTZZ	$700,000,000	03/01/2012	1.25%
$2,052,939	Barclays Capital Inc	REPO	SCTZZ	$700,000,000	03/01/2012	1.25%
$1,759,662	Deutsche Bank Securities Inc	REPO	SCTZZ	$600,000,000	03/01/2012	1.07%
$1,759,662	Barclays Capital Inc	REPO	SCTZZ	$600,000,000	03/01/2012	1.07%
$1,466,385	Societe Generale	REPO	SCTZZ	$500,000,000	03/01/2012	0.89%
$1,466,385	HSBC Securities USA Inc	REPO	SCTZZ	$500,000,000	03/01/2012	0.89%
$1,466,385	RBS Securities Inc	REPO	SCTZZ	$500,000,000	03/01/2012	0.89%
$1,466,385	RBS Securities Inc	REPO	SCTZZ	$500,000,000	03/01/2012	0.89%
$1,466,385	Societe Generale	REPO	SCTZZ	$500,000,000	03/01/2012	0.89%
$1,466,385	Credit Suisse Securities USA LLC	REPO	SCTZZ	$500,000,000	03/01/2012	0.89%
$1,121,977	Merrill Lynch Pierce Fenner Smith Inc	REPO	SCTZZ	$382,565,708	03/01/2012	0.68%
$1,026,470	Bank of Montreal	REPO	SCTZZ	$350,000,000	03/01/2012	0.62%
$733,193	Bank of Montreal	REPO	SCTZZ	$250,000,000	03/01/2012	0.45%
$733,193	Credit Agricole Corporate Investment Bank	REPO	SCTZZ	$250,000,000	03/01/2012	0.45%
$733,193	Wells Fargo Securities LLC	REPO	SCTZZ	$250,000,000	03/01/2012	0.45%
$630,546	BNP Paribas Securities Corp	REPO	SCTZZ	$215,000,000	03/01/2012	0.38%
$586,554	Morgan Stanley Co Inc	REPO	SCTZZ	$200,000,000	03/01/2012	0.36%
$513,235	HSBC Securities USA Inc	REPO	SCTZZ	$175,000,000	03/01/2012	0.31%
$473,364	Deutsche Bank Securities Inc	REPO	SCTZZ	$161,404,997	03/01/2012	0.29%
$293,277	CIBC World Markets Corp	REPO	SCTZZ	$100,000,000	03/01/2012	0.18%
$2,443,775	Barclays Cap Tri Party Repo	REPO	SVTXX	$250,000,000	03/27/2012	1.48%
$2,443,775	Merrill Lynch Tri Party Repo	REPO	SVTXX	$250,000,000	03/22/2012	1.48%
$2,443,775	UBS Warburg Tri Party Repo	REPO	SVTXX	$250,000,000	03/22/2012	1.48%
$2,038,431	Deutsche Tri Party Repo	REPO	SVTXX	$208,533,000	03/22/2012	1.24%
$1,221,888	CSFB Tri Party Repo	REPO	SVTXX	$125,000,000	03/22/2012	0.74%
$1,036,161	Citibank NA Tri Party Repo	REPO	SVTXX	$106,000,000	03/22/2012	0.63%
$1,036,161	HSBC Tri Party Repo	REPO	SVTXX	$106,000,000	03/22/2012	0.63%
$997,060	Societe Generale Tri Party Repo	REPO	SVTXX	$102,000,000	03/22/2012	0.61%
$987,285	Morgan Stanley Tri Party Repo	REPO	SVTXX	$101,000,000	03/22/2012	0.60%
$772,233	Barclays Cap Tri Party Repo	REPO	SVTXX	$79,000,000	03/22/2012	0.47%
$645,157	Merrill Lynch Tri Party Repo	REPO	SVTXX	$66,000,000	03/22/2012	0.39%
$488,755	CSFB Tri Party Repo	REPO	SVTXX	$50,000,000	03/22/2012	0.30%
$4,509,499	Barclays Capital Inc dated	REPO	TOIXX	$2,380,000,000	03/16/2012	2.74%

Concentration Report

ERCOT Investment	SECURITY	SECURITY TYPE	ICD TICKER	PAR Value	MATURITY	Percent Weight of ERCOT
$4,185,497	Deutsche Bank Securities Inc dated	REPO	TOIXX	$2,209,000,000	03/21/2012	2.54%
$3,789,495	RBS Securities Inc dated	REPO	TOIXX	$2,000,000,000	03/16/2012	2.30%
$3,031,596	Societe Generale Paris dated	REPO	TOIXX	$1,600,000,000	03/16/2012	1.84%
$3,031,596	JP Morgan Securities LLC dated	REPO	TOIXX	$1,600,000,000	03/16/2012	1.84%
$2,118,328	Barclays Capital Inc dated	REPO	TOIXX	$1,118,000,000	03/16/2012	1.29%
$1,894,748	Credit Suisse Securities USA LLC dated	REPO	TOIXX	$1,000,000,000	03/16/2012	1.15%
$1,654,115	Credit Suisse Securities USA LLC dated	REPO	TOIXX	$873,000,000	03/21/2012	1.00%
$1,193,691	TD Securities USA LLC dated	REPO	TOIXX	$630,000,000	03/16/2012	0.73%
$1,023,164	Bank of Montreal dated	REPO	TOIXX	$540,000,000	03/16/2012	0.62%
$947,374	TD Securities USA LLC dated	REPO	TOIXX	$500,000,000	03/23/2012	0.58%
$947,374	Barclays Capital Inc dated	REPO	TOIXX	$500,000,000	03/27/2012	0.58%
$947,374	Credit Suisse Securities USA LLC dated	REPO	TOIXX	$500,000,000	03/19/2012	0.58%
$947,374	Credit Suisse Securities USA LLC dated	REPO	TOIXX	$500,000,000	03/16/2012	0.58%
$856,320	Credit Agricole Corporate and Investment Bank dated	REPO	TOIXX	$451,944,000	03/16/2012	0.52%
$663,162	Merrill Lynch Pierce Fenner Smith Inc dated	REPO	TOIXX	$350,000,000	03/16/2012	0.40%
$189,475	CIBC World Markets Corp dated	REPO	TOIXX	$100,000,000	03/16/2012	0.12%
$98,527	Deutsche Bank Securities Inc dated	REPO	TOIXX	$52,000,000	03/16/2012	0.06%
$18,947	Federal Reserve Bank of New York dated	REPO	TOIXX	$10,000,000	03/20/2012	0.01%

Item	12d
Topic	Review committee briefs
Presenter	Mike Petterson
Purpose	Periodic reports on audit activity

Committee Brief ICMP: Status of Open Audit Points



													Totals
Audits Completed	8	0	4	0	3	4	1	2	6	1	0	2	31
Points Added	15	0	7	0	2	8	0	0	3	3	0	9	47
Points Completed	6	4	7	3	3	2	1	5	6	2	1	2	42

All audit points expected to be complete by 6/30/12.

Committee Brief: ICMP – Audits

Audits Completed

(last 3 months)

Internal Audits

- Market Credit Process
- Crisis Communications Procedures
- Audit of Compliance with "Must" and "Shall" Requirements in the Protocols

External Audits

- None

Audits in Progress

Internal Audits

- Consulting and Advisory Services Activity on ERCOT's Vulnerability Assessments Follow-Up Process
- Congestion Revenue Rights
- Annual Report on the Fraud Prevention, Monitoring, and Testing Program
- Targeted Review of Vendors for Compliance with Contract Terms and Conditions
- Audit of Shared Drives
- Change Control / Release Management
- Identity Management System

External Audits

- Nodal Program Audit (Navigant Consulting, LLC)
- 2011 Financial Audit (Ernst & Young, LLP)

Planned Audits

(next 3 months)

Internal Audits

- Accounts Payable
- Audit of Compliance with Federal Visa and Work Authorization Requirements for Foreign Nationals Working at ERCOT and Review of Related Internal Controls, Processes, Procedures, Risks, and Mitigation / Succession Plans
- Cash and Investments
- Audit of Critical Spreadsheets
- Protocol 1.4 Required Audit – Confidentiality Compliance Audit

External Audits

- 2012 Type 2 SSAE 16 (SAS 70) Audit (BrightLine CPAs & Associates, Inc.)

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

Item	13a and 13b
Topic	Receive periodic report from ERCOT's independent auditor
Presenter	Ernst & Young
Purpose	Receive education on accounting developments

Electric Reliability Council of Texas

2011 audit results

Ernst & Young
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The Finance and Audit Committee
Electric Reliability Council of Texas, Inc.

April 6, 2012

Dear Members of the Finance and Audit Committee,

We are pleased to present the results of our audit of the 2011 financial statements of the Electric Reliability Council of Texas, Inc. (ERCOT) and the status of our final procedures.

Our audit was designed to express an opinion on the 2011 financial statements as of December 31, 2011. In accordance with professional standards, we obtained a sufficient understanding of internal control to plan the audit and to determine the nature, timing and extent of tests to be performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting.

This report is intended solely for the information and use of the Finance and Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Philip J. Gunn
Partner

Table of contents

Deliverables

	Finance and Audit deliverables	Status update
Opinion	▶ Express an opinion on the financial statements of ERCOT	▶ Obtain a letter of representations from management ▶ Perform final quality review procedures ▶ Complete subsequent events to date of report issuance ▶ Obtain external legal letters

Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Auditor's responsibilities under generally accepted auditing standards, including discussion of the type of opinion we are issuing		X
Overview of planned scope and timing		X
Other information in documents containing audited financial statements		X
Our views about the qualitative aspects of the Company's significant accounting practices, including:		
• The appropriateness of accounting policies to the particular circumstances of the Company including, the adoption of, or a change in, an accounting policy	X	
• The effect of significant accounting policies in controversial or emerging areas	X	
• Significant accounting estimates		X
• Financial statement disclosures and related matters		X
Significant difficulties encountered in dealing with management when performing the audit	X	
Uncorrected misstatements		X
Material corrected misstatements		X
Reportable disagreements with management	X	
Representations we are requesting from management		X

Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Management's consultations with other accountants	X	
Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management	X	
Independence matters	X	
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	X	
Significant deficiencies and material weaknesses in internal control		X
AICPA ethics ruling regarding third-party service providers		X
Other findings or issues regarding the oversight of the financial reporting process	X	

Required communications

Area	Comments
Auditor's responsibilities under generally accepted auditing standards The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants, to obtain reasonable, rather than absolute assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we will express no such opinion.	Upon completion of our remaining audit procedures, we currently expect to issue an unqualified opinion on the Company's financial statements for the year ended December 31, 2011.
Overview of planned scope and timing	We previously reviewed our audit plan with the Committee at the October 2011 Finance and Audit Committee Meeting. Our 2011 audit is primarily substantive in nature with most of our procedures performed as of the balance sheet date. Also, refer to the section titled, "Critical policies, estimates and areas of emphasis".
Other information in documents containing audited financial statements	Not applicable
Our views about the qualitative aspects of the Company's significant accounting practices	Refer to Note 2 to the financial statements for detailed descriptions of the significant accounting policies. Refer to the section titled, "Critical policies, estimates and areas of emphasis" for our qualitative comments. We are not aware of any significant transactions recorded by the Company based on significant accounting policies used by the Company in controversial or emerging areas for which there is a lack of authoritative guidance.

Required communications

Area	Comments
Significant difficulties encountered in dealing with management when performing the audit	None.
Uncorrected misstatements	None
Material corrected misstatements	There were no recorded audit misstatements in the current year.
Reportable disagreements with management	None.
Representations we are requesting from management	Representations to be received from management are standard. We can provide to you a copy of the signed representations letter, if desired.
Management's consultation with other accountants	None of which we are aware.
Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management	None.
Independence matters	There are no matters that, in our professional judgment, may reasonably be thought to bear on our independence or that we gave significant consideration to in reaching the conclusion that independence has not been impaired.
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	We are not aware of any matters that require communication.
Significant deficiencies and material weaknesses in internal control over financial reporting	No material weaknesses were identified.

Required communications

Area	Comments
AICPA ethics ruling regarding third-party service providers	From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY Firms, who may deal with the Company or its affiliates directly, although EY alone will remain responsible to you for the Audit Services, and (2) personnel (including non-certified public accountants) from an affiliate of EY or another EY Firm or any of their respective affiliates, or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third-party service providers may perform services for EY in connection with the Audit Services.
Other findings or issues regarding the oversight of the financial reporting process	None.

Critical policies, estimates and areas of emphasis
Executive summary

Area	Comments
Systems under development	The Company's approach and methodology for capitalizing both internal/external costs to systems under development appear reasonable and were consistently applied. EY performed tests of amounts capitalized in the current year.
Impairment of long-lived assets	There were no indicators of impairments during 2011. Management's policy for assessing the Company's assets for impairment is consistent with the prior year and is considered to be reasonable.
Regulatory assets and liabilities	The Company's approach and methodology for deferring revenues and costs under ASC 980, *Accounting for the Effects of Certain Types of Regulation,* is reasonable and supportable based on specific decisions made by regulators that have provided evidence that it is probable that the cost or obligation will be included in amounts allowable for recovery or refund in future rates.
Derivatives activities	The Company's accounting for interest rate swap transactions is in conformity with GAAP and was applied consistently. Changes in the valuation of the interest rate swap resulted in $6.6 million gain in 2011.
Market settlement liabilities	Increase in market settlement liabilities of approximately $230M is consistent with expectations as a result of Congestion Revenue Rights Program.
Notes payable	EY confirmed notes payable outstanding as of December 31, 2011. Amounts are appropriately stated. Approximately $165M in debt is short-term.

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Audit committee: leading practices and trends

February 2012

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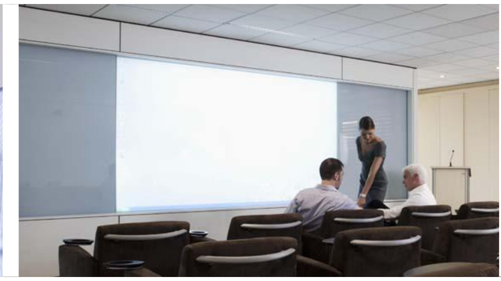
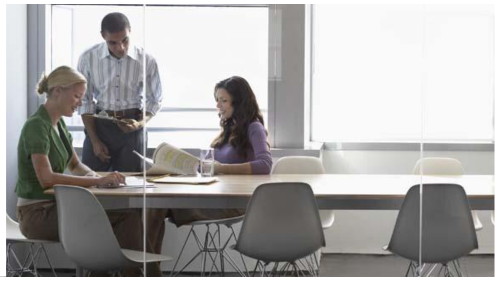
Leading practices and trends

Facing more scrutiny from regulators and investors, audit committees are continuing to challenge their roles. To perform their oversight responsibilities, audit committee members need to understand what information they need, how to analyze it and what questions to ask to gain insights and make informed decisions.

The following are emerging as leading practices for audit committees:

Risk oversight

Risks by their very nature are uncertain and affect all areas of a business. The audit committee's role is to review and challenge, where appropriate, the company's risk profile and ensure that risk management processes are in place, especially those affecting financial reporting and reputational risks.

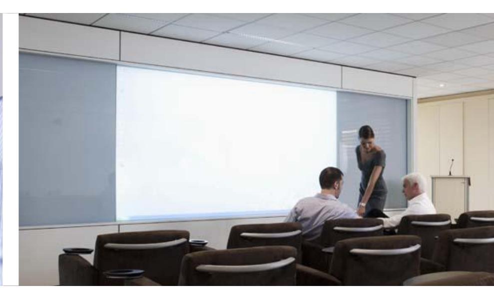
- Understand the company's framework for risk assessment and management's related policies and procedures
- Understand how the company documents and responds to identified risks
- Review whether appropriate focus is being paid to the company's risk intelligence gathering and assessment processes and understand the company's ability to both identify emerging risks and anticipate risk events
- Review whether the risk disclosures in the financial statements and in the Form 10-K are appropriate, robust and understandable
- Review the company's major financial risk areas and understand the adequacy of controls and monitoring procedures in place
- Periodically reassess the list of top risks, determining who in management and which committee of the board is responsible for each
- Meet directly with key executives responsible for risk management and focus on whether they understand they are empowered to inform the committee of extraordinary risk issues and developments that require the committee's immediate attention outside of the regular reporting process
- Focus on the company's plans for achieving any information technology milestones, especially for IT transformation projects, given the importance of IT to most organizations
- Understand the use, if any, of emerging technologies (such as cloud computing), their relevance to the company and the associated risks
- Understand whether IT security processes are updated as appropriate and are in line with the strategy of the company
- Review whether processes to evaluate acquisitions include an assessment of controls at the acquired entity, such as tone at the top and controls around IT risks

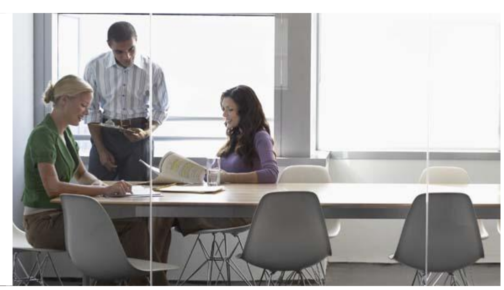


Committee composition and dynamics

The composition of the committee is critical to its effectiveness. Members with requisite skills, knowledge, independence and judgment are important. Their level of commitment and availability is also critical to the audit committee's ability to perform its responsibilities effectively. A range of diverse perspectives and thinking helps strengthen the quality of audit committee deliberations and delivers real value for companies and shareholders, especially for companies that operate globally.

- Focus on committee composition, including independence, financial expertise, broad business or leadership experience and succession planning
- Evaluate the expertise and competence of the members in the context of the company's strategy and risk profile today and for the next several years. The right balance is crucial and will fluctuate with changing circumstances
- Consider the ability to work collectively, to challenge decisions in a credible manner and to avoid "groupthink"
- Align audit committee meeting materials and agendas with priority areas:
    - Put significant areas first in advance materials and on the agenda
    - Next, include and discuss matters for review and comment
    - Present compliance matters, standard reports and informational items at the end of advance materials packages and meetings (they may not need to be discussed at the meeting)
    - Follow meetings with private and executive sessions with auditors and the internal auditor
- Help promote healthy skepticism among fellow committee and board members





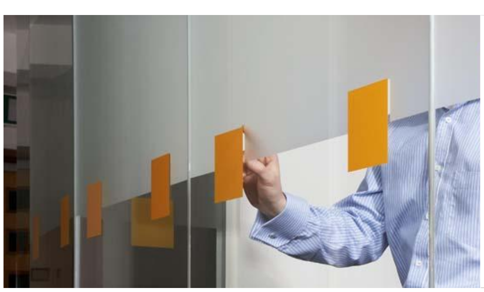
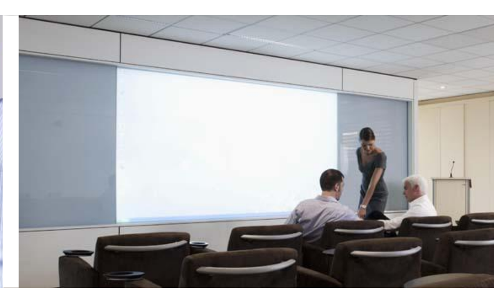
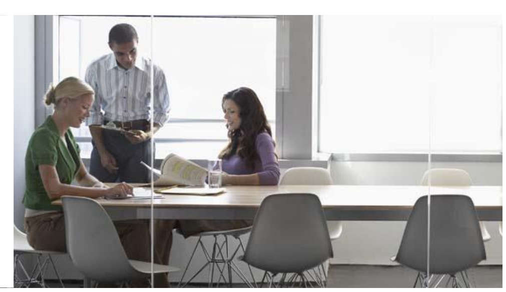
- Consider alternative viewpoints
- Evaluate whether the company's crisis preparedness is adequate
- Consider periodically rotating audit committee members, staggering the terms of service to have the benefit of new skills and perspectives
- Engage independent advisers, as necessary
- Recognizing the significant workload of board service, and especially of audit committees, consider policies limiting directors' other board service or audit committee participation
- Conduct an annual committee self-evaluation, considering what the committee could have done better and what the committee needs to do next year



Oversight of financial reporting

A primary responsibility of the audit committee is to oversee the integrity of the company's accounting and reporting practices and financial statements. As financial reporting becomes more complex, the audit committee needs to make sure that the financial statements are understandable and transparent.

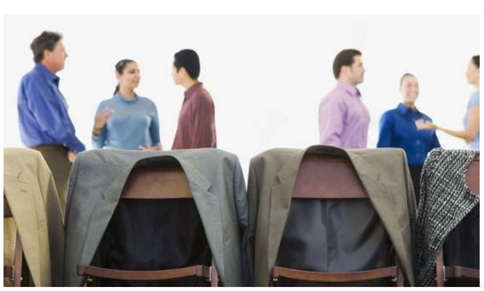
- Provide discipline to ensure that the company reports information that is reliable and understandable
- Understand complex accounting and reporting issues, such as fair value accounting and related assumptions, and how management addresses them
- Continue to focus on pension obligations, asset impairments, earnings, cash flows and liquidity positions and other ongoing financial statement issues affected by economic conditions
- Review significant financial reporting and regulatory developments, including their effect on the financial statements and how they affect the company's resource needs
- Learn about the company's operations and significant risks without focusing overly on process
- Assess the quality of the accounting principles and the appropriateness of significant accounting policies, considering alternative treatments of generally accepted accounting principles

Oversight of internal controls

Internal controls form an integral part of a company's enterprise risk management. The COSO framework presents five intertwined areas: control environment, risk assessment, control activities, information and communication and monitoring. While the audit committee's key focus is on financial reporting controls, audit committees are increasingly overseeing controls that ensure legal and regulatory compliance.

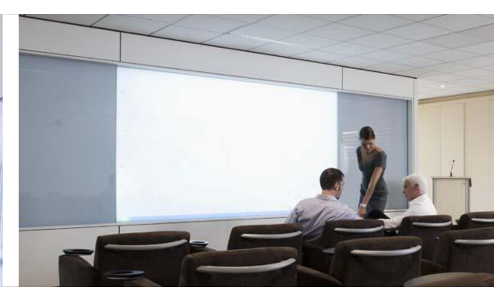
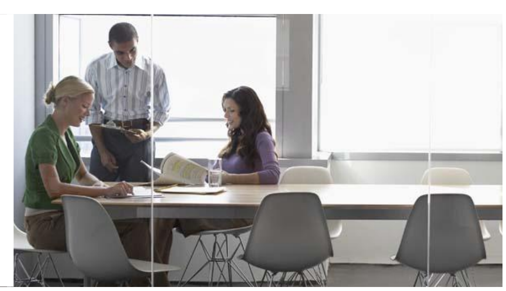
- Understand key controls and financial reporting risk areas as assessed by the independent auditor, the internal auditors and financial management, as well as mitigating controls and safeguards
- Understand oversight of corporate taxes, an area where high-risk and high-dollar decisions are made; over the past several years, income tax accounting has led to the largest number of restatements and has had one of the highest frequencies of material weaknesses
- Understand internal audit's role and planned coverage
- Meet with the internal audit director on a regular basis
- Assess and help set the tone at the top
- Consider levels of authority and responsibility in key areas, including pricing and contracts, acceptance of risk, commitments and expenditures
- Monitor implementation of significant internal control changes
- Evaluate whether the company devotes the resources required for its internal controls processes to function effectively



Relationship with independent auditor

Overseeing the external auditor is a key responsibility of the audit committee. The audit committee appoints the external auditor, assesses its independence, discusses the audit scope and determines the external auditor's compensation. Candid and open communication between the external auditor and audit committee is imperative for a successful relationship. It is important that the audit committee and the external auditor communicate effectively.

- Exercise ownership of the relationship with the external auditor
- Get to know the lead partners and meet periodically with specialists (e.g., tax, IT, actuarial, SEC)
- Establish expectations about the nature and method of communication, as well as the exchange of insights
- Review the proposed audit plan and scope of work
- Engage in regular dialogue outside the scheduled meetings
- Set an annual agenda with the external auditor
- Focus on independence, including a preapproval process
- Consider the findings from the financial statements audit and ensure that management responds to the findings
- Seek the auditor's views on the effectiveness of the company's governance process
- Provide formal evaluations of the auditor as well as regular feedback

Interaction with management

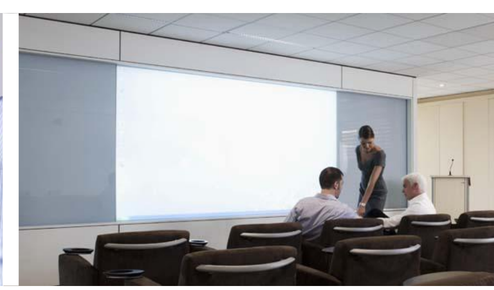
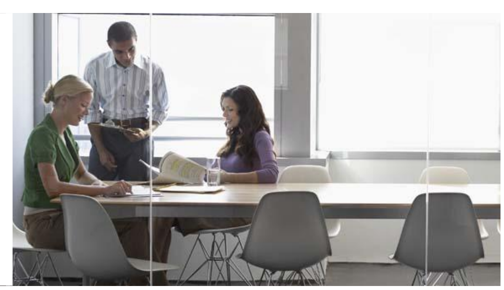
Audit committees rely heavily on management and, therefore, need to have an open and effective relationship. Audit committees are constantly juggling the delicate balance of overseeing management and making management decisions. An open and trusting relationship with management is important to audit committee members, who speak frequently with key management.

- Focus on the tone at the top, culture, ethics and hotline monitoring
- Conduct annual evaluations assessing management's competency and integrity
- Work with management to anticipate and identify emerging issues
- Understand plans to address new accounting and reporting requirements
- Provide input to management's goal setting
- Discuss succession planning for the CFO and staff
- Conduct pipeline and staff reviews, including identifying high-potential personnel
- Evaluate whether the audit committee receives adequate information on a timely basis
- Ascertain whether the information the committee receives contains the appropriate level of detail, whether issues are explained clearly and whether discussion with internal and external auditors corroborates the information

Interaction with internal auditors

The internal audit function is a key resource for the audit committee. The Institute of Internal Auditors requires that the purpose, responsibilities and authority of the internal audit function should be formally set. Effective internal audit functions report to senior management and in many companies directly to the audit committee.

- Assess whether the internal auditors have a direct functional reporting line to the audit committee and an indirect line to management for administrative activities
- Be involved with the internal audit risk assessment and audit plans, including activities and objectives regarding Section 404 compliance
- Conduct annual evaluations assessing the effectiveness and competence of the internal audit department
- Understand internal audit staffing and succession planning, addressing adequacy of internal audit resources
- Understand whether the internal audit department is viewed as objective and competent by the independent auditors
- Establish how the internal audit function relates to other risk-related functions, such as legal, security, environmental health and safety, compliance and credit risks, considering duplication of efforts or gaps between these functions

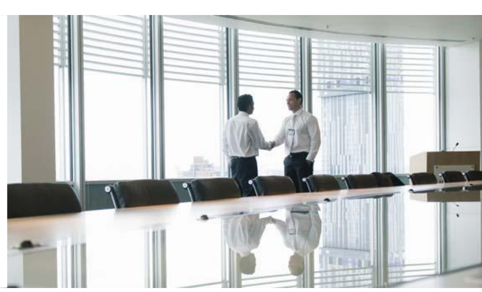




Interaction with compensation committee, risk committee and executive compensation

The interplay between executive compensation policies and risk management has been a particular area of focus by regulators and investors. Compensation committees should be engaged as management develops the compliance framework and procedures. The audit and compensation committee also should coordinate with each other.

While overseeing the assessment and disclosure of compensation-related risks is mainly the role of the compensation committee and the full board, the audit committee can help assess how certain financial metrics are employed in the company's compensation plans. It can also review the proxy statement, the compensation discussion and analysis and other disclosures.

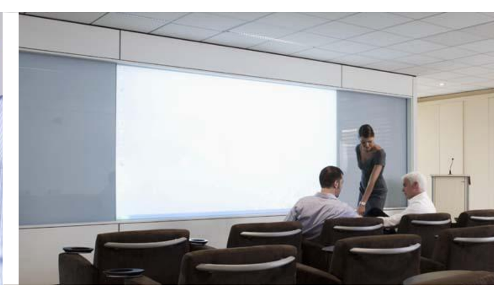
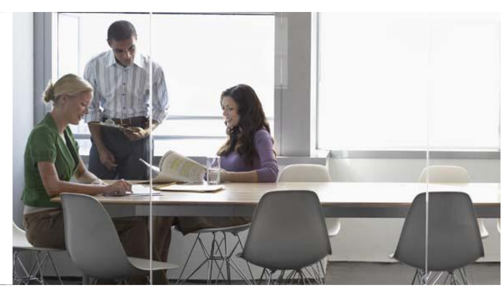
- Periodically conduct meetings with the compensation committee about management incentives and related topics
- Consider, in conjunction with the compensation committee, the appropriateness of the incentive structure and whether it contributes to increased fraud risk
- Determine whether adequate and appropriate focus is being paid to the compensation of officers and directors, including the appropriate use of corporate assets such as planes and apartments


Executive sessions

Audit committees are increasingly holding private sessions, often with internal audit, the external auditor and management. Audit committee members may use this time to reflect on issues, evaluate what is working and what opportunities exist for improvement, and identify follow-up actions.

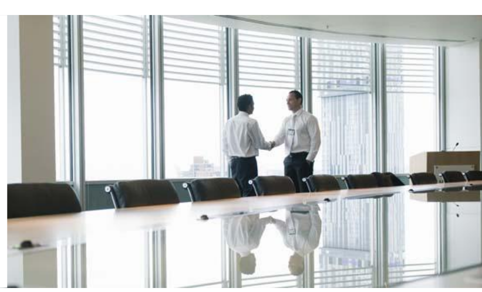
- Schedule regular sessions with and without internal audit, the external auditor and management
- Schedule regular sessions with various members of management, such as the CFO, controller, general counsel and others as appropriate
- Consider private audit committee sessions both before and after meetings with the internal auditor, the external auditor and management
- Provide clear objectives and expectations for each meeting
- Prepare specific topics and questions
- Understand the response and resolution for each issue raised

Self-assessment and evaluation

To be successful, an audit committee must understand its responsibilities and monitor its effectiveness, identifying improvement needs and opportunities. Regular performance evaluation enables the audit committee to ensure that it is meeting the expectations of its members, the full board and regulators.

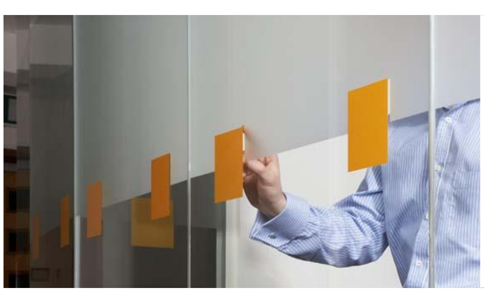
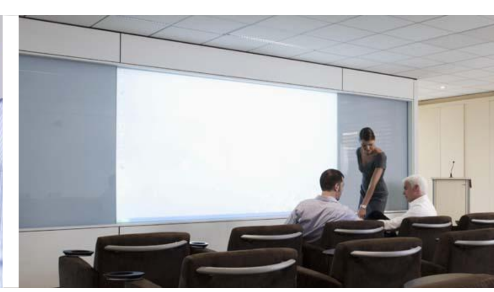
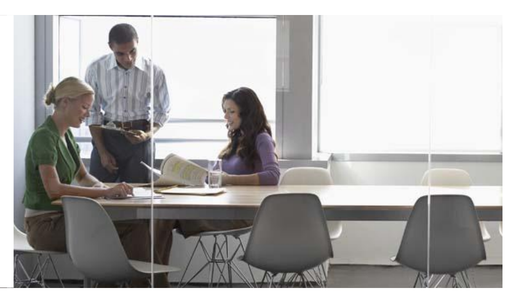
- Perform a self-assessment in a thorough manner rather than treating it as a compliance exercise
- Consider evaluating the performance of individual committee members and assessing the effectiveness of the committee as a whole
- Consider using self-assessment results as a catalyst to re-engineer processes, procedures and agendas, which should influence where the audit committee is spending time
- Communicate with the board on activities and recommendations
- An effective performance assessment process helps the audit committee to:
  - Prioritize its agendas and meeting structure and focus on critical issues
  - Consider the committee's composition in the context of the company's current and future strategy and challenges
  - Consider the timing, level of detail and quality of information provided by management
  - Identify areas for continuing education


Orientation and education

New members should have an appropriate understanding of the company, its products and services, risk areas and its internal controls and financial reporting systems. Members should be provided with sufficient background information. Although they will also be members of the board of directors, the nature, amount of information and knowledge will vary greatly for audit committee members. Regular training ensures that audit committee members maintain their knowledge and skills.

- Address board education in the company's corporate governance guidelines to be consistent with NYSE listing standards
- Provide orientation of new members involving both company executives and the independent auditor
- Consider offering continuing education in specialized or regulated industry matters, industry trends, reporting, operations and related topics
- Consider customized programs of continuing education that address topics relevant to the company's needs and incorporate company-specific processes and objectives
- Offer one-on-one and committee-level education

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SCORE no. BB2278

No. 2012-08
27 March 2012

To the Point

PCAOB public meeting on auditor independence and audit firm rotation

"We believe any ideas pursued to further auditor independence, objectivity and skepticism must lead to an increase, not a decrease, in audit quality."

—Steve Howe,
Americas Managing Partner,
Ernst & Young LLP

What you need to know

- Panelists expressed support for efforts to further improve audit quality and enhance auditor independence, objectivity and professional skepticism.
- There was consistent recognition that audit quality has improved since the implementation of the Sarbanes-Oxley Act of 2002 (the Act) and that the PCAOB should consider strengthening the existing structure created by the Act.
- Views were mixed on the costs and perceived benefits of mandatory audit firm rotation, but nearly all parties supported enhancing audit committees and improving transparency and communications between auditors, audit committees, the PCAOB and shareholders.
- The PCAOB reopened the comment period on its concept release on enhancing auditor independence, objectivity and professional skepticism until 22 April 2012.

Overview

More than 40 panelists participated in a public meeting hosted by the Public Company Accounting Oversight Board (PCAOB or Board) to discuss ways to enhance auditor independence, objectivity and professional skepticism, including mandatory audit firm rotation. The meeting followed a concept release the PCAOB issued in August 2011 (the Concept Release).[1]

The panelists included institutional investors, former government officials, audit committee chairs of major corporations, senior executives of issuers, representatives from trade associations, academics and senior leaders of audit firms. Many of the panelists were among the more than 600 people who submitted comment letters on the Concept Release. More than 90% of the letters opposed mandatory audit firm rotation.

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This publication provides highlights of the two-day meeting. The archived webcast[2] and panelists' written testimonies[3] are available on the PCAOB's website.

Board discussion and questions of panelists

The Board expressed interest in improving auditor independence, objectivity and professional skepticism and sought input on mandatory audit firm rotation. The Board also encouraged panelists to offer alternatives.

Several Board members asked panelists whether long-term audit firm tenure creates the perception that auditor independence can be impaired. The Board expressed interest in understanding the improvements in audit quality and the performance of audit committees since adoption of the Act, which created the PCAOB and gave the audit committee the responsibility to oversee a company's relationship with its independent auditor.

The Board explored a range of topics, including the perceived benefits and costs of mandatory audit firm rotation and audit firm concentration. While the discussion focused on mandatory firm rotation, some Board members sought input from panelists on alternatives that might improve audit quality.

Mandatory audit firm rotation

Many panelists including certain issuers, audit committee representatives, audit firm leaders, academics and representatives of associations opposed mandatory audit firm rotation. As many did in their comment letters, panelists expressed concerns with this concept, including the following:

- Lack of evidence linking audit firm tenure to possible weaknesses in auditor independence, objectivity or professional skepticism
- Increased cost of the audit including human capital cost and audit committee time that would be required to bring a new audit firm up to speed so it could perform a high-quality audit
- Loss of audit firm institutional and industry knowledge, which could reduce audit quality
- Limiting audit committees' ability to identify and hire an auditor with appropriate skills and geographic reach to perform a high-quality audit
- Significant complexities, particularly for multinational companies

Other panelists, including certain academics, representatives of associations and former government officials, expressed support for mandatory audit firm rotation. The reasons these panelists cited included the following:

- A fresh set of eyes would improve the quality of audits and financial reporting
- Longer tenure increases the perception that independence is impaired
- Auditors would have an incentive to exercise greater objectivity, independence and professional skepticism if they knew their judgments would be reviewed by another audit firm under a mandatory audit firm rotation
- Concerns about the existing audit firm payment model

Alternatives to mandatory audit firm rotation

Panelists expressed significant support for retaining audit committee oversight of the independent auditor, with many panelists noting that the audit committee is in the best position to identify and engage the auditor that best meets the needs of the company. Many panelists noted that alternatives could be pursued to further enhance auditor independence, objectivity and skepticism, and that these alternatives would be more constructive than the mandatory rotation concept the PCAOB highlighted in its Concept Release. Some of the alternatives suggested included the following:

- Strengthen audit committees by:
    - Enhancing audit committee disclosure about the process audit committees use to evaluate an audit firm's independence, objectivity and professional skepticism and the rationale for selection or retention of an audit firm
    - Enhancing dialogue between audit firms and audit committees about management's key estimates, areas of higher risk of error in the financial statements and alternative accounting positions evaluated
    - Enhancing the involvement of the audit committee in selecting the lead engagement partner
    - Providing additional training for audit committee members and establishing best practices for audit committees
- Strengthen PCAOB oversight by:
    - Enhancing the PCAOB inspection process including more timely inspections, better communication of inspection findings with audit committees and possibly more audit committee interaction with inspectors during the inspection process
    - Enabling the PCAOB to communicate to an audit committee instances when an audit firm has demonstrated a significant lack of skepticism during a particular audit
    - Supporting the PCAOB standard-setting process by allowing recent audit standards to take effect, proposing additional standards to enhance audit quality with a focus on higher-risk areas and evaluating the effect of new standards on audit quality
    - Conducting a root-cause analysis of Board inspection findings to better inform actions to address inspection deficiencies
    - Improving the auditor's reporting model, including highlighting important matters addressed in an audit by requiring an emphasis-of-matter paragraph
    - Publishing audit firm audit quality control reports and making available to the audit committee information about an audit firm's remediation programs in response to PCAOB inspection reports
    - Considering a requirement that the audit committee periodically reevaluate the auditor relationship. Views on the concept of requiring periodic retendering were mixed.

Some PCAOB members sought input from panelists on alternatives to mandatory audit firm rotation that might improve audit quality.

How we see it

- We welcome the robust discussion of ways to further improve audit quality and enhance auditor independence, objectivity and professional skepticism, as outlined in our comment letter and written statement.[4]
- We believe that audit quality and the independence, objectivity and professional skepticism of auditors have improved considerably since the passage of the Act and the creation of the PCAOB.
- We do not believe that mandatory audit firm rotation or mandatory retendering would improve audit quality. Instead, we believe these alternatives would negatively affect investors by weakening the governance responsibility of audit committees.
- We believe independent audit committees and boards are best positioned to appoint and retain the audit firm they believe best meets shareholders' needs.

What's next

The PCAOB will compile the panelists' suggestions and consider additional public meetings on ways to further enhance auditor independence, objectivity and professional skepticism.

The PCAOB has indicated that it does not intend to act swiftly with any proposed rulemaking in this area. The discussion will likely continue into 2013.

The Board is inviting additional public comments through 22 April 2012.

Endnotes:

1 http://pcaobus.org/News/Releases/Pages/03072012_PublicMeeting.aspx
2 http://pcaobus.org/News/Webcasts/Pages/03212012_PublicMeeting.aspx
3 http://pcaobus.org/Rules/Rulemaking/Pages/Docket037Statements.aspx
4 http://pcaobus.org/Rules/Rulemaking/Docket037/063_EY.pdf. and http://pcaobus.org/Rules/Rulemaking/Docket037/ps_Howe.pdf

Joint Project Watch

FASB/IASB joint projects from a US GAAP perspective

March 2012

The standard-setting activities of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards) on their many joint projects continue to move forward. The Boards have issued final guidance or exposure drafts (EDs) on several projects and continue to redeliberate others. We encourage you to actively follow the Boards' progress and to respond to requests for comment.

This publication is designed to give you a snapshot of key developments from a US GAAP perspective, along with our observations about the potential implications for companies. We also include references to other Ernst & Young publications that provide more background and detail on the projects and proposals. These publications are available at ey.com/us/accountinglink.

The following discussion of ongoing projects is based on our observations of the standard-setter meetings. During redeliberations, the Boards make tentative decisions that may be different from earlier decisions and those in the EDs. At this point, the Boards' decisions and our observations are all subject to change.

Joint projects

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Financial instruments

Q2 2010 Exposure draft → Q4 2010 Roundtables → Q2-Q4 2012 Exposure drafts

Background

The financial instruments project addresses classification and measurement, impairment and hedging. The Boards' overall objective is to simplify, improve and converge the accounting for financial instruments. Differing timetables and priorities led the Boards to develop separate proposals. The IASB issued final guidance on classification and measurement (IFRS 9) as well as separate proposals on impairment and hedging, while the FASB issued one comprehensive exposure draft.

Other references

- To the Point, Impairment – a major step toward convergence (SCORE No. BB2250)
- Practical matters for the c-suite, Financial instruments convergence project moves forward in fits and starts (SCORE No. BB2205)
- To the Point, New credit impairment approach takes shape (SCORE No. BB2161)
- Technical Line, Financial instruments – a new classification and measurement model on the horizon (SCORE No. BB2157)
- Technical Line, Hedge accounting: Is convergence possible? (SCORE No. BB2125)
- To the Point, Hedge accounting – FASB seeks reaction to IASB's proposed model (SCORE No. BB2088)

Summary and observations – classification and measurement

Background

The FASB's original proposal would have required fair value measurement for most financial assets and financial liabilities, while IFRS 9 permits much more use of amortized cost. As a result of redeliberations, the FASB has made a number of significant changes to the proposed approach, which will require less measurement at fair value. To more closely align their respective models and reduce key differences, the Boards are now jointly redeliberating selected aspects of their guidance.

Q1 2012

- The Boards recently discussed the cash flow characteristics test, which would replace the FASB's tentative characteristics of the instrument test. Under the new model, which is more closely aligned with IFRS 9, a financial asset could be measured in a category other than fair value through net income (FV-NI), depending on the business model for that asset, if its contractual terms result only in payments of principal and interest on specified dates.

Other key developments to date

- Financial assets would be classified into one of three categories – amortized cost, FV-NI or fair value through other comprehensive income (FV-OCI) – based on the financial asset's characteristics and the entity's business strategy for the financial asset.
- Changes in fair value that have been recognized in OCI would be recognized in net income (i.e., recycled) when these gains or losses are realized either through sales or settlements.
- All marketable equity securities would be measured at FV-NI. Public entities would also be required to measure nonmarketable equity securities at FV-NI. Nonpublic entities would be given a practicality exception to allow measurement of nonmarketable equity securities at cost less any other-than-temporary impairment, but would have to adjust the carrying value for both upward and downward observable price changes. Impairment would be recognized when qualitative factors indicate it is more likely than not that the fair value of the nonmarketable equity security is less than its carrying value.
- Financial liabilities meeting certain conditions would generally be measured at amortized cost, with certain exceptions that would require classification at FV-NI.
- If financial assets will be used to settle nonrecourse financial liabilities, the financial liabilities would be measured in the same way as the associated financial assets.
- An unconditional fair value option would not be provided for either financial assets or financial liabilities. However, an entity would be able to elect at recognition to apply a fair value option for both hybrid financial assets and hybrid financial liabilities to avoid bifurcation and separate accounting for an embedded derivative feature. Additionally, groups of financial assets and financial liabilities may be measured at fair value with changes in fair value recognized in net income if the entity (1) manages the net exposure relating to those financial assets and financial liabilities (which may be derivative instruments) and (2) provides information on that basis to the reporting entity's management.

- Financial instruments that will be subsequently measured at FV-NI would initially be measured at fair value. Financial instruments that will be subsequently measured at amortized cost or FV-OCI would initially be measured at transaction price. Investment companies would continue to initially measure financial instruments at transaction price.
- The Board decided to retain bifurcation and separate accounting of embedded derivative features for all hybrid financial instruments, consistent with current requirements. For issuers, convertible debt instruments that currently are accounted for as a single instrument would continue to be measured at amortized cost in their entirety.
- Equity method investments would be measured at FV-NI if the investment is held for sale. That determination would be made based on certain criteria upon initial qualification for the equity method of accounting and could not subsequently be changed. All other equity method investments not held for sale would be accounted for under existing US GAAP.
- Loan commitments, revolving lines of credit and standby letters of credit would be measured at FV-NI when the business strategy for the underlying loans, when issued, is to hold them for sale. In other circumstances, measurement would be at amortized cost, with any fees recognized in accordance with existing guidance.
- Reclassifications between categories would not be permitted, even when there is a change in business strategy. Also, financial assets that qualify for the amortized cost category but are subsequently identified for sale should continue to be classified and measured at amortized cost (less impairment), and those sales would not "taint" the remaining financial assets classified that way.
- Expanded disclosures would be required about liquidity risk (for all companies) and interest rate risk (for financial institutions only).

What's next

The Boards will discuss the need and basis for bifurcation of financial assets, the appropriateness of a category for debt instruments measured at FV-OCI and any related issues. We expect the FASB to fully re-expose the model, most likely in the second half of 2012.

The FASB is separately considering liquidity and interest rate risk disclosures related to financial instruments and expects to issue an exposure draft in the second quarter of 2012.

Summary and observations — impairment

Background

The Boards initially proposed different impairment models, but are now developing a joint approach to credit impairment based on variations of their previous proposals. Under the joint approach, financial assets that are debt instruments would be split into three buckets based on their underlying credit risk characteristics and the unit of evaluation.

Q1 2012

- Financial assets initially classified in Bucket 1 (i.e., all originated loans and purchased financial assets with no explicit evidence of credit deterioration) that are transferred to Bucket 2 or 3 would move back into Bucket 1 if the criteria requiring transfer out of Bucket 1 are no longer satisfied.
- Purchased financial assets with explicit evidence of credit deterioration would follow a modified three-bucket approach. These assets would be captured in Bucket 2 or 3 without an initial impairment loss and are not eligible to move into Bucket 1, regardless of any credit improvement. The purchase price would accrete to the expected cash flows using the credit adjusted effective interest rate at the time of purchase. Favorable and unfavorable changes in expected cash flows would be recognized immediately in net income as adjustments to impairment expense.
- For trade receivables with a significant financing component, companies could make a policy election to either (1) fully apply the three-bucket model or (2) use a simpler approach that would require initial and subsequent classification of the receivables in Bucket 2 or 3.

Other key developments to date

- The three-bucket approach is intended to reflect the general pattern of the deterioration in the credit quality of financial assets.
    - All financial assets (except for purchased assets with an explicit expectation of credit losses at acquisition) would initially be included in Bucket 1, regardless of credit quality. The allowance for financial assets in Bucket 1 would capture losses expected in the next 12 months (e.g., 12-month probability of default multiplied by the loss given default). The expected losses refer to shortfalls in all cash flows related to loss events expected over the next 12 months, not simply the cash shortfalls expected in the next 12 months.

- Assets would move into Bucket 2 or 3 when (1) there has been a "more than insignificant" deterioration in credit quality and (2) it is at least "reasonably possible" based on the likelihood of default that the contractual cash flows may not be recoverable.
- For items in Bucket 2 or 3, the allowance would capture lifetime expected losses, but the unit of evaluation would differ. Financial assets evaluated on a group basis would be in Bucket 2, while items evaluated on an individual basis would be in Bucket 3.

- In measuring impairment based on expected losses, entities would use the best available and supportable information at the date of estimation (historical, current and forecasted).

What's next

The Boards will consider how to apply the approach to lease receivables, commitments and trade receivables that do not have a significant financing component. The Boards will also discuss appropriate methods for estimating expected values, the definition of purchased credit impaired assets, and presentation and disclosure requirements. The Boards plan to expose this approach in the second half of 2012.

Summary and observations — hedging

The Financial Instruments project timeline above does not reflect timing for the project's hedging phase. The FASB has not started redeliberations on its hedging model.

Background

Although the hedging project is intended to be a joint project, the two Boards have issued separately developed exposure drafts. The FASB's proposal would simplify hedge accounting while leaving the basic framework intact, including what constitutes eligible hedge relationships. The IASB completely revamped its hedging model to better align the accounting for hedging activities with an entity's risk management practices and to simplify certain aspects of hedge accounting.

Key developments to date

- The FASB and the IASB separately exposed their hedging models in 2010. In a February 2011 Discussion Paper (DP), the FASB sought feedback from its constituents on the IASB's model. The FASB is expected to consider this feedback in its redeliberations.
- The IASB has largely concluded redeliberations of its general hedging model and is preparing to finalize a standard. The IASB is working on its macro hedging project and intends to issue a discussion paper or an exposure draft in the second half of 2012.

What's next

We expect the FASB to begin redeliberations later in 2012. The IASB plans to post a review draft of its final standard on its website for at least 90 days.

Revenue recognition

Q2 2010 Exposure draft → **Q4 2011** Exposure draft → **Q2 2012** Roundtables

Background

Both Boards want to develop a single, common revenue recognition model that can be applied to a wide range of industries and transactions. US GAAP has been criticized for complexity in the revenue recognition area, while IFRS is perceived as lacking necessary application guidance. Under the joint proposal the Boards exposed in November 2011, revenue would be recognized when an entity satisfies its obligations to customers, which occurs when control of the good or service is transferred to the customer.

Other references

- To the Point, Surprises lurk in the proposed revenue recognition model (SCORE No. BB2245)
- Technical Line, Double-exposure: The revised revenue recognition proposal (SCORE No. BB2231)[1]
- Practical matters for the c-suite, Revenue recognition project: second time's a charm? (SCORE No. BB2244)
- To the Point, A new proposal for revenue recognition (SCORE No. BB2210)

Summary and observations

Q1 2012

- The comment period on the Boards' revised joint revenue recognition proposal ended on 13 March 2012. More than 300 comment letters were submitted. The Boards engaged in extensive industry outreach efforts during the comment period.

Other key developments to date

- The proposal would apply to most contracts with customers. Leases, insurance contracts, financial instruments, guarantees and certain nonmonetary transactions would be excluded from the scope.
- Certain aspects of the proposal would result in a significant change from current practice, including:
  - An entity would account for promised goods or services separately if they are distinct. The determination of distinct would consider both the individual goods and services promised as well as how those goods and services are bundled in the arrangement. An entity would account for a bundle of goods and services as one performance obligation if the goods and services are highly interrelated and transferring them requires significant integration and modification by the entity.
  - Variable consideration would be estimated based on a probability weighting or the amount most likely to be received, whichever best predicts the amount to be received. Variable consideration would be allocated to performance obligations, but the entity would recognize as revenue only the amounts to which it is reasonably assured to be entitled.
  - A performance obligation would be satisfied continuously if (1) the entity's performance creates or enhances an asset that the customer controls as the asset is being created or (2) the entity's performance does not create an asset with alternative use to the entity and certain criteria are met.
  - The scope of the onerous performance obligation test would be limited to performance obligations satisfied over a period greater than one year (determined at contract inception). Any loss and corresponding liability would be measured using the lesser of the cost to fully satisfy the performance obligation or the cost to exit the contract.
  - Allowances for uncollectible amounts would be presented as a separate line item adjacent to revenue in the statement of operations. Changes in estimated or actual collections would be recognized in the same line item adjacent to revenue.
  - For contracts longer than one year, an entity would recognize the incremental costs of obtaining a contract as an asset (capitalization would be permitted but not required for contracts with a duration of less than one year). The costs incurred in fulfilling a contract (e.g., direct costs) would also be capitalized. Such costs would be recognized in the statement of operations consistent with the pattern of transfer of the related good or service.
  - All entities would apply the standard retrospectively, although some practical relief from full retrospective application would be permitted with appropriate disclosures. A final standard would not be effective before 1 January 2015.

What's next

The Boards will continue outreach efforts in roundtable meetings in April and May 2012. Redeliberations are expected to begin in June 2012.

[1] A number of industry supplements to this Technical Line are available.

Leases

Q3 2010 Exposure draft	Q4 2010/Q1 2011 Roundtables	Q3-Q4 2012 Exposure draft

Background

Although current requirements under US GAAP and IFRS are similar, the Boards consider this a priority project because they believe significant improvement in the accounting for leases is needed.

The joint FASB and IASB proposal would create a single lessee model that would apply to most leases and would require the recognition of lease-related assets and liabilities on the balance sheet. The proposal would also address accounting by lessors. The proposal would require entities to make a number of estimates and periodically reassess those estimates in accounting for leases. The guidance would affect existing leases at transition.

Other references

- To the Point, Boards weighing effects of putting leases on the balance sheet (SCORE No. BB2309)
- To the Point, Operating lease accounting survives for some real estate lessors (SCORE No. BB2198)
- Practical matters for the c-suite, Lease accounting proposals: simplified, but not simple (SCORE No. BB2169)
- Technical Line, Lessee model comes together as leases project progresses (SCORE No. BB2156)

Summary and observations

Q1 2012

- In response to concerns raised by constituents, the Boards began considering ways to mitigate the "front loading" of expense recognition for some leases.

Other key developments to date

- The Boards decided that they will re-expose the standard because they have made significant changes to the model they proposed in 2010.
- The Boards clarified the key concepts underlying the definition of a lease to align control concepts with other standards. These changes could exclude from the scope of the proposal certain contracts that are currently accounted for as leases.
- Lessees would be required to recognize all leases (other than short-term leases) on the balance sheet.
- For leases other than leases of investment property and short-term leases, lessors would recognize a lease receivable, a residual asset and any profit or loss at the commencement of each lease. Over the term of the lease, the lessor would recognize income related to interest on the receivable and accretion of the residual asset.
- Certain lessors of investment property would qualify as investment property entities and apply specialized accounting under a separate proposal. All other lessors would account for their leases of investment property as operating leases.
- Both lessees and lessors could apply current operating lease accounting to short-term leases.
- The lease term for accounting purposes would include optional periods only when there is a significant economic incentive for the lessee to extend or not terminate the lease (e.g., renewal rates priced at a bargain).
- Variable lease payments based on performance or usage would not be included in the amounts recognized on the balance sheet. Instead, they would be recognized as expenses or income when they are incurred or accrued.
- Reassessment of certain key considerations (e.g., lease term, variable lease payments that depend on an index or rate) would be required throughout the life of the lease. The reassessment requirements would vary, as would the offset recorded when the liability to make lease payments or lease receivable is adjusted.
- All non-lease components (including services and executory costs) of contracts containing both lease and non-lease components would be separated from the lease components, except in limited circumstances.
- No unique criteria would exist for sale-leasebacks. The determination of whether sale-leaseback transactions are accounted for as a sale and a lease, or as a financing transaction, would be based on revenue recognition guidance.
- In transition, lessees and lessors could follow either a full retrospective approach or a modified retrospective approach (i.e., an approach that allows certain types of relief that the Boards designed to reduce transition costs).

What's next

The Boards will perform outreach and research on alternative methods to determine the pattern of lessee expense recognition and consider making changes to the lessor model to achieve consistency with the lessee model.

Insurance contracts

Q3 2010 Discussion paper	Q4 2010 Roundtables	Q3-Q4 2012 Exposure draft

Background

The FASB's DP solicited input on its preliminary views and the IASB's proposal for a comprehensive model on the accounting for insurance contracts. The proposals are far-reaching and would have a significant effect on insurers.

Other references

- Insurance Accounting Alert, Boards make decisions on the premium allocation approach (SCORE No. AU1133)
- Insurance Accounting Alert, IASB decides to consider limited improvements to IFRS 9; Boards discuss unbundling (SCORE No. AU1022)
- Insurance Accounting Alert, Boards remain split on the approach to margins (SCORE No. AU0863)
- Insurance Accounting Alert, IASB and FASB make further progress (SCORE No. AU0811)
- Practical matters for the c-suite, Insurance contracts: profound changes for accounting and the business (SCORE No. BB2011)
- Insurance Accounting Alert, FASB provides preliminary views on insurance accounting (SCORE No. BB2008)

Summary and observations

Q1 2012

- The Boards agreed to eligibility criteria for the premium allocation approach (PAA). If the criteria are met, the IASB would permit the use of the PAA and the FASB would require it.
- The FASB reaffirmed that only direct acquisition costs related to successful efforts would be included; the IASB would continue to include direct acquisition costs associated with both successful and unsuccessful efforts. The Boards agreed that for contracts with a coverage period of one year or less, all acquisition costs may be expensed as incurred.
- Cash flow estimates for the building-block approach (BBA) and onerous contracts test under the PAA should be updated for infrequent, high-severity events as of the balance sheet date.
- The FASB would not include investment contracts with discretionary participation features in the scope of its proposal. The IASB would include those investment contracts written by insurers.

Other key developments to date

- The standard would not prescribe a particular method for determining the discount rate, but the rate should reflect the characteristics of the liability and should be a current rate that is updated each reporting period. To the extent that cash flows depend (wholly or partly) on the performance of specific assets, the insurer should adjust those cash flows using a discount rate that reflects that dependence.
- The FASB decided that the measurement of an insurance contract liability should include a single margin. The IASB decided that the measurement model should contain an explicit risk adjustment and residual margin. The Boards plan to evaluate how the difference in approach might be addressed through disclosures. The IASB's residual margin would be adjusted (i.e., unlocked) on a prospective basis for changes in estimates of cash flows, and would be amortized over the coverage period.
- The FASB decided that under the BBA, an insurer should recognize the single margin in income as it is released from risk, the determination of which would depend on the nature of the uncertainty in the cash flows. Also, under the PAA, the claims liability should be measured as the discounted unbiased cash flows without a single margin. A practical expedient would permit insurers not to discount certain incurred claims under the PAA.
- Under the PAA, a portfolio of insurance contracts would be onerous if the present value of the future cash outflows from those contracts (plus, for the IASB, the risk adjustment) exceeds the present value of the future cash inflows in the pre-coverage period or the carrying amount of the liability for the remaining coverage.
- Fulfillment cash flows relating to policyholder participation features should be measured on the same basis as the underlying items in which the policyholder participates.
- Fixed-fee service contracts would be excluded from the insurance contracts model when certain criteria are met.
- The Boards continue to believe that certain portions of insurance contracts should be unbundled and will decide on the specific criteria at a later date.

What's next

The FASB plans to continue redeliberating jointly with the IASB in the coming months. The FASB plans to issue an exposure draft in the second half of 2012. The IASB will issue either a review draft or exposure draft.

Consolidation

Q4 2010	Q4 2011	Q3-Q4 2012
Roundtables	Exposure draft	Final

Background

The FASB's proposal would affect all reporting entities, particularly those in the asset management industry, and would rescind the current FAS 167 deferral for certain investment companies. The FASB had previously worked with the IASB on a single consolidation model, but the FASB disagreed with the application of certain principles (e.g., potential voting rights and de facto control) in the IASB's model. Instead, the FASB decided to make targeted revisions to the two consolidation models in US GAAP to more closely align the models with IFRS. The IASB issued its single consolidation model (IFRS 10) in May 2011.

Other references

- Practical matters for the c-suite, To consolidate or not to consolidate – that is the question (SCORE No. BB2308)
- Technical Line, Consolidation and investment company accounting could change (SCORE No. BB2228)
- To the Point, Consolidation models may move closer together (SCORE No. BB2209)
- To the Point, Key differences between IASB's new consolidation guidance and US GAAP (SCORE No. BB2133)

Summary and observations

Q1 2012

- The comment period for the FASB's proposal ended 15 February 2012.

Other key developments to date

- A decision maker (e.g., asset manager, general partner) of a variable interest entity (VIE) or voting partnership would be required to evaluate three factors to determine whether it is using its power as a principal or as an agent. A decision maker that acts as a principal is deemed to have a controlling financial interest, and would therefore consolidate the entities it controls. A decision maker that acts as an agent on behalf of and for the benefit of another party or parties generally does not have a controlling financial interest in the entity.
- The deferral of consolidation guidance in FAS 167 for certain investment funds would be rescinded.
- One of the criteria that a decision maker or service provider must meet (under FAS 167 and previously under FIN 46(R)) to conclude that its fees do not represent a variable interest would be removed. A decision maker or service provider would no longer assess whether its fees are at or above the same level of seniority as other operating liabilities of the entity. Consequently, a fee arrangement could be subordinate to other operating liabilities of the entity and not represent a variable interest.
- The Voting Model's consideration of removal and participating rights would be more closely aligned with the Variable Interest Model. For example, in both models, if a single party (including related parties) holds substantive rights to remove the decision maker without cause, the decision maker would be an agent. However, if multiple parties (including a board of directors) must come together to remove the decision maker, the removal rights would not be determinative. In that case, as the number of parties required to come together to exercise the removal rights increases, the likelihood that those rights would be deemed substantive decreases.
  - This could result in a change in practice for some general partners that currently do not consolidate limited partnerships (or similar entities) as a result of substantive removal or participating rights held by limited partners.

What's next

The FASB intends to issue a final standard during the second half of 2012.

Investment companies

Q4 2011 Exposure draft → **Q1 2012** Roundtables

Background

The Boards recently issued proposals to define an investment company and to provide accounting guidance for an investment company's investments. The concept of an investment company is new to IFRS. The FASB also has a separate proposal to define an investment property entity (a new term) and how it accounts for investments.

Other references

- Practical matters for the c-suite, Time for real estate entities to prepare for fair value? (SCORE No. BB2266)
- Technical Line, Consolidation and investment company accounting could change (SCORE No. BB2228)
- Technical Line, New investment property guidance may be in store for real estate entities (SCORE No. BB2225)
- To the Point, Redefining investment companies and how they account for investments (SCORE No. BB2201)
- To the Point, Real estate investment properties could be moving to fair value (SCORE No. BB2200)

Summary and observations

Q1 2012

- The comment periods for the FASB's investment companies and investment property entities proposals ended 15 February 2012.
- The FASB and IASB held joint roundtables in February and March 2012 to discuss their proposals.

Other key developments to date

- The IASB issued its proposed amendments to IFRS for investment companies in August 2011; the FASB issued its investment companies proposal in October 2011. While the definitions of an investment company in US GAAP and IFRS would largely converge, differences in accounting and reporting would remain. The IASB's proposal would require an investment company to account for all of its investments at fair value and generally would prohibit consolidation of another investment company. Under the FASB's proposal:
  - Entities registered under the Investment Company Act of 1940 would automatically qualify as an investment company. All other entities would be required to meet six criteria to be an investment company. As a result, an entity that qualifies as an investment company today may no longer qualify under the proposal. For example, certain entities with a single investor or a single investment may not meet the "pooling of funds" or "nature of investment activities" criteria, respectively.
  - The proposal would eliminate the current scope exception for real estate investment trusts (REITs). However, an entity that invests in real estate (e.g., a REIT or real estate opportunity fund) would first evaluate whether it qualifies (under a separate FASB proposal) as an investment property entity (IPE). If the entity meets the definition of an IPE, it would be in the scope of that guidance and would not be in the scope of the investment company guidance. If not, an entity would evaluate whether it is an investment company.
  - Consistent with current US GAAP, an investment company would be required to account for its investments in non-investment companies at fair value. In a change from current US GAAP, an investment company would be required to consolidate another investment company or IPE that it controls. For example, a fund of funds would be required to consolidate controlled funds that are investment companies. As a result, an investment company that consolidates another investment company may have to present noncontrolling interests in its consolidated financial statements.
  - In consolidation, investment company and non-investment company parents would retain their investment company subsidiary's fair value accounting for the underlying investments.
  - New disclosures would be required, including changes to the presentation of financial highlights.

What's next

The Boards plan to consider the feedback they received at the roundtable sessions and through other outreach efforts during their redeliberations.

Projects completed in 2011

Disclosures about offsetting assets and liabilities

New guidance issued in December 2011

- FASB: ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*
- IASB: Amendments to IFRS 7, *Financial Instruments: Disclosures* and IAS 32, *Financial Instruments: Presentation*

Other references

- To the Point, Offsetting of financial instruments — new disclosures (SCORE No. BB2252)

Presentation of comprehensive income

New guidance issued in June and December 2011

- FASB: ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*
- FASB: ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*
- IASB: Amendments to IAS 1, *Presentation of Financial Statements*

Other references

- Technical Line, Changes in reporting comprehensive income (SCORE No. BB2310)
- To the Point, Reclassifications are deferred — for now (SCORE No. BB2251)
- To the Point, Other comprehensive income is moving (SCORE No. BB2146)

Fair value

New guidance issued in May 2011

- FASB: ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*
- IASB: IFRS 13, *Fair Value Measurement*

Other references

- Technical Line, Fair value measurement: a closer look at the converged guidance (SCORE No. BB2147)
- To the Point, Fair value measurement guidance converges (SCORE No. BB2130)

Inactive joint projects

Reporting discontinued operations

Background

The Boards set out to align their definitions of discontinued operations and related disclosures.

Key developments to date

- Discontinued operations would continue to be presented in a separate section on the face of an entity's financial statements.
- A discontinued operation would be defined as a component that either has been disposed of, or is classified as held for sale, and meets any of the following criteria:
  - Represents a separate major line of business or major geographical area of operations
  - Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
  - Is a business that meets the criteria to be classified as held for sale on acquisition
- Certain requirements in existing US GAAP for discontinued operations classification (i.e., elimination of operations and cash flows of the component and prohibition of significant continuing involvement in the operations of the component) would be eliminated.

Emissions trading schemes

Background

The Boards have acknowledged that this area is becoming more important as more countries adopt allocation and trading systems to control emissions.

Key developments to date

- Purchased and allocated emissions allowances would be recognized as assets. The allocation of allowances would be recognized as a liability.
- Purchased and allocated allowances, as well as the liability for allocation of allowances, would be initially and subsequently measured at fair value.

Financial statement presentation

Background

The proposed model would significantly change the way that entities present their financial position, performance and cash flows. It would also require more disaggregation of information within the primary financial statements.

Key developments to date

- The FASB and the IASB staffs provided the Boards with the results of outreach activities related to the July 2010 Staff Draft on financial statement presentation.
- No decisions were made about technical aspects of the project. However, the information provided by the staffs suggests that they may ask the Boards to reconsider several key aspects of the Staff Draft before issuing an ED.

Financial instruments with characteristics of equity

Background

The project to distinguish equity instruments from those that are assets or liabilities responds to criticism of both US GAAP and IFRS requirements. The existing guidance is complex and inconsistent.

What's next

The above joint projects were reassessed as lower-priority projects. Further action is not expected in the near term.

Joint projects timeline

Active projects		2010 – 2011 (highlights of prior activity)	Q1 2012	Q2 2012	Q3 – Q4 2012
Financial Instruments					
Classification and measurement	FASB	ED[1]		ED[2]	ED[3]
	IASB	Final[4]			ED[5]
Impairment	FASB	ED[1]; SD			ED[3]
	IASB	SD			ED
Hedging	FASB	ED[1]; DP			
	IASB	ED		Review draft	Final[6]
Revenue Recognition	FASB	ED; ED		RT	
	IASB	ED; ED		RT	
Leases	FASB	ED			ED
	IASB	ED			ED
Insurance Contracts	FASB	DP			ED
	IASB	ED			ED[7]
Consolidation	FASB	ED			Final
	IASB	Final[8]			
Investment Companies	FASB	ED	RT		
	IASB	ED	RT		

ED — Exposure draft RT — Roundtable SD — Supplementary document DP — Discussion paper

1 The FASB issued a single comprehensive proposal on all three phases of this project.
2 The FASB is separately considering liquidity and interest rate risk disclosures related to financial instruments and expects to issue an ED in Q2 2012.
3 The FASB will at a minimum expose the proposed amendments to the Codification, and may decide to fully re-expose the model, most likely in the second half of 2012.
4 The IASB's final IFRS on classification and measurement for liabilities. In 2011, the IASB deferred the mandatory effective date of IFRS 9.
5 The IASB's project is to undertake limited scope changes to IFRS 9.
6 The IASB expects to issue a separate ED or DP on macro hedge accounting in the second half of 2012.
7 The IASB will issue an ED or review draft.
8 In 2011, the IASB issued an ED to clarify the transition guidance in IFRS 10. Final amendments are expected in Q2 2012.
9 In 2011, the FASB deferred certain presentation requirements of ASU 2011-05.

Note: Our timeline for some FASB projects is based on discussions with staff and may differ from the technical plan on the FASB website.

Recently completed projects

- Balance Sheet — Offsetting
- Statement of Comprehensive Income[9]
- Fair Value Measurement

Inactive projects

- Financial Statement Presentation
- Reporting Discontinued Operations
- Financial Instruments with Characteristics of Equity
- Emissions Trading Schemes

Ernst & Young

Assurance | Tax | Transactions | Advisory

Item	13c
Topic	Receive financial report from ERCOT’s independent auditor
Presenter	Rebecca Beckham
Purpose	Review and vote to recommend board acceptance of 2011 audited financial statements

Acceptance of 2011 Audited Financial Statements

- Section 10.6 of the ERCOT Bylaws provides that “[a]t least annually, an audit of the financial statements of ERCOT shall be performed by the Auditor approved by the Board.”

- Section 1.4.2 of the ERCOT Protocols provides that “for audits to be performed by an Appointed Firm, the F&A Committee shall make recommendations to the ERCOT Board in relation to the approval, initiation, and scheduling of such audits.”

- Included in the F&A Committee Charter, “the Committee shall provide a recommendation to the Board whether the Company’s financial statements audit report should be accepted.”

- Along with the preliminary audited financial statements and associated footnotes, a decision template on the acceptance of the 2011 Audited Financial Statements is included in the Board packet and will be voted on in the April 17, 2012 meeting.

Item	14
Topic	Future agenda items
Presenter	Mike Petterson
Purpose	Discuss future agenda items

ERCOT
Finance and Audit Committee
2012 Annual Meeting Planner and Future Agenda Items

	Task Description	Charter Page #	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		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												
8	Receive periodic report on Credit Work Group activity	na				A								
9	Approve Credit Work Group Charter	na		A		A								
10	Appoint Credit Work Group Chair and Vice Chair	na		A										
11	Commodity Exchange Act exemption	na	------------ Consider at full Board meetings ------------											
12	Review risk policies and risk management practices	6		A		A								
13	Undertake annual self-evaluation	8												
14	Periodic meeting with senior management	6		A										
15	Review and approve internal audit charter	6		A										
16	Periodic meeting with Chief Audit Executive	6 & 7		A		A								
17	Review internal audit reports	6		A		A								
18	Review Ethics Point issues	na		A		A								
19	Review effectiveness of internal audit functions	6		A										
20	Review and approve annual internal audit plan	6												
21	Review performance of the Chief Audit Executive	7												
22	Recommend selection of independent auditor	4		A										
23	Receive independence report from independent auditor	4												
24	Periodic meeting with independent auditor	5				A								
25	Discuss audited financial statements	5				A								
26	Review and accept financial statement audit	5				A								
27	Review and recommend proposed budget	3				A								
28	Review and recommend debt structure	3		A		A								
29	Review IRS Form 990	na		A										
30	Review and accept 401(k) audit report	5												
31	Review and accept SSAE 16 audit report	5												
32	Review Committee briefs	na		A		A								
33	Quarterly Committee education on accounting developments	5				A								
34	Review financial institutions - market participants	6				A								
35	~~Receive periodic Potential Future Exposure report~~	na		A										
36	Preapprove non-audit services	4				A								
37	Review any report by independent auditor	4	Performed on as-needed basis											
38	Review effect of regulatory accounting initiatives	5	Performed on as-needed basis											
39	Review complaints regarding financial statements	5	Performed on as-needed basis											
40	Review press stories regarding financial statements	5	Performed on as-needed basis											
41	Periodic meeting with 401(k) auditor	na	Performed on as-needed basis											
42	Periodic meeting with SSAE 16 auditor	na	Performed on as-needed basis											

Item	15
Topic	Other business
Presenter	Mike Petterson
Purpose	Discuss other business

Convene to Executive Session

Item	20
Topic	Vote on matters from Executive Session
Presenter	Clifton Karnei
Purpose	Vote