Finance & Audit Committee Meeting General Session June 18, 2012

ERCOT PUBLIC

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Item	1
Topic	Call open session to order and announce proxies and segment alternates
Presenter	Jorge Bermudez
Purpose	Discussion

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Item	2
Topic	Approve April 16, 2012 general session minutes
Presenter	Jorge Bermudez
Purpose	Vote to approve April 16, 2012 general session meeting minutes

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
April 16, 2012; 1:00 p.m.-5:00 p.m.

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
Fehrenbach, Nick	City of Dallas	Commercial Consumer
Hendrick, Eric	Stream Energy	Independent Retail Electric Provider (REP)
Karnei, Clifton (Chairman)	Brazos Electric Power Cooperative, Inc.	Cooperative; Proxy for Jorge Bermudez (Vice Chairman)
Prochazka, Scott	CenterPoint Energy Houston Electric, LLC	Investor Owned Utility
Walsh, Judy	Unaffiliated	Unaffiliated Director

Guest Board Members and Segment Alternates:

Director	Affiliation	Segment
Anderson, Kenneth	Public Utility Commission of Texas (PUCT or Commission)	Commissioner *(Except for Agenda Items 1-4)*
Bowling, Shannon	Cirro Group	Independent REP Segment Alternate
Nelson, Donna	PUCT	Chairman *(Except for Agenda Items 1-13a)*

Other Guests:

Beckham, Rebecca	ERCOT Manager of Accounting
Day, Betty	ERCOT Vice President of Business Integration
Gunn, Philip	Ernst & Young, LLP Partner
Leady, Vickie	ERCOT Assistant General Counsel and Assistant Corporate Secretary
Nikazm, Tamila	Austin Energy, Credit Work Group Chair
Petterson, Michael	ERCOT Vice President of Finance and Treasury
Ruane, Mark	ERCOT Vice President of Credit and Enterprise Risk Management
Sisson, Taylor	Ernst & Young, LLP Senior Manager

Wiley, Leslie	ERCOT Manager of Treasury
Wolff, Freddy	ERCOT Manager Budget and Financial Analysis
Wullenjohn, Bill	ERCOT Director of Internal Audit

Call Open Session to Order and Announce Proxies (Agenda Item 1)

Chairman Clifton Karnei determined that a quorum was present and called the meeting to order at approximately 1:01 p.m. Chairman Karnei announced that he held the proxy for Jorge Bermudez and that Barbara Clemenhagen, Independent Generator Segment Alternate, might be serving in Kevin Gresham's absence. Chairman Karnei addressed the following Agenda Items in the order below.

Approve February 20, 2012 General Session Minutes (Agenda Item 2)

Chairman Karnei entertained a motion to approve the February 20, 2012 F&A Committee General Session Meeting minutes (Minutes).

Eric Hendrick moved to approve the Minutes as presented. Scott Prochazka seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Review and Recommend Board Approval of Revisions to ERCOT's Surety Bond Standard Form (Agenda Item 3)

Vickie Leady, ERCOT Assistant General Counsel and Assistant Corporate Secretary, presented the recommended changes to ERCOT's Surety Bond Standard Form. Ms. Leady and Mark Ruane, ERCOT Vice President of Credit and Enterprise Risk Management, responded to questions from Chairman Karnei.

Judy Walsh moved to recommend the proposed revisions to ERCOT's Surety Bond Standard Form as presented to the Board for approval. Mr. Hendrick seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Review Debt Structure Recommended by Management (Agenda Item 4)

Leslie Wiley, ERCOT Manager of Treasury, presented the debt structure plan recommended by ERCOT management. Chairman Karnei noted that this topic would be discussed in further detail with the Committee members during the Executive Session of the meeting.

Review Management's Recommended 2013 Budget (Agenda Item 5)

Freddy Wolff, ERCOT Manager of Budget and Financial Analysis, presented the 2013 Budget recommended by ERCOT management. Michael Petterson, ERCOT Vice President of Finance and Treasury, Mr. Wolff and Mr. Ruane responded to questions and comments from Committee members. After requesting the Committee members' feedback, Chairman Karnei noted the Committee's concurrence with ERCOT management's recommended 2013 Budget. He added that ERCOT staff would be seeking the Committee's recommendation for Board approval of the recommended 2013 Budget in June or July 2012.

Later in the meeting, Mr. Petterson commended his staff for their dedicated efforts on the 2013 Budget and recognized the following ERCOT Finance staff: Gina Gilmore, Senior Financial Analyst; Valerie Ross, Senior Financial Analyst; Misti Spacek, Senior Financial Analyst; and Erica Rose, Financial Analyst.

Review Adequacy of and Recommend Board Approval of the Finance and Audit Committee Charter (Agenda Item 6)

In connection with the Committee's annual review of the Finance and Audit Committee Charter (Committee Charter), Chairman Karnei noted that ERCOT management recommended no changes to the Committee Charter.

Nick Fehrenbach moved to recommend the Committee Charter as presented to the Board for approval. Mr. Prochazka seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Review Adequacy of Credit Work Group Charter (Agenda Item 7)

Mr. Ruane presented the proposed modifications to the Credit Work Group (CWG) Charter, which were approved by the CWG, to the Committee members.

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

Receive Periodic Report on Credit Work Group Activity (Agenda Item 8)

Tamila Nikazm, CWG Chair, provided an update on recent completed and ongoing CWG activity. There were no questions or comments from Committee members.

Review and Recommend Board Approval of the Financial Corporate Standard (Agenda Item 9)

Ms. Wiley presented the proposed Financial Corporate Standard which addressed the Committee members' suggested changes provided at the February 20, 2012 F&A Committee meeting. Ms. Wiley and Mr. Petterson responded to questions and comments from Committee members.

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

Review and Recommend Board Approval of the Investment Corporate Standard (Agenda Item 10)

Ms. Wiley presented the proposed Investment Corporate Standard which addressed the Committee members' suggested changes provided at the February 20, 2012 F&A Committee meeting. Ms. Wiley responded to questions and comments from Committee members and PUCT Commissioner Kenneth Anderson.

Ms. Walsh moved to recommend the Investment Corporate Standard as presented to the Board for approval. Mr. Hendrick seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Authorize Engagement of the Independent Auditor to Perform Non-Audit Services (Agenda Item 11)

Rebecca Beckham, ERCOT Manager of Accounting, reviewed the Committee Charter provisions and provided an update on the proposed engagement services of the independent auditor, Ernst &

Young, LLP, to perform up to $10,000 in non-audit, advisory services in connection with the review of ERCOT's 2011 Internal Revenue Service (IRS) Form 990.

Mr. Hendrick moved to authorize and approve the engagement of the independent auditor, Ernst & Young, to perform up to $10,000 in non-audit, advisory services in connection with the review of ERCOT's 2011 IRS Form 990. Mr. Prochazka seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Review Committee Briefs (Agenda Item 12)
Mr. Petterson reviewed the Committee Briefs with the Committee members.

Receive Periodic Report from ERCOT's Independent Auditor – Discuss Audited Financial Statements (Agenda Items 13 and 13a)
Ms. Beckham introduced Philip Gunn and Taylor Sisson of Ernst & Young, LLP. Mr. Gunn and Mr. Sisson reviewed the materials related to ERCOT's 2011 Audited Financial Statements and indicated that Ernst and Young was prepared to issue an unqualified opinion on such Financial Statements. In connection with such audit and in response to Mr. Sisson's inquiry whether the Committee was aware of any fraud or illegal acts of which Ernst & Young may not be aware, Chairman Karnei inquired whether the Committee members were aware of any such acts and there was no response from any of the Committee members. Mr. Gunn and Ms. Beckham responded to questions and comments from Committee members.

Receive Education on Accounting Developments (Agenda Item 13b)
Mr. Gunn reviewed materials related to recent accounting developments with the Committee members and responded to questions and comments from Committee members.

Donna Nelson, PUCT Chairman, joined the meeting and called an Open Meeting of the Commission to order to consider matters which had been duly posted with the Texas Secretary of State for April 16, 2012.

Review and Recommend Board Acceptance of 2011 Audited Financial Statements (Agenda Item 13c)
Chairman Karnei entertained a motion to recommend Board acceptance of ERCOT's 2011 audited financial statements with some minor, nonsubstantive language changes and completion of the date for the subsequent events footnote as discussed during the meeting.

Mr. Fehrenbach moved to recommend ERCOT's 2011 audited financial statements, with some minor, non-substantive language changes and completion of the date for the subsequent events footnote as discussed during the meeting, to the Board for acceptance. Mr. Hendrick seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Future Agenda Items (Agenda Item 14)
Mr. Petterson reviewed the 2012 Annual Meeting Planner with the Committee members. No Future Agenda Items were proposed by Committee members at this time.

Other Business (Agenda Item 15)
No other business was considered at this time.

Executive Session (Agenda Items 16-19)
Chairman Karnei adjourned the meeting into Executive Session at approximately 2:23 p.m. and reconvened Open Session at approximately 3:06 p.m.

Vote on Matters from Executive Session (Agenda Item 20)
Chairman Karnei entertained a motion on two matters as discussed during Executive Session.

Mr. Hendrick moved to recommend the two Contract matters related to ERCOT's debt restructuring plan (noted in the Board Executive Session meeting materials as Agenda Items 27a and 27b) to the Board for approval. Mr. Prochazka seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Adjournment
Chairman Karnei adjourned the meeting at approximately 3:08 p.m.

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

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Vickie G. Leady
Assistant Corporate Secretary

Item	3
Topic	Review and recommend board approval of Management's recommended 2013 Budget
Presenter	Freddy Wolff
Purpose	Vote to recommend board approval of recommended 2013 Budget

- **Seeking Recommendation to the Board of Directors to Approve the ERCOT 2013 Budget**

- **Debt Restructuring Plan has been Approved by the PUCT**

- **Comprehensive 2013 Budget Presentation is Provided in the Board of Director Materials**

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	16,570.0	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	18,897.7	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	161,679.7	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	2012 Projected Carry Forward	-	-	4,800.0	-	-	-	-	-
30	Subtotal - Revenue Sources	158,694.3	168,061.3	161,679.7	162,846.0	168,938.2	174,650.3	178,150.2	181,316.0
31									
32	System Administration Fee Calculation								
33	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
34	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
35	System Administration Fee	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171
36									
37	Total Spending Authorization Computation								
38	Revenue Requirements	158,694.3	168,061.3	161,679.7	162,846.0	168,938.2	174,650.3	178,150.2	181,316.0
39	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
40	Total Spending Authorization	$ 178,108.8	$ 177,061.3	$ 170,679.7	$ 174,846.0	$ 178,938.2	$ 184,650.3	$ 188,150.2	$ 191,316.0

Proposed 2013 Budget
Adjustment from April 16th, 2012 Meeting

Line	($ Thousands)	Previous 2013 Request	Adjustment	Current 2013 Request
1	Operating expenses			
2	Labor	$ 77,165.0	$ -	$ 77,165.0
3	Hardware & Software Support & Maintenance	19,705.7	-	19,705.7
4	Utility, Maintenance, & Facilities	11,930.9	-	11,930.9
5	Outside Services	8,005.6	-	8,005.6
6	Other Expenses	4,143.6	-	4,143.6
7	Employee Expenses	1,600.5	-	1,600.5
8	Equipment & Tools	982.0	-	982.0
9	Subtotal - Operating Expenses	123,533.4	-	123,533.4
10	Debt Service Obligations			
11	Principal Payments	11,770.0	4,800.0	16,570.0
12	Interest Expense	2,327.7	-	2,327.7
13	Subtotal - Debt Service Obligations	14,097.7	4,800.0	18,897.7
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	13,248.6	-	13,248.6
19	Subtotal - Revenue Requirements	156,879.7	4,800.0	161,679.7
20				
21	Revenue Sources			
22	System Administration Fee Revenue	139,895.8	-	139,895.8
23	Reliability Organization Assessment Fee	13,248.6	-	13,248.6
24	Other Revenue	3,735.3	-	3,735.3
25	Interest Income	-	-	-
26	Extraordinary Item Revenue	-	-	-
27	2010 Carry Forward	-	-	-
28	2011 Carry Forward	-	-	-
29	2012 Projected Carry Forward	-	4,800.0	4,800.0
30	Subtotal - Revenue Sources	156,879.7	4,800.0	161,679.7
31				
32	System Administration Fee Calculation			
33	System Administration Fee Revenue	139,895.8	-	139,895.8
34	Energy Consumption (GWH)	335,401.2	-	335,401.2
35	System Administration Fee	0.4171	-	0.4171
36				
37	Total Spending Authorization Computation			
38	Revenue Requirements	156,879.7	4,800.0	161,679.7
39	Debt-Funded Project Expenditures	9,000.0	-	9,000.0
40	Total Spending Authorization	$ 165,879.7	$ 4,800.0	$ 170,679.7

Item	4
Topic	Review and accept ERCOT’s 2011Department of Energy (DOE) A-133 Grant Audit report
Presenter	Rebecca Beckham and Ernst & Young representative
Purpose	Vote to recommend board approval of ERCOT’s 2011 DOE A-133 Grant Audit report

Acceptance of A-133 audit report (Vote)

- Section 1.4.2 of the ERCOT Protocols provides that “The ERCOT Board shall have overall audit responsibility for ERCOT. The ERCOT Board may fulfill audit responsibilities itself or delegate them to the ERCOT Finance and Audit (“F&A”) Committee. The ERCOT F&A Committee shall appoint an external independent certified public accounting firm or firms (“Appointed Firm”) to conduct certain audits.”

- On February 20, 2012, the F&A Committee appointed Ernst & Young, LLP (E&Y) to perform the A-133 audit of ERCOT’s Department of Energy grant for 2011.

- Based on the audit results presented by E&Y, management recommends the acceptance of the 2011 ERCOT A-133 audit report.

- Upon acceptance and issuance of the A-133 audit report, management will work with E&Y to file the reporting package with the Federal Clearinghouse.

Electric Reliability Council of Texas, Inc. – GAS and OMB A-133 Audit

2011 audit results

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A-133 audit requirement

In 2011, ERCOT received federal funds from the following two grants from the United States Department of Energy (DOE) to provide services under CFDA 81.122 *Electricity Delivery and Energy Reliability, Research, Development and Analysis* in excess of $500,000. Accordingly, ERCOT is subject to the audit requirements of OMB Circular A-133 for 2011 related to the expenditures made with the grant proceeds.

Topic A ($2.5M for the period April 12, 2010 through April 12, 2013): ERCOT will develop an efficient, long-term transmission framework for the Texas Interconnection that is cost-effective, reliable, and facilitates the development of low-cost, environmentally friendly resources by ERCOT market participants to meet the long-term needs of Texas consumers.

Topic B ($1M for the period April 12, 2010 through April 12, 2013): The objective of this project is to enhance dialogue between policy makers, representatives of state regulatory agencies and non-governmental organizations and ERCOT regarding the long-term power needs of the ERCOT system, to guide the transmission planning studies conducted under the Topic A funding for the ERCOT interconnection, and to effectively communicate the results of planning studies so as to meet the information needs of policy makers in Texas.

Deliverables

	Finance and Audit deliverables	Status update
Opinions	We were engaged to perform a program-specific audit of the DOE Electricity Delivery and Energy Reliability, Research, Development and Analysis Program in accordance with *Government Auditing Standards* and OMB Circular A-133 and to: ► Express an opinion on the 2011 schedule of expenditures of federal awards of ERCOT ► Express an opinion on ERCOT's compliance with requirements that could have a direct and material effect on the Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program	► Obtain a letter of representations from management ► Perform fraud inquiries of finance and audit committee ► Perform final quality review procedures ► Complete subsequent events to date of report issuance ► Complete submission of the data collection form and audit report to the Federal Clearinghouse

Audit results

Key Issue/Risk Area	Results
Schedule of expenditures of federal awards/tests of compliance and internal control in accordance with OMB Circular A-133 and additional reporting requirements due to receipt of American Recovery and Reinvestment Act (ARRA) funds	▶ In our opinion, the schedule of expenditures of federal awards presents fairly in all material respects, the expenditures of federal awards under the DOE Program for the year ended December 31, 2011 in conformity with generally accepted accounting principles (unqualified opinion). ▶ In our opinion, ERCOT complied, in all material respects, with the compliance requirements that could have a direct and material effect on its DOE Program for the year ended December 31, 2011 (unqualified opinion). ▶ Based on our testing, Ernst & Young did not identify any findings of non-compliance for the DOE Program. ▶ Based on our testing, Ernst & Young did not identify any deficiencies in internal control over compliance.

Required communications

Area	Comments
Auditor's responsibilities under generally accepted auditing standards The schedule of expenditures of federal awards is 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 it is free of material misstatement. An audit of the schedule of expenditures of federal awards 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 schedule of expenditures of federal awards and on compliance with the DOE program requirements for the year ended December 31, 2011. See Appendix A. Our responsibilities are included in our audit engagement letter which was provided to management.
Representations we are requesting from management	A draft of the letter of representations was provided to management.
Government Auditing Standards Government Auditing Standards require that we submit to you our most recent external quality control review, which must be performed once every three years.	Ernst & Young's most recent Peer Review Report was provided to management and covers the year ended June 30, 2010, and indicates that the firm's quality control policies and procedures for its accounting and auditing practice, are being complied with in such a manner as to provide the firm with reasonable assurance of conforming with professional standards.
OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*	Our responsibilities under OMB Circular A-133 and Government Auditing Standards are attached at Appendix B. This document contrasts our responsibilities in this engagement with other procedures that could be performed in other financial audits.

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Appendix A

Independent Auditor's Report and Schedule of Expenditures of Federal Awards

Electric Reliability Council of Texas, Inc.
Year Ended December 31, 2011
With Report of Independent Auditors

Electric Reliability Council of Texas, Inc.

Independent Auditor's Report and
Schedule of Expenditures of Federal Awards

Year Ended December 31, 2011

Contents

Report of Independent Auditors

Board of Directors
Electric Reliability Council of Texas, Inc.

We have audited the accompanying schedule of expenditures of federal awards for the U.S. Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program (the DOE Program) of the Electric Reliability Council of Texas, Inc. (ERCOT) (Schedule) for the year ended December 31, 2011. This schedule is the responsibility of ERCOT's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards under the U.S. Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program of the Electric Reliability Council of Texas, Inc. for the year ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

June 20, 2012

Electric Reliability Council of Texas, Inc.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2011

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Energy:		
ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	$ 656,031

See accompanying note.

PRELIMINARY AND TENTATIVE FOR DISCUSSION ONLY

Electric Reliability Council of Texas, Inc.

Note to Schedule of Expenditures of Federal Awards

December 31, 2011

1. Significant Accounting Policy

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ERCOT's Electricity Delivery and Energy Reliability, Research, Development and Analysis Program and is presented consistent with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States.

Report on Compliance With Requirements That Could Have a Direct and Material Effect on the Federal Program and on Internal Control Over Compliance in Accordance with the Program-Specific Audit Option Under OMB Circular A-133

Board of Directors and Management
Electric Reliability Council of Texas, Inc.

Compliance

We have audited the Electric Reliability Council of Texas, Inc.'s (ERCOT) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the U.S. Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program (the DOE Program) for the year ended December 31, 2011. Compliance with the requirements of laws, regulations, contracts and grants applicable to the DOE Program is the responsibility of ERCOT's management. Our responsibility is to express an opinion on ERCOT's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the DOE Program occurred. An audit includes examining, on a test basis, evidence about ERCOT's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of ERCOT's compliance with those requirements.

In our opinion, ERCOT complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its DOE Program for the year ended December 31, 2011.

Internal control over compliance

The management of ERCOT is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered ERCOT's internal control over compliance with the requirements that could have a direct and material effect on its DOE Program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ERCOT's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

June 20, 2012

Electric Reliability Council of Texas, Inc.

Schedule of Findings and Questioned Costs

December 31, 2011

Part I – Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued (unqualified, qualified, adverse, or disclaimer):	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	____	**Yes**	X	**No**
Significant deficiency(ies) identified that are not considered to be material weaknesses?	____	**Yes**	X	**None reported**
Noncompliance material to financial statements noted?	____	**Yes**	X	**No**

Federal Awards Section

Internal control over major programs:				
Material weakness(es) identified?	____	**Yes**	X	**No**
Significant deficiency(ies) identified that are not considered to be material weaknesses?	____	**Yes**	X	**None reported**
Type of auditor's report issued on compliance for major programs (unqualified, qualified, adverse, or disclaimer):	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	____	**Yes**	X	**No**

Identification of major programs:

CFDA Number(s)	**Name of Federal Program or Cluster**
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	____ **Yes** __X__ **No**

Part II – Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* requires reporting in a Circular A-133 audit.

None identified.

Part III – Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by section .510(a) of Circular A-133 (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

None identified.

Appendix B

June 18, 2012

Finance and Audit Committee
Electric Reliability Council of Texas, Inc.

Pursuant to our agreement dated March 14, 2012, you have engaged us to conduct an audit of Electric Reliability Council of Texas, Inc.'s (ERCOT) federal program financial statements and of ERCOT's federal program, the U.S. Department of Energy Electricity Delivery and Energy Reliability, Research, Development and Analysis Program (DOE Program) for the year ended December 31, 2011 in accordance with auditing standards generally accepted in the United States, the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Our responsibilities for testing and reporting on internal control and on compliance with laws, regulations and provisions of contracts or grant agreements under those standards are described in the table below.

Service that we will provide	**Our responsibility regarding internal control**	**Our responsibility regarding compliance with laws and regulations and provisions of contracts or grant agreements**
Financial statement audit—GAAS	We will consider the Entity's internal control over financial reporting solely for the purpose of planning our audit and determining the nature, timing and extent of our audit procedures to enable us to express an opinion on the financial statements. This consideration will not be sufficient to enable us to express an opinion on internal control or to identify all significant deficiencies and material weaknesses. We communicate, in writing, any significant deficiencies or material weaknesses that are identified during the audit, including significant deficiencies and material weaknesses that were communicated to management and those charged with governance on previous audits, and have not yet been remediated. Our communication does not provide an opinion on the effectiveness of internal control over financial reporting.	We design our audit to provide reasonable assurance of detecting fraud that is material to the financial statements and illegal acts that have a direct and material effect on the determination of financial statement amounts. Our report does not express an opinion on compliance with laws, regulations and provisions of contracts or grant agreements.

Service that we will provide	Our responsibility regarding internal control	Our responsibility regarding compliance with laws and regulations and provisions of contracts or grant agreements
Financial statement audit—*Government Auditing Standards*	In addition to the GAAS responsibilities, we are required to issue a written report on our consideration of internal control over financial reporting and identify significant deficiencies, indicating those that are material weaknesses. Our reports do not provide assurance on internal control over financial reporting. If a significant deficiency is remediated before our report is issued, and we obtain sufficient, appropriate evidence supporting the remediation of the significant deficiency, then we will report the significant deficiency and the fact that it was remediated before our report was issued.	In addition to the GAAS responsibilities, we design our audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives. We issue a written report on the results of these procedures; however, our report does not express an opinion on compliance or on other matters. We report significant violations of provisions of contracts or grant agreements in our auditor's report. We report violations of provisions of contracts or grant agreements that are less than significant but more than inconsequential in a management letter.
OMB Circular A-133	We consider internal control over federal award program compliance. Our tests of controls include the controls over all major federal programs (aggregate expenditures of all major programs are to encompass at least 50% of total federal program expenditures). We report on such consideration and testing and communicate all significant deficiencies and material weaknesses identified during our audit. Our report does not provide assurance on internal control over compliance.	We perform procedures for the purpose of expressing an opinion whether major federal programs (aggregate expenditures of all major programs are to encompass at least 50% of total federal program expenditures) have been administered in compliance with applicable laws and regulations.

Service that we will provide	Our responsibility regarding internal control	Our responsibility regarding compliance with laws and regulations and provisions of contracts or grant agreements
Agreed-upon procedures level attestation engagement – AICPA attestation standards	We could be engaged to perform agreed-upon procedures related to the design and operating effectiveness of internal control, or an assertion thereon. The objective of the agreed-upon procedures is to present specific findings to assist users in evaluating the design and operating effectiveness of internal control, or an assertion thereon. Our procedures generally may be as limited or extensive as the users desire as long as the users (a) participate in establishing the procedures to be performed and (b) take responsibility for the sufficiency of such procedures for their purposes.	We could be engaged to perform agreed-upon procedures related to an entity's compliance with specified rules and regulations, or an assertion thereon. The objective of the agreed-upon procedures is to present specific findings to assist users in evaluating the entity's compliance with specified rules and regulations, or an assertion thereon. Our procedures generally may be as limited or extensive as the users desire as long as the users (a) participate in establishing the procedures to be performed and (b) take responsibility for the sufficiency of such procedures for their purposes.
Other attestation engagement – AICPA attestation standards	The engagement would be conducted in accordance with AICPA standards for attestation engagements. We would need to indicate our responsibility regarding internal control based on the type of engagement we were engaged to perform. We refer to the engagement agreement for language to use related to our responsibilities.	We could be engaged to perform an attestation engagement, other than an agreed-upon procedures engagement, on the subject matter, or an assertion thereon. The engagement could be conducted at the financial statement level, or could evaluate whether federal programs have been administered in accordance with applicable laws and regulations. The engagement would be conducted in accordance with AICPA standards for attestation engagements. We would need to indicate our responsibility regarding compliance with laws and regulations or provisions of contracts or grant agreements based on the type of engagement we were engaged to perform. We refer to the engagement agreement for language to use related to our responsibilities.

Service that we will provide	Our responsibility regarding internal control	Our responsibility regarding compliance with laws and regulations and provisions of contracts or grant agreements
Agreed-upon procedures-level attestation engagement—*Government Auditing Standards*	Same as the applicable responsibilities under the AICPA attestation standards.	In addition to the applicable responsibilities under the attestation standards, we would be alert to situations or transactions that could be indicative of violations of provisions of contracts or grant agreements and, if indications of such transactions or situations exist that could materially affect the subject matter or assertion, we would apply procedures specifically directed to ascertain whether such transactions or situations have occurred and the effect on the subject matter or assertion.
Other attestation engagement – *Government Auditing Standards*	In addition to the applicable responsibilities under the AICPA attestation standards, we would obtain an understanding of internal control as it relates to the subject matter or assertion to which we are attesting.	In addition to the applicable responsibilities under the AICPA attestation standards, we would design our engagement to provide reasonable assurance of detecting violations of provisions of contracts or grant agreements that could have a material effect on the subject matter or assertion.

Service that we will provide	**Our responsibility regarding internal control**	**Our responsibility regarding compliance with laws and regulations and provisions of contracts or grant agreements**
Performance audit—*Government Auditing Standards*	We should obtain an understanding of internal control that is significant within the context of the audit objectives. For internal control that is significant within the context of the audit objectives, we assess whether internal control has been properly designed and implemented. For those internal controls that are deemed significant within the context of the audit objectives, we should plan to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls. Information systems controls often are an integral part of an entity's internal control. Thus, when obtaining an understanding of internal control significant to the audit objectives, we should also determine whether it is necessary to evaluate information systems controls. We may modify the nature, timing or extent of the audit procedures based on our assessment of internal control and the results of internal control testing.	We should determine which laws, regulations and provisions of contracts or grant agreements are significant within the context of the audit objectives and assess the risk that violations of those laws, regulations and provisions of contracts or grant agreements could occur. Based on that risk assessment, we design and perform procedures to provide reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts or grant agreements that are significant within the context of the audit objectives.

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Item	5
Topic	Review and confirm appointment of the Vice Chair of the Credit Work Group
Presenter	Mark Ruane
Purpose	Vote to confirm appointment of the Vice Chair of the Credit Work Group

Confirm Credit Work Group Vice Chair <Vote>

The Credit Work Group (CWG) Charter requires that:
"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."

- At its February 20th 2012 meeting the F&A Committee confirmed Tamila Nikazm as CWG Chair. A recommendation for selection of Vice-Chair was delayed at that time pending additional CWG Charter revisions to allow CWG participation by Corporate Member affiliates. The Charter revisions were passed by the F&A Committee at its April 16th 2012 meeting.

- At its March 28th 2012 meeting the CWG voted to recommend Trish Egan (Luminant) as Vice-Chair for Committee confirmation, pending Charter revisioins.

- A brief summary of qualifications follows.

Confirm Credit Work Group Vice Chair <Vote>

Vice Chair: Trish Egan, Luminant

- Lead Analyst – Credit Risk at Luminant, managing daily ERCOT exposure and retail gas operations
- Has been working in the Energy Future Holdings/Luminant Risk Management organization for five years
- Undergraduate degree in business studies (accounting) from University College, Dublin, Ireland. Also is fellow of Association of Chartered Certified Accountants.

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Item	6
Topic	Review committee briefs
Presenter	Rebecca Beckham and Grady Roberts
Purpose	Information for Committee

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Item	6a
Topic	Committee member training
Presenter	Rebecca Beckham
Purpose	Provide committee member training

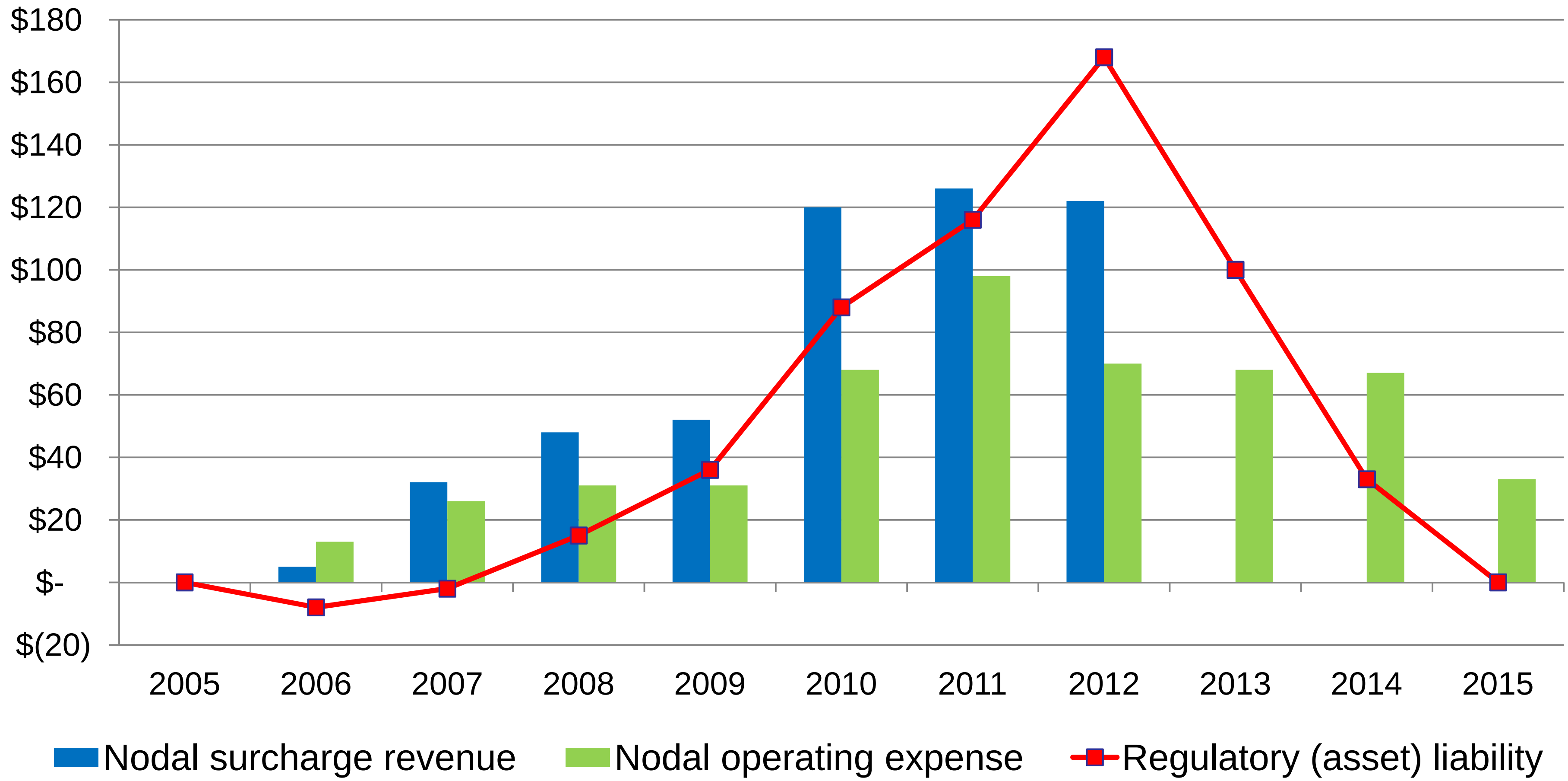
Regulatory accounting

- ERCOT is subject to regulatory accounting with the Nodal program since it meets the following accounting criteria:
  1. The rates for regulated services provided to customers are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
  2. The regulated rates are designed to recover the specific costs of providing the regulated services.
  3. It is reasonable to assume that rates set at levels that will recover the costs can be charged to and collected from customers.

- Regulatory accounting allows ERCOT to match costs and the rates designed to recover them over time.
  - Regulatory asset- specific costs deferred to the balance sheet that will be recovered through rates in the future.
  - Regulatory liability- specific revenue deferred to the balance sheet that will be offset by specific costs in the future.

Actual/projected impact on ERCOT's financial statements:

(in millions)



Financial statement view of regulatory accounting:

(in millions)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(actual)							(projected)			
Nodal implementation surcharge	$ -	$ 5	$ 32	$ 48	$ 52	$ 120	$ 126	$ 122	$ -	$ -	$ -
Nodal operating expense	$ -	$ 13	$ 26	$ 31	$ 31	$ 68	$ 98	$ 70	$ 68	$ 67	$ 33
	$ -	$ (8)	$ 6	$ 17	$ 21	$ 52	$ 28	$ 52	$ (68)	$ (67)	$ (33)
Regulatory (asset) liability	$ -	$ (8)	$ (2)	$ 15	$ 36	$ 88	$ 116	$ 168	$ 100	$ 33	$ -

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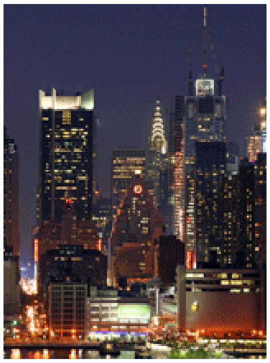


National Audit Committee Forum

PRINT THIS PAGE

Date: Jul 30 - Jul 31, 2012
Location: AICPA Boardroom
New York, NY
Recommended CPE Credit: 15 (main)

The AICPA National Audit Committee Forum was developed by experienced audit committee members to help you overcome the challenges that continue to arise in today's business climate. Companies are increasingly vulnerable to a variety of risks, generated by governance failures, cyber threats, finance and global operations. As a result, audit committees are constantly faced with new challenges that require specialized knowledge and innovative solutions.
The forum will identify key issues for Audit Committees. It will also provide an in-depth examination of the resources, processes, and tools required to address these issues and to implement new ideas. This unique learning experience provides premier access to leading experts in an interactive program format designed to address key concerns, provide key updates, learn best practices, discover trends, and walk away with practical solutions.

WHO SHOULD ATTEND:
CEOs, CFOs, Controllers, Chief Audit Executives, Chief Risk Officers, Partners, Directors, SEC Proxy filer, and other senior executives in addition to individuals who serve on boards and audit committees.

Early Bird (Register by 06/15/12) Product Code: NACF12	Regular: $1450.00 AICPA Member: $1150.00 **Your Price: $1450.00**

To receive your AICPA member discount, Sign In now, or Register using your AICPA membership number.

2012 AICPA Audit Committee Forum
July 30-31, 2012
AICPA Boardroom, New York, NY

Monday, July 30

12:30pm-1:00pm **Registration and Introductions**

1:00pm-2:40pm
100

1. **What Keeps an Audit Committee Up at Night**
Stephen G. Austin, CPA, MBA, Audit Committee Chairman, Avanir Pharmaceuticals & World Trade Center San Diego & Firm Managing Partner, Swenson Advisors, LLP, San Diego, CA
John D. Tishler, Partner, Head of Corporate Governance & Securities Compliance Team at Sheppard, Mullin, Richter & Hampton, LLP, San Diego, CA
What are the critical factors the Audit Committee should consider in today's environment

- New COSO guidance for 404 assessments
- JOBS Act legislation
- PCAOB/auditor rotation
- IT risks and cyber security
- IFRS convergence
- ERM update
- SEC/Dodd Frank considerations

2:40pm-2:50pm **Break**

2:50pm-4:30pm
100

2. **What's New with Internal Controls**
Stephen G. Austin, CPA, MBA, Audit Committee Chairman, Avanir Pharmaceuticals & World Trade Center San Diego & Firm Managing Partner, Swenson Advisors, LLP, San Diego, CA
SOX is 10 years old. How do you keep it fresh and effective?

- Deep dive with the new COSO model
- Material weaknesses are still alive – the Groupon case
- Cost effective tools
- Whistle blower update

4:30pm- 5:30pm
60

3. **Audit Committee Landscape – How to Prepare for Emerging Accounting Developments**
Stephen G. Austin, CPA, MBA, Audit Committee Chairman, Avanir Pharmaceuticals & World Trade Center San Diego & Firm Managing Partner, Swenson Advisors, LLP, San Diego, CA
Jerry M. de St. Paer, Executive Chairman, Group of North American

Insurance

Enterprises, Chatham, NJ
This session will cover the following items:

- How to maintain an inventory of key topics: Accounting, Audit Focus, SEC interpretation.
- How to evaluate management's resources and action plan to assess and implement potential developments from an operational, systems and financial perspective
- Productivity techniques

- Continuing Education programs for Audit Committees
- Develop sub-chairs– “subject matter experts” on key audit risks

5:30pm-6:30pm **Networking Reception**

Tuesday, July 31

8:00am -8:15am **Continental Breakfast**

8:15am-9:30am **4.** **Managing the Relationships Between Management & Audit Committee**
75
Stephen G. Austin, CPA, MBA, Audit Committee Chairman, Avanir Pharmaceuticals & World Trade Center San Diego & Firm Managing Partner, Swenson Advisors, LLP, San Diego, CA
Paula H. J. Cholmondeley, CPA, MBA, Audit Committee Chairman, Albany International
& Ultralife Corporation & Corporate Director, The Sorrel Group, Brookline, MA
John D. Tishler, Partner, Head of Corporate Governance & Securities Compliance Team at Sheppard, Mullin, Richter & Hampton, LLP, San Diego, CA

Today’s business environment is critical as the Audit Committee provides independent director thought leadership and at the same time works closely with the CFO and SEC counsel to facilitate effective meetings, decision-making, and information flow. This session highlights certain techniques to achieve those goals.

9:30am-9:40am **Break**

9:40am-10:55am **5.** **Recent Corporate Fraud Developments**
75
Stephen G. Austin, CPA, MBA, Audit Committee Chairman, Avanir Pharmaceuticals & World Trade Center San Diego & Firm Managing Partner, Swenson Advisors, LLP, San Diego, CA
John D. Tishler, Partner, Head of Corporate Governance & Securities Compliance Team at Sheppard, Mullin, Richter & Hampton, LLP, San Diego, CA

What are the signals for fraud and what is the role of the Audit Committee. What improvements have been made to Financial Reporting? How much access should there be to the audit committee chair? These are just some of the questions that will be answered and discussed. Some of this session will also cover:

- Risks related to it and leakage
- Disruptive or Emerging Technologies
- Social Media
- Reducing the Risk of Fraud – Practical Considerations & Solutions

10:55am-11:45am **6.** **Audit Committee Effectiveness in a Global Environment**
50
Catherine Bromilow, Partner, PwC Center for Board Governance, Florham Park, NJ

There is abundant evidence that we live in a world that is more interconnected than ever. Economic challenges in Europe drive volatility in US capital markets. Natural disasters in one region have ripple effects for companies on the other side of the world. Add the cooperation among global regulators on anti-bribery and anti-money laundering investigations, and you quickly understand that audit committees of global companies have their hands full. How do the most effective audit committees work in light of these challenges?

11:45am-12:40pm **Lunch & Peer to Peer Roundtables**
55

12:40pm-1:55pm **7.** **IT Governance**
75

Khalid Wasti, Director, Audit & Enterprise Risk Services, Deloitte & Touch LLP, New York, NY

IT Governance is a critical component of overall enterprise risk management these days and the most important key to the success of IT Governance is the Board and Audit Committee's recognition of the need.

There are multiple external and internal factors that drive the importance, including:

- Recent Events and Threats - A number of high-profile problems that IT controls did not prevent
- Regulatory Environment - Emerging legislation requiring strict control over information and technology
- Public Perceptions - Growing societal and capital market pressures to demonstrate effective business governance over IT
- Legal and Fiduciary Considerations - Legal requirements, fiduciary responsibilities, and contractual issues are increasingly stringent
- Role of IT - IT as an integrated part of the business or often an enabler
- Scope of Investment - The increased scale and cost of investments in information and supporting systems calls for improved governance
- IT Asset Lifespan - IT assets remain in use beyond the lifespan of the business models they are intended to support
- Technology Supply Chain - The IT function is reliant upon an increasing number of external entities for delivery of products/ services

1:55pm-2:05pm **Break**

2:05pm-3:20pm **8.** **PCAOB Developments**
75

Martin F. Baumann, Chief Auditor and Director of Professional Standards, PCAOB, Washington, DC

- Communications with Audit Committee, Audit Firm Rotation, etc.
- PCAOB Proposals Address Related Parties and Significant Unusual Transactions
- PCAOB will hold an open meeting on related-party audit standard
- PCAOB proposes that auditors should review executive compensation

3:20pm-5:00pm **9.** **Mock Audit Committee Meeting**
100

Stephen G. Austin, CPA, MBA, Audit Committee Chairman, Avanir Pharmaceuticals & World Trade Center San Diego & Firm Managing Partner, Swenson Advisors, LLP, San Diego, CA

Catherine Bromilow, Partner, PwC Center for Board Governance, Florham Park, NJ

Paula H. J. Cholmondeley, CPA, MBA, Audit Committee Chair for Nationwide Mutual Funds, Member of the Audit Committee of Minerals Technology and Albany International, Rockport, MA
Jerry M. de St. Paer, Executive Chairman, Group of North American Insurance
Enterprises, Chatham, NJ
John D. Tishler, Partner, Head of Corporate Governance & Securities Compliance Team at Sheppard, Mullin, Richter & Hampton, LLP, San Diego, CA Khalid Wasti, Director, Audit & Enterprise Risk Services, Deloitte & Touch LLP, New York, NY

This session will provide an audit committee meeting case study. It will demonstrate best practices in agenda development, model the key roles that participate in the audit committee including the roles for subject matter expertise within the committee, and demonstrate how to handle challenging situations

5:00pm **Conference Adjourns**

<u>15 CPE</u>

10Minutes
on effective audit committees

pwc

May 2012

Leading practices that enhance audit and financial reporting quality

Highlights

Communications should be substantive and candid, going beyond governance and regulatory requirements.

Audit committees, management, and auditors should have robust discussions about a company's financial reporting, including risks, complex areas, and unusual transactions.

Audit committees and auditors should have detailed discussions about significant audit risks and scope decisions.

Audit committees should participate in learning, benchmarking, and self-evaluation.

Audit committees, management, and auditors work together to meet the information needs of the capital markets. The fulfillment by each of its unique and important role in the financial reporting system adds to the quality of audits and financial statements, contributing to the vibrancy of the capital markets.

The audit committee's oversight role is particularly critical in achieving financial reporting quality. The Sarbanes-Oxley Act of 2002 increased the responsibilities and, consequently, investor expectations of audit committees. They have responded well, and as a result, improvements in financial reporting have been achieved. By continuously improving, more progress can be made.

Though audit committees have many responsibilities, including overseeing internal auditors, the focus of this edition of 10Minutes is on leading practices that make audit committees more effective overseers of their companies' independent audits and delivery of quality financial statements. Many of these leading practices are interrelated. We focus on four categories: communications, financial reporting quality and transparency, audit quality, and continuous learning.

How effective audit committees promote financial reporting and audit quality

1. **Successfully interact with management and the auditors:** Two critical responsibilities of an audit committee are overseeing the company's financial reporting and the hiring, replacing, and supervision of independent audit firms. Fully exercising their oversight roles and setting high expectations drive the successful interaction between audit committees, management, and auditors.

2. **Focus on investor needs and be demanding:** Audit committees are most effective when they insist on an "investor first" mindset and set the tone for a collaborative, but demanding, professional relationship among the parties.

3. **Go beyond communications required by governance and auditing standards:** Audit committees, management, and auditors should routinely engage in robust discussions, with all facts on the table, about important matters affecting financial reporting and the audit.

At a glance

PwC's 10 leading practices to enhance audit committee effectiveness

- *Meet regularly with auditors outside of formal audit committee sessions.*
- *Speak candidly with auditors and management. Respect the privacy of those conversations, when appropriate.*
- *Challenge management to provide robust disclosures in plain English.*
- *Have deep-dive sessions with management and auditors to understand complex areas of financial reporting.*
- *Challenge management to reconsider historical policies and practices as economic environments change.*
- *Set performance expectations for auditors. Provide them with clear feedback and discuss ways for them to improve.*
- *Learn from the results of the auditor's internal and external regulator quality inspections.*
- *Attend audit committee learning programs at least annually.*
- *Benchmark the committee's working practices against those of other audit committees.*
- *Consider the committee's performance. Self-evaluate to identify ways to continuously improve.*

01

Communication that works: open and often

In December 2011, the Public Company Accounting Oversight Board released a proposed auditing standard, *Communications with Audit Committees*. It proposes new required communications between the audit committee and auditor. We support the proposal and believe it will enhance existing communications among audit committees, management, and auditors.

Candid and clear communications

To truly enhance communications between the parties, the focus should be on the "spirit" of communications, in addition to the requirements. We focus on how audit committees, management, and auditors can achieve a robust dialogue so audit committees have a clear understanding of their companies' reporting issues. In that way, financial reporting is improved.

Communications should be open and candid, more than a check-the-box exercise. This candor is achieved today between effective audit committees and auditors in various ways. Because the most effective working relationships involve transparent communications throughout the year, a leading practice is for audit committee members and auditors to speak and meet frequently outside of formal audit committee sessions. Discussions outside the formality of a committee meeting allow more time to anticipate issues and result in a deeper mutual understanding of the company's business and financial reporting issues.

Oversight role effectiveness

Separate private audit committee sessions with management and with the auditors enhance the quality of communications and broaden the audit committee's perspectives. Further, when warranted, respecting the confidentiality of these private conversations increases the effectiveness of the audit committee's oversight. Audit committees that do this learn more. After all, it's more likely that people will be open and candid in discussions when they know the privacy of their conversations will be respected.

Audit committees that are inquisitive, risk-focused, and distinguish their oversight responsibilities from management functions promote robust dialogue with management and auditors. Both typically respond by sharing helpful perspectives and providing greater support for positions taken, giving the audit committee a better basis for its decision making.

The Public Company Accounting Oversight Board Proposal

The proposed standard includes changes from existing requirements, such as:

- Enhancing auditor communications about accounting policies, practices, and estimates
- Providing audit committees with more information about the work of others not employed by the auditor
- Requiring the auditor to communicate significant unusual transactions and the auditor's understanding of their underlying business rationale
- Communicating difficult or contentious matters that resulted in consultations outside the engagement team

02

Promoting financial reporting quality and transparency

Audit committees should challenge management to prepare financial reports that communicate using plain English that is clear and understandable to investors.

Audit committees contribute to improved financial reporting quality and transparency in various ways. Those that embrace their roles as representatives of investors—challenging management, auditors, and themselves to consider new ideas—are most effective.

Focus on risks

Audit committees, management, and auditors should have robust discussions about risks in a company's reporting, including significant estimates and judgments, accounting policy elections, and disclosures. The financial reporting should be sufficiently comprehensive so investors can understand the implications of these risks. How the auditor addressed these risks in the audit should also be discussed with the audit committee.

Focus on key financial reporting areas

Discussions should focus on unusual or infrequent transactions and on complex financial reporting areas. For particularly significant unusual transactions and financial reporting areas, audit committees should consider having focused, comprehensive sessions with management and the auditors. Both sides of issues should be discussed and the effect of judgments understood.

Consider effectiveness of disclosures

One example of challenging management and the auditors is to have them consider whether investors would benefit from financial statement disclosures beyond current accounting and SEC requirements. A leading practice is to encourage the inclusion of additional disclosures in the financial statements that could enhance the effectiveness of the reporting.

Plain English is best

The clarity of financial reporting can also be improved. Audit committees should challenge management to prepare financial reports that communicate using plain English that is clear and understandable to investors. It is often more difficult to do this than to use legal or accounting jargon, but it improves transparency. Audit committees should also ask auditors to suggest ways to improve the readability of disclosures.

Adjust as times change

Audit committees should challenge management and auditors to reconsider historical accounting policies, practices, and disclosures as the economic environment changes. They may no longer meet investors' current needs.

03

Achieving audit quality and process transparency

Ask your auditors for more

- Discuss key aspects of the audit, including audit risks, processes, and significant scope decisions
- Discuss evidence in support of conclusions
- Establish an evaluation process for the auditors
- Debrief on what worked and what can be improved for the next audit
- Discuss internal and external regulator inspection findings

Audit committee discussions with auditors often focus on the company's accounting and financial reporting. Usually, there are less detailed discussions about audit risks and processes.

Focus on key aspects of the audit

Auditors should share with audit committees more information about risk assessments, the audit process, and significant scope decisions. Audit committees should understand what aspects of the audit plan are responsive to material risks arising from changes in the company's business strategy, management initiatives, and the current operating environment. Thus, deep-dive sessions on significant financial reporting areas should include a discussion of the key audit risks, the company's related controls, and the auditor's approach. Finally, auditors should share a summary of the evidence they evaluated when forming their views about difficult or contentious matters so the audit committees fully understand the auditors' conclusions.

Evaluate auditor performance

An audit committee should establish performance assessment criteria for the auditor at the beginning of each audit cycle. Expectations of key behaviors, such as those that evidence objectivity and professional skepticism, should be set high and shared with the auditor in advance. By doing so and challenging the auditor to meet high expectations, the audit committee will be better able to assess if the auditor has been objective and skeptical and whether the auditor has performed a robust, high-quality, effective, and efficient audit.

The audit committee should consider being directly involved in the selection of the new lead audit partner as the previous one completes the five-year rotation period. This will allow the audit committee to assess the appropriateness of the new partner's abilities and experience, including objectivity and professional skepticism, and also to express its views about the importance of those behaviors.

At least annually, the audit committee and the auditor should discuss those aspects of the audit that worked well and those that could be improved. Clear and direct feedback from the audit committee will reinforce the need for the auditor to meet its expectations. If the auditor does not respond appropriately, the audit committee should contact senior firm leadership to make clear its expectations of the firm's performance. If after a reasonable period of time sufficient progress is still not made, the audit committee should consider a competitive proposal.

Enhance discussions of quality inspection results

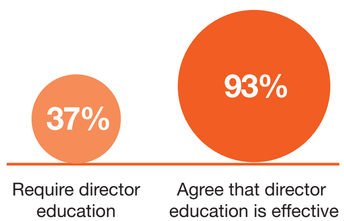
Auditors should share with audit committees more information on the results of their internal quality reviews and their external regulator's inspections. They should also thoroughly discuss issues raised by inspectors that bear on the company. If auditors are not initiating these discussions, audit committees should. Further, they should probe to identify any lessons to be learned and changes to be made that will improve the auditor's performance, including the audit of the company's financial processes and reporting.

04

Increasing effectiveness through continuous learning

The importance of learning programs

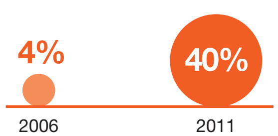
Over 90% of directors agree that director education enhances board effectiveness, but only 37% of boards require continuing director education.



Source: National Association of Corporate Directors and the NACD Center for Board Leadership—2011 Survey

The importance of benchmarking

In 2006, only 4% of S&P 500 companies limited the number of other audit committees on which their members could serve. In 2011, 40% did so.



Source: Spencer Stuart US Board Index 2011

Some audit committees already follow many of these leading practices and have effective processes, so major changes are not needed. Others are more focused on complying with existing requirements. How can more audit committees overcome obstacles to move beyond the compliance basics?

Adopting one or more of the leading practices we've shared in this 10Minutes may be a start. In addition, audit committees can participate in outside learning, benchmarking, and self-evaluations to identify ways to enhance their effectiveness.

Participate in learning programs

The insight and knowledge of seasoned audit committee members add value to the audit and to the company's financial reporting. These veterans understand the company's issues and provide stability in turbulent times. However, to continue to enhance their thinking, audit committee members should participate in various learning venues, including annual training, to provide them with fresh perspectives.

Benchmark against other audit committees

Benchmarking and peer exchanges are other ways audit committees can become more effective. This can be accomplished with the help of governance experts or through direct interaction with members of other audit committees through peer exchanges. These are forums for audit committee members to discuss important issues. They also allow members to compare responsibilities, activities, and processes. For example, a peer comparison can be an effective way of staying current by identifying leading practices and enhancing the audit committee's ability to meet investor needs.

The exchange of ideas is particularly important in today's times when many companies have policies limiting the number of other directorships and/or audit committee memberships that directors may accept. With fewer outside experiences, peer exchanges provide a much-needed way to share ideas.

Self-evaluate

Finally, self-evaluation is a sound process to promote an effective audit committee. The committee should assess the effectiveness of its performance and its oversight of management and the auditors. This is another opportunity to identify ways to continuously improve.

Upcoming 10Minutes topics

Adjusting to changes triggered by the Eurozone crisis

As countries work through their sovereign debt problems, the Eurozone is changing and will likely emerge from the crisis looking quite different. The crisis is a matter of survival for some, but it affects any company that does business in Europe. This 10Minutes discusses the array of actions that companies should consider to manage risks and exploit opportunities.

Toward a more flexible supply chain

Volatility has become a fact of life in today's business landscape. Yet, after years of global expansion, many companies' supply chains are brittle, unable to respond to frequent fluctuations in demand and supply. This 10Minutes explores the strategies companies can deploy to make their supply chains more agile and adaptable.

How PwC can help

To have a deeper discussion about leading practices for audit committees, please contact:

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June 2012

Financial reporting briefs

What you need to know about this quarter's accounting, financial reporting and other developments

Ernst & Young
Quality In Everything We Do

Accounting update

Welcome to the June 2012 *Financial reporting briefs*.

This edition brings you up to speed on the latest developments in the joint projects of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards).

We also update you on other standard-setting developments and highlight trends in share-based payment accounting.

The regulatory developments section summarizes the key elements of the recent Jumpstart Our Business Startups Act (JOBS Act) and highlights other initiatives of the Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB).

Lastly, the other considerations section sheds some light on projects related to the FASB's ongoing private company reporting initiative and other projects on the horizon.

The reference library lists our recent publications that provide additional details on the items discussed in this edition.

Revenue recognition joint project done by early next year?

The Boards agreed to discuss a number of key issues from their latest proposal. While respondents in comment letters and roundtables credited the Boards with making progress since their earlier proposal, they still have concerns with how they would apply the revenue recognition model in practice. Among the topics the Boards plan to redeliberate in coming months are onerous performance obligations, the satisfaction of performance obligations, variable consideration, the presentation of customers' credit risk, the time value of money, disclosures and transition. Once completed, the project would converge the revenue recognition guidance in US GAAP and IFRS into a single model that would replace essentially all existing revenue recognition guidance. The Boards plan to issue a final standard in early 2013 but acknowledge that their redeliberation plan is ambitious.

Financial instruments impairment project may affect your A/R allowance

If trade accounts receivable (A/R) is a significant amount at your company, you may want to tune in a little more closely to the financial instruments impairment project. As part of their project on financial instruments, the Boards are jointly developing a model for measuring financial asset impairment that would cover trade receivables without significant financing components. Their tentative three-bucket model is based on estimating expected losses, not today's incurred loss approach. The idea is to recognize losses earlier than under current practice.

While most commercial companies could continue to use existing practices to apply the expected-loss model to these receivables (e.g., grouping receivables by age and applying a loss rate), they would need to be sure the calculations of lifetime expected losses consider forward-looking information. Some impairment allowance would likely be recorded for the current portion of these receivables, which would be a change in practice for many companies.

Trade receivables that have a significant financing component and lease receivables would have the option to apply the full three-bucket model or elect to measure lifetime expected losses from initial recognition.

Boards move closer together on financial instruments measurement

As part of the Boards' effort to more closely align their guidance, the FASB tentatively agreed that, similar to IFRS 9,[1] financial assets would be classified at amortized cost if their cash flows relate solely to the payment of principal and interest and the company's business model for managing these assets is to hold and collect the contractual cash flows. The FASB also agreed that financial assets would not be eligible for bifurcation but financial liabilities would continue to follow existing bifurcation and separation requirements.

The IASB recently agreed to introduce the fair value through other comprehensive income (FV-OCI) category for investments in debt instruments whose cash flows relate solely to the payment of principal and interest. Both Boards tentatively agreed that the FV-OCI classification would be appropriate for qualifying debt instruments when managed in a portfolio whose objective is to both collect contractual cash flows and to sell the assets.

[1] IFRS 9, *Financial Instruments*

Coming soon: A qualitative screen for indefinite-lived intangibles impairments

You may want to revisit the way you test indefinite-lived intangible assets for impairment. It looks like the FASB will soon give companies the option to perform qualitative assessments. Under a proposal that drew positive feedback, companies would be allowed to skip detailed impairment analyses if they can qualitatively conclude that it is not more likely than not that the assets are impaired. Some respondents asked the FASB to include implementation guidance and to expand the events and circumstances to be more specific for testing indefinite-lived assets. It is unclear whether the FASB will address these concerns. We expect the new guidance to be effective soon. Early adoption will be permitted for companies that haven't yet performed the annual impairment test.

Accounting for derivatives when counterparties are replaced due to Dodd-Frank

Later this year, parties to certain over-the-counter derivatives will be required to replace their counterparties with central clearing organizations to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The SEC's Chief Accountant stated in a recent letter to the International Swaps and Derivatives Association (ISDA) that the SEC staff would not object to a conclusion that replacing or "novating" a counterparty to a derivative contract to comply with Dodd-Frank requirements would not trigger a termination of the contract or dedesignation of an associated hedge accounting relationship, as long as other terms of the contract don't change. Changes to the terms of a contract resulting directly from this novation (e.g., a clearing organization may require more collateral than the original counterparty) also would not affect the accounting.

ISDA asked for the staff's views because terminating a derivative contract and dedesignating a hedge relationship could have significant hedge accounting implications. After the mandatory clearing requirements go into effect, the SEC staff expects new hedging documentation to state that contracts will be novated to a central clearing organization.

More disclosures: Liquidity and interest rate risk disclosures coming soon

Financial statement users want companies to provide more information about their liquidity and interest rate risks, and make it easier to compare information across companies. Under a FASB proposal, all companies would be required to provide information about liquidity risks and uncertainties they might encounter in meeting their financial obligations. Financial institutions also would be required to disclose their exposure to fluctuations in interest rates. An exposure draft detailing the new proposed disclosures is expected to be issued soon.

Recent trends may make share-based payment accounting more complex

More companies are including clawback provisions or discretionary clauses in their share-based payment awards that allow them to adjust the payout, in part because of the Dodd-Frank Act. These provisions can add complexity to the accounting for share-based payment awards.

Clawback provisions allow a company to recoup an award when certain events occur (for example, a restatement of financial statements). These awards are accounted for the same way as other awards unless a clawback is triggered. If that happens, a company recognizes the current fair value of the recouped award. In addition, the compensation originally recorded is reversed and any difference is recorded as additional paid-in capital.

In contrast, discretionary clauses allow a company to subjectively adjust the payout. These clauses can delay the accounting determination of the grant date of an award until the company no longer has discretion over the payout. This may mean compensation expense is measured and recognized in a lump sum at a point in the future rather than over the service period. However, in some cases an award with a discretionary clause may meet the conditions for recognizing compensation expense earlier. In those cases, a company would measure and record the expense over the service period. The award would be remeasured at fair value at each reporting period.

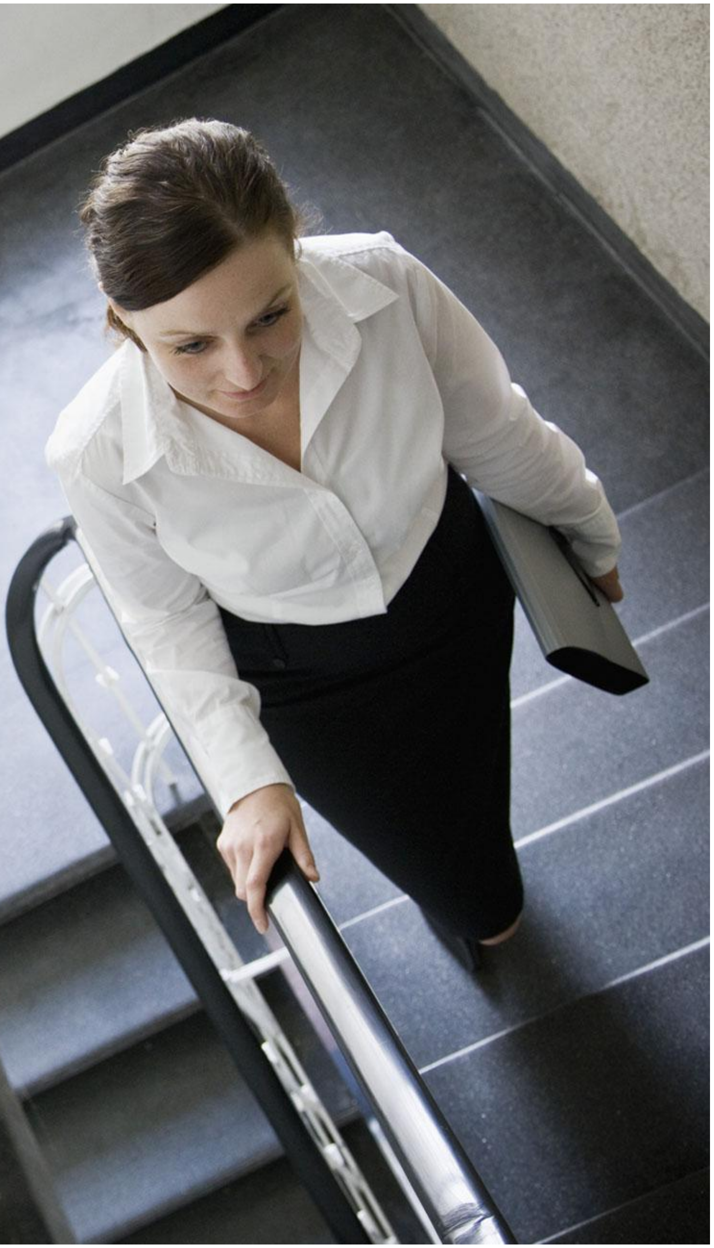
Could the FASB move to one consolidation model?

The FASB is redeliberating its proposal to amend the consolidation guidance for all entities, including variable interest entities (VIEs) and voting partnerships. The proposal would require the decision maker of a VIE or voting partnership to evaluate whether it is acting as a principal or as an agent. The FASB is considering whether to provide an overarching principle and objective for consolidation to ensure that its provisions are interpreted and applied consistently. This will include a discussion of whether to align the VIE and voting models into one consolidation model, as we and others recommended in our comment letters.

The FASB also is redeliberating the evaluation of substantive kick-out rights, substantive participating rights and implicit interests in certain entities (e.g., money market funds). The FASB plans to issue a final standard later this year.

Moving on with investment companies, not with investment property entities?

The Boards tentatively agreed to an approach on their investment company proposals that is less prescriptive than the requirement in their initial proposals. Rather than requiring an entity to meet all six proposed criteria, the Boards agreed to base their definitions on only certain of the criteria (e.g., express purpose and nature of the investment activities). Entities would not be required to meet the other proposed criteria, but would consider them when determining whether they qualify as investment companies. At future meetings, the Boards will discuss the consolidation of investments in controlled investment companies and the FASB will consider how to proceed with its separate proposal for investment property entities. A timetable for completing these projects has not been announced.



Proposals for a new insurance contract accounting model are coming soon

The Boards are expected to issue proposals on accounting for insurance contracts in the second half of 2012 that, if finalized, would result in a number of changes to current practice. While the Boards generally agree on many aspects of the insurance model, they are still discussing several differences in their approaches to measuring insurance liabilities. The proposed guidance would not apply to direct insurance contracts held by companies, product warranties, residual value guarantees in leases and certain fixed-fee service contracts, among other items.

Two lessee approaches emerging in the leases joint project?

The Boards plan to issue a revised exposure draft on leases later this year. They appear to be focusing on two approaches to lessee accounting, both of which would require leases to be recorded on the balance sheet. One approach would result in the front-loading of lease expense, consistent with the Boards' earlier decisions. The other approach would provide a straight-line expense pattern, similar to today's operating leases. The Boards also plan to consider requiring some leases to follow the front-loaded approach and others to follow the straight-line approach. They hope to decide on an approach to lessee accounting along with potential changes to lessor accounting before issuing a revised exposure draft.

EITF proposals out for comment

The FASB issued the following Proposed ASUs from the Emerging Issues Task Force (EITF) for comment by 16 July 2012:

- *Not-for-Profit Entities: Classification of the Sale of Donated Securities in the Statement of Cash Flows (Issue No. 12-A)*
- *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (Issue No. 12-C)*
- *Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs (Issue No. 12-E)*

Pushdown accounting to get a fresh look?

The EITF also added an issue to its agenda to address the application of pushdown accounting. To assist the EITF, the FASB Chairman directed the FASB staff to form an EITF Working Group to discuss the scope of this issue.

Regulatory developments

In this section, we highlight the key elements of the recent JOBS Act, which streamlines certain regulatory requirements for raising capital. We also discuss the latest initiatives of the PCAOB that could affect your company's financial reporting.

JOBS Act simplifies some regulatory requirements for raising capital

Companies seeking access to capital from both private and public markets may face fewer regulatory requirements under the JOBS Act (or Act). To encourage initial public offerings (IPOs) of common equity, the JOBS Act created a new category of issuer called an emerging growth company (EGC). EGCs may submit registration statements and amendments to the SEC on a confidential basis and may provide fewer periods for historical financial information in their initial registration statements. During a five-year IPO "on-ramp" period, companies continuing to qualify as EGCs also are exempt from certain SEC requirements, including those related to auditor attestation of internal controls over financial reporting, "say-on-pay" votes and certain executive compensation disclosures.

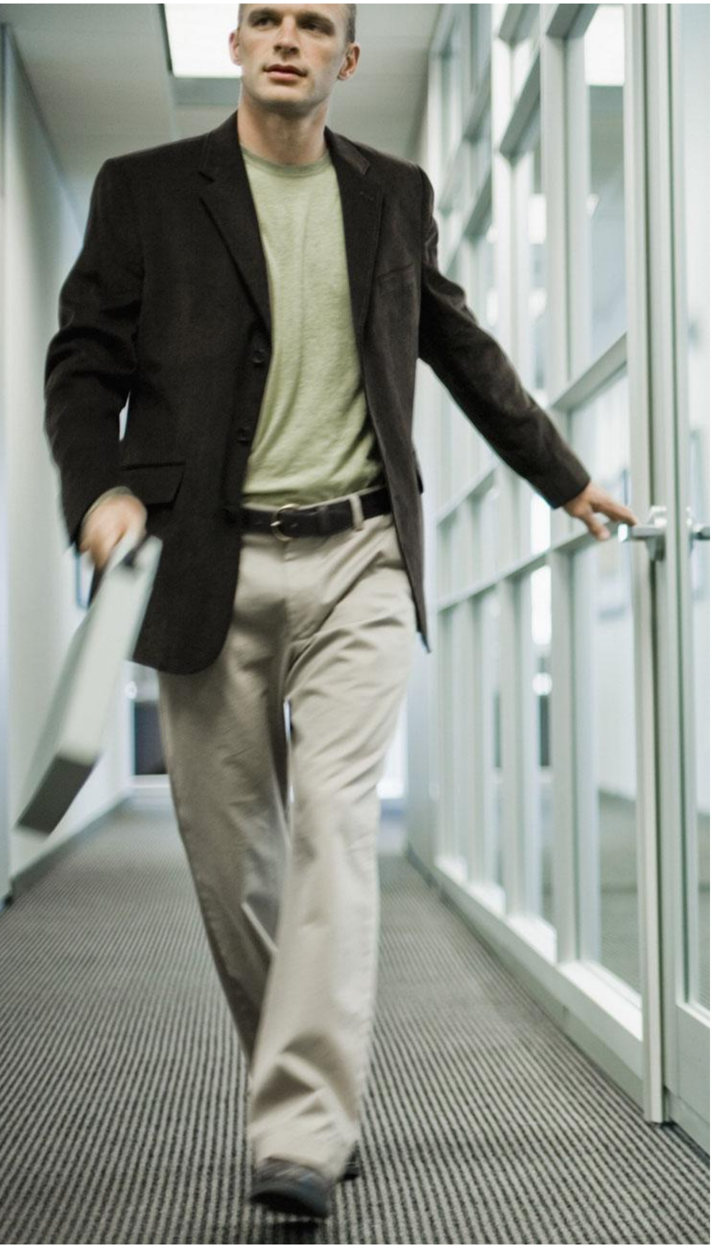
The JOBS Act increased some of the record holder count thresholds that trigger a company's obligation to register and report as a public company. The Act also amended the definition of a record holder to exclude certain employees and other investors, meaning private companies may now be more inclined to issue share-based payment awards to their employees. In addition, once the SEC finalizes rules on these items, the Act will exempt from registration certain small equity offerings (called crowdfunding) and certain public offerings of up to $50 million and remove certain restrictions on advertising and soliciting accredited investors. Our Technical Line *Implementing the JOBS Act* provides more information.

Keeping track of tax legislation in an ever-changing world

We continue to see many changes in tax laws and related items in the US and around the world as national and local governments seek ways to increase revenues. For many companies, the most challenging aspect of accounting for income taxes is identifying changes in tax law and other events when they occur so that they can be reflected in the appropriate period. Our *Quarterly tax developments* publication provides more information on recent domestic and international tax law changes.

Sustainability reporting is gaining momentum

The number of companies compiling and publishing annual reports on their sustainability initiatives is rapidly growing, in response to marketplace demands and regulatory developments in various countries. These initiatives include a broad range of activities such as reducing energy use, using alternative energy sources, recycling, improving supply-chain management, adhering to fair trade policies and engaging in humanitarian activities. While sustainability reports are voluntary in the US, companies that prepare them do so to communicate information about these initiatives to enhance their reputation with key stakeholders. Some public companies have begun providing this information with their annual financial reports.



Mandatory audit firm rotation is still a hot topic

Many of the panelists who participated in the PCAOB public meeting on ways to enhance auditor independence, objectivity and professional skepticism expressed opposition to mandatory audit firm rotation. The panelists generally agreed there were other effective means to enhance audit quality and discussed a variety of alternatives. The PCAOB received more letters after reopening the comment period on the proposal, and more than 90% of respondents continue to oppose mandatory audit firm rotation. The PCAOB is continuing to gather feedback through additional outreach, which will likely extend this project into 2013. Meanwhile, similar discussions on mandatory firm rotation and other policy changes continue in a number of locations outside the US, including in the European Union.

The PCAOB contemplates changing the auditor's report

In the third quarter of 2012, the PCAOB expects to issue for public comment a proposal to modify the auditor's reporting model. In its concept release on this project, the PCAOB explored a number of options, including: disclosure of the auditor's views on important elements of a company's financial reporting and the audit, the use of emphasis-of-matter paragraphs to highlight significant matters in a company's financial statements or the audit and/or clarification of the roles and responsibilities of management and the auditor. The proposal could also include possible auditor reporting on certain matters outside the financial statements (e.g., management's discussion and analysis). Respondents to the concept release expressed mixed views on each of the alternatives presented. However, there was broad support for the existing pass-fail aspect of the auditor's report, so it is anticipated that any proposal would retain that element of reporting.

Other considerations

Definition of a nonpublic company starts to take shape

The FASB started making decisions in its project on defining a nonpublic (i.e., private) company. This definition is important for clarifying the scope of the FASB's ongoing private company initiative and the scope of certain accounting guidance that has different requirements for public and private companies. The definition would exclude entities that are required to file or furnish financial statements with the SEC for purposes of issuing debt or equity securities to be traded in public markets (either on an exchange or through an over-the-counter market). For-profit entities that are conduit bond obligors for conduit debt securities traded in public markets also would be excluded, even if they would otherwise meet the definition, while privately held financial institutions would be included. The FASB will make further clarifications before publishing a discussion paper later this year.

FAF council to enhance private company standard setting

The Financial Accounting Foundation (FAF) established a Private Company Council (the Council) and then called for candidate nominations. Based on criteria developed and agreed to with the FASB, the Council will identify, propose, deliberate and vote on specific modifications to existing US accounting standards for private companies, subject to endorsement by the FASB. The Council will also advise the FASB on how to treat private companies when developing new accounting standards.

Private companies may have simpler fair value disclosures

The FASB is considering whether private companies could provide a narrative description instead of a tabular reconciliation to explain period-over-period changes in their recurring Level 3 measurements. However, not-for-profit entities and private companies that measure substantially all of their assets at fair value on a recurring basis would likely not be eligible for this relief. The FASB is currently conducting outreach on this proposal.

Disclosure framework paper expected soon

By mid-2012, the FASB expects to issue a paper discussing a framework for improving the effectiveness of disclosures in the notes to the financial statements. The framework is intended to promote consistent decisions about disclosure requirements by the FASB and to help companies determine which parts of the required information to provide. The FASB also is considering how to improve the organization, formatting and style of the notes to financial statements.

Update likely for internal controls framework

The framework that many companies use as a baseline for designing, implementing and evaluating systems of internal control likely will be updated in the coming year. Comments received by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on its proposed update of its 1992 internal controls framework were generally supportive. However, COSO did receive requests to clarify the transition requirements, since many companies assert compliance with the current framework as part of their internal controls reporting and the proposal was unclear about when the revised framework would become effective. There were also requests to align certain concepts in the proposal with other COSO guidance and to provide further guidance on assessing the effectiveness of internal control. COSO does not plan to issue the final framework before early 2013 and may release a second exposure of the framework for public comment before then.

More FASB decisions on liquidation basis of accounting

In its ongoing project to determine how and when an entity should apply the liquidation basis of accounting, the FASB decided that a limited-life entity should not prepare financial statements using the liquidation basis of accounting if management activities are consistent with the entity's governing documents. A proposal on the liquidation basis of accounting should be issued for public comment in 2012. In light of the FASB's decision not to pursue going concern disclosures in the liquidity and interest rate risk project, the FASB decided that it may reconsider in a separate project whether management should be required to make a going-concern assessment.

Conflict minerals and executive compensation rules update

The SEC's final rules on conflict minerals and proposed rules on executive compensation are slated to be issued by 30 June 2012, although the timeline is subject to change. The conflict minerals rule would require companies to furnish reports about conflict minerals originating in the Democratic Republic of the Congo and adjoining countries. The executive compensation rules would require annual proxy statements to disclose pay-to-performance relationships, pay ratios of chief executive officers to other employees and executive compensation clawback policies.

Effective date highlights

Public companies

Effective in 2012 (for public calendar year-end companies)		Effective beginning (for calendar year-end companies)
ASU 2011-12 — 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 (ASC 220)	Fiscal years (and interim periods within those years) beginning after 15 December 2011	Q1 2012
ASU 2011-08 — Testing Goodwill for Impairment (ASC 350)	Fiscal years beginning after 15 December 2011[1]	Q1 2012
ASU 2011-07 — Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (EITF Issue 09-H; ASC 954)	Fiscal years (and interim periods within those years) beginning after 15 December 2011	Q1 2012
ASU 2011-05 — Presentation of Comprehensive Income (ASC 220)	Fiscal years (and interim periods within those years) beginning after 15 December 2011	Q1 2012
ASU 2011-04 — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASC 820)	Periods beginning after 15 December 2011	Q1 2012
ASU 2011-03 — Reconsideration of Effective Control for Repurchase Agreements (ASC 860)	Periods beginning on or after 15 December 2011	Q1 2012
ASU 2010-26 — Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (EITF 09-G; ASC 944)	Fiscal years (and interim periods within those years) beginning after 15 December 2011	Q1 2012

Effective after 2012 (for public calendar year-end companies)		Effective beginning (for calendar year-end companies)
ASU 2011-11 — Disclosures about Offsetting Assets and Liabilities (ASC 210)	Annual reporting periods beginning on or after 1 January 2013 (and interim periods within those annual periods)	Q1 2013
ASU 2011-10 — Derecognition of in Substance Real Estate — a Scope Clarification (EITF Issue 10-E; ASC 360)	Fiscal years (and interim periods within those years) beginning on or after 15 June 2012	Q1 2013
ASU 2011-06 — Fees Paid to the Federal Government by Health Insurers (EITF Issue 10-H; ASC 720)	Calendar years beginning after 31 December 2013	Q1 2014

[1] The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after 15 December 2011.

Effective date highlights

Private companies

Effective in 2012 (for private calendar year-end companies)	
ASU 2011-12 — 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 (ASC 220)	Fiscal years ending after 15 December 2012 (and interim and annual periods thereafter)
ASU 2011-09 — Disclosures about an Employer's Participation in a Multiemployer Plan (ASC 715-80)	Annual periods for fiscal years ending after 15 December 2012
ASU 2011-08 — Testing Goodwill for Impairment (ASC 350)	Fiscal years beginning after 15 December 2011[1]
ASU 2011-07 — Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (EITF Issue 09-H; ASC 954)	First annual period ending after 15 December 2012 (and interim and annual periods thereafter)
ASU 2011-05 — Presentation of Comprehensive Income (ASC 220)	Fiscal years ending after 15 December 2012 (and interim and annual periods thereafter)
ASU 2011-04 — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASC 820)	Annual periods beginning after 15 December 2011
ASU 2011-03 — Reconsideration of Effective Control for Repurchase Agreements (ASC 860)	Periods beginning on or after 15 December 2011
ASU 2011-02 — A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring (ASC 310)	Annual periods ending on or after 15 December 2012 (including interim periods within those annual periods)
ASU 2010-28 — When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (EITF Issue 10-A; ASC 350)	Fiscal years (and interim periods within those years) beginning after 15 December 2011
ASU 2010-26 — Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (EITF 09-G; ASC 944)	Fiscal years (and interim periods within those years) beginning after 15 December 2011

Effective after 2012 (for private calendar year-end companies)	
ASU 2011-11 — Disclosures about Offsetting Assets and Liabilities (ASC 210)	Annual reporting periods beginning on or after 1 January 2013 (and interim periods within those annual periods)
ASU 2011-10 — Derecognition of in Substance Real Estate — a Scope Clarification (EITF Issue 10-E; ASC 360)	Fiscal years ending after 15 December 2013 (and interim and annual periods thereafter)
ASU 2011-06 — Fees Paid to the Federal Government by Health Insurers (EITF Issue 10-H; ASC 720)	Calendar years beginning after 31 December 2013

[1] The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after 15 December 2011.

Reference library

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To the Point

- Boards to reconsider key issues in revenue recognition project (24 May 2012)
- Media and entertainment entities raise key issues in revenue recognition project (24 May 2012)
- Technology entities raise key issues in revenue recognition project (24 May 2012)
- Leading practices for a smooth IPO registration (24 May 2012)
- Classification and measurement – the GAAP continues to narrow (23 May 2012)
- Classification and measurement – narrowing the GAAP (19 April 2012)
- Impairment of financial assets – a step closer to completion (19 April 2012)
- PCAOB public meeting on auditor independence and audit firm rotation (27 March 2012)
- JOBS Act to promote capital formation (23 March 2012)
- PCAOB proposals on related parties and significant unusual transactions (22 March 2012)

Technical Line

- Implementing the JOBS Act (17 May 2012)
- Recognizing revenue on the sale of virtual goods (22 March 2012)

Financial reporting developments

- Discontinued operations (May 2012)
- Revenue recognition: Multiple element arrangements (May 2012)
- Insurance contract modifications or exchanges (May 2012)
- Statement of cash flows (May 2012)
- Transfers and servicing of financial assets (April 2012)
- Share-based payment (October 2011)

Archived webcasts

- Accounting for income taxes: a quarterly perspective (27 March 2012, Duration: 01:00)
- Ernst & Young Q1 2012 financial reporting update (22 March 2012, Duration: 01:00)

Comment letters

- PCAOB proposal on rules and form amendments related to broker dealers (30 April 2012)
- Proposed ASU on testing indefinite-lived intangible assets for impairment (24 April 2012)
- Exposure draft of Internal Control – Integrated Framework (30 March 2012)

Other

- Proxy Perspectives: Proxy season 2012 – early voting results (May 2012)
- 2011 SEC annual reports – Form 10-K (April 2012)
- 2012 SEC quarterly reports – Form 10-Q (April 2012)
- BoardMatters Quarterly (April 2012)
- First quarter 2012 Standard Setter Update (April 2012)
- Proxy season 2012: Trends in proxy statement disclosure (April 2012)
- SEC in Focus (April 2012)
- Joint Project Watch: FASB/IASB joint projects from a US GAAP perspective (March 2012)
- Quarterly tax developments (March 2012)

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Item	6b
Topic	Periodic report on investments
Presenter	Leslie Wiley
Purpose	Provide investment overview for Committee

Investment Compliance as of April 30, 2012

Standard	Compliance
Money market mutual funds invested in U.S. treasury securities or a combination of U.S. treasury securities and repurchase agreements backed by U.S. treasury securities.	Yes
Credit Analysis reviewed by Investment Officers	Yes
Concentration analysis reviewed by Investment Officers	Yes
No more than 40 percent of the portfolio shall be invested in repurchase agreements across all money market mutual funds.	Yes
No more than 10% of investable funds will be maintained in any one fund.	Yes
Direct Treasuries reviewed by Investment officers	Yes - No treasuries purchased directly.
Has assets under management in the fund of at least $1 billion	Yes

Electric Reliability Council of Texas, Inc.
Summary of Investment Results
As of April 30,2012
(in 000's)

Investment Funds (Note 1)	Balance	Interest	Yield	% of portfolio
BlackRock Institutional T-Fund (60) MMF	-	-	0.00%	0%
BlackRock Institutional Treasury Trust Fund MMF	46,001	0.0	0.00%	9%
Dreyfus Treasury Prime Cash Management MMF	46,000	0.0	0.00%	9%
Federated Fund 068 Treasury Obligations Fund	-	-	0.00%	0%
Federated Fund 0125 US Treasury Cash Reserves Fund	46,000	-	0.00%	9%
Fidelity 695 Institutional MMF: Treasury Portfolio	-	-	0.00%	0%
Fidelity 680 Institutional MMF: Treasury Only Portfolio	46,000	0.1	0.00%	9%
Goldman Sachs Treasury Instruments Fund 506	46,000	0.0	0.00%	9%
Invesco Institutional Treasury Portfolio	46,008	0.8	0.01%	9%
JP Morgan Chase US Treasury Plus MM Fund	46,000	-	0.00%	9%
Morgan Stanley Fund 8304 Treasury	46,003	1.2	0.01%	9%
State Street Global Advisors Institutional Treasury MMF	45,000	-	0.00%	9%
Wells Fargo Institutional Treasury Plus MMF	46,002	-	0.00%	9%
Wells Fargo 100% Treasury MMF		0.4	0.00%	0%
Western Asset Institutional US Treasury Reserves	46,003	0.4	0.00%	9%
Sub-Total	505,017	2.9		100%
Other cash net of outstanding checks (Note 2)	26			
Total cash and cash equivalents (est)	505,043			

Benchmark data (Note 3)

Four Week T-Bill:	0.07%	
Other open relevant Treasury MMFs:	0.01%	(Range: 0.00% - 0.02%)

Notes

Note 1: In compliance with the Investment Corporate Standard, these funds invest in Treasuries or obligations backed by US Treasuries.

Note 2: All other cash, net of outstanding checks, held by ERCOT in bank accounts as of April 30, 2012.

Note 3: Benchmark data obtained as of April 30, 2012 for T-Bills and for comparable funds for which quotes are periodically obtained. Funds not currently open for investment are not included in range. Note that due diligence has not been performed on funds included in the benchmark and included funds may not meet ERCOT investment standards.

Note 4: Monthly holding reports are available for review upon request.

Statement of Compliance

Upon a review of the investment activity, I have no knowledge of any ERCOT action that does not comply with that required by the Investment Corporate Standard since the last report provided to the Finance and Audit Committee.

June 18, 2012

Signature on File

Michael Petterson Vice President Finance and Treasury

Repurchase Agreement Analysis

Instrument	Date	ERCOT Value	Percent of ERCOT Portfolio	Total Fund Amount
Treasuries	04/30/2012	$386,721,668	76.58%	$147,614,281,248
Repurchase Agreements		$118,295,833	23.42%	$31,462,984,782
Total		**$505,017,501**	**100%**	**$179,077,266,030**

Concentration Analysis as of 4/30/12

ERCOT Investment	Security	Par Value	Percent Weight of ERCOT Portfolio
$17,342,066	Barclays Capital Inc.. Total	$5,472,895,000	14.66%
$13,151,568	Societe Generale Total	$2,700,000,000	11.12%
$12,014,919	Credit Suisse Securities USA Total	$3,125,000,000	10.16%
$11,902,447	Deutsche Bank Securities Inc.. Total	$2,912,500,000	10.06%
$10,698,162	RBS Securities Inc.. Total	$2,600,000,000	9.04%
$10,311,521	UBS Securities LLC Total	$1,900,000,000	8.72%
$7,492,626	Merrill Lynch Pierce Fenner Smith Inc. Total	$1,952,688,782	6.33%
$6,293,629	BNP Paribas Securities Corp Total	$1,535,000,000	5.32%
$5,739,511	HSBC Securities USA Total	$1,600,000,000	4.85%
$3,981,371	Bank of Nova Scotia Total	$560,000,000	3.37%
$3,048,834	SG Americas Sec Tri Party CB Repo Total	$750,000,000	2.58%
$2,984,605	Royal BK Scotlndcayman var Total	$734,200,000	2.52%
$2,479,326	Wells Fargo Securities LLC Total	$500,000,000	2.10%
$1,965,397	RBC Capital Markets Corp Total	$700,000,000	1.66%
$1,697,271	Credit Agricole CIB Total	$390,000,000	1.43%
$1,670,754	ABN Amro Securities LLC Total	$235,000,000	1.41%
$1,403,855	Bank of Montreal Total	$500,000,000	1.19%
$1,403,855	BMO Capital Markets Corp Total	$500,000,000	1.19%
$1,171,309	Morgan Stanley Co Inc. Total	$350,000,000	0.99%
$782,055	TD Securities USA Total	$110,000,000	0.66%
$406,517	Goldman Sachs Co Tri Party Repo Total	$1,740,000,000	0.34%
$280,771	CIBC World Markets Corp Total	$100,000,000	0.24%
$71,096	JP Morgan Clearing Corp Total	$10,000,000	0.06%
$2	Bank of America Tri Party Repo Total	$485,000,000	0.00%
$0	State Street Bank and Trust Co Total	$701,000	0.00%

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Item	6c
Topic	Nodal Cost Filing
Presenter	Grady Roberts
Purpose	Provide update to Committee

To:	Finance and Audit Committee
From:	Bill Magness, ERCOT Vice President, General Counsel and Corporate Secretary
Date:	June 11, 2012
Re:	Filing of Nodal Cost Accounting at the Public Utility Commission of Texas (PUCT)

ERCOT is required to file with the PUCT, by July 1, 2012, an accounting of the final costs of implementing the nodal market. *See, Petition of the Electric Reliability Council of Texas for Approval of Revision to the Final Order in Docket No. 32686,* Docket No. 39865, *Order,* at 4 (December 19, 2011). ERCOT staff has prepared the documentation it expects to file in the PUCT docket, and has attached it for review by the Finance & Audit Committee.

The filing is the first step in a two-step review process established by the PUCT in the first docket approving a special purpose surcharge to pay for nodal market implementation. The PUCT ordered ERCOT to ”file with the Commission within 12 months after the Nodal market ‘goes live’ and again within 12 months after ERCOT stops collecting the nodal surcharge an accounting of the costs and revenues of implementing the Nodal market.” *See, Application of the Electric Reliability Council of Texas For Approval of a Nodal Market Implementation Surcharge And Request For Interim Relief*, Docket No. 32686, *Order Nunc Pro Tunc*, at 2 (June 13, 2007).

Based on the December 1, 2010 nodal “go live” date, the first filing required by the PUCT order was originally due December 1, 2011. In Docket No. 39865, the PUCT granted ERCOT’s request to extend that filing date to July 1, 2011 (due to the need to reconcile approved post-go-live nodal surcharge expenditures that occurred during calendar year 2011). ERCOT will make the second filing within one year of the date it ceases collecting the nodal surcharge; we currently expect to complete collection of the surcharge in early 2013.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 1: Summary of Costs by Category

Line	Cost Category	*Reference*	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor		$ 81,975,687	$ 6,052,042	$ 88,027,728	16.3%
2	External Resource		274,045,043	11,239,194	285,284,237	52.7%
3	Administrative & Employee Expenses		2,067,982	39,365	2,107,347	0.4%
4	Software & Software Maintenance		36,236,409	4,043,928	40,280,337	7.4%
5	Hardware & Hardware Maintenance		49,295,959	2,455,901	51,751,861	9.6%
6	Subtotal - Direct Costs		443,621,079	23,830,430	467,451,509	86.3%
7	Backfill		6,336,184	-	6,336,184	1.2%
8	Indirect Support Allocation		15,664,674	-	15,664,674	2.9%
8	Facilities Allocation		7,317,153	-	7,317,153	1.4%
9	Interest Expense		36,496,635	8,330,528	44,827,163	8.3%
10	Subtotal - Indirect Costs		65,814,645	8,330,528	74,145,173	13.7%
11						
12	Total - Nodal Program Costs	*S2*	**$ 509,435,724**	**$ 32,160,959**	**$ 541,596,683**	**100%**

The costs shown are the Nodal direct and indirect costs (including interest expense) through December 31, 2011. Interest will continue to be incurred daily until revenue surcharges have recovered the Nodal debt balance. The 2012 interest expense is $1,566,971 as of April 30th, 2012 and is projected to total $3,153,158 at the end of the year.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 2: Summary of Costs by Nodal Asset

Line	Description	*Reference*	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Market Management System (MMS)	*S3*	$ 121,474,666	$ 433,340	$ 121,908,006	22.5%
2	Energy Management System (EMS)	*S4*	61,588,842	419,983	62,008,825	11.4%
3	External Web Services (EWS)	*S5*	52,113,946	169,730	52,283,676	9.7%
4	Market Information System (MIS)	*S6*	33,893,928	255,749	34,149,677	6.3%
5	Settlement and Billing (S&B)	*S7*	28,461,257	230,377	28,691,633	5.3%
6	Network Model Management System (NMMS)	*S8*	27,085,687	290,614	27,376,301	5.1%
7	Enterprise Data Warehouse (EDW)	*S9*	27,011,860	141,437	27,153,297	5.0%
8	Congestion Revenue Rights (CRR)	*S10*	18,799,051	78,931	18,877,982	3.5%
9	Current-Day Reports (CDR)	*S11*	15,370,502	29,175	15,399,677	2.8%
10	Commercial Systems Integration (CSI)	*S12*	11,189,896	29,795	11,219,691	2.1%
11	Credit Management Module (CMM)	*S13*	8,090,398	235,814	8,326,211	1.5%
12	Registration (REG)	*S14*	5,534,598	160,264	5,694,862	1.1%
13	Market Participant Identity Management (MPIM)	*S15*	5,114,643	10,189	5,124,832	0.9%
14	Outage Scheduler (OS)	*S16*	2,891,479	384,375	3,275,854	0.6%
15	ERCOT Visibility (Openview)	*S17*	2,743,704	356,877	3,100,581	0.6%
16	Planning Model On Demand (MOD)	*S18*	1,455,606	5,477	1,461,083	0.3%
17	ERCOT.com Website Enhancements	*S19*	112,198	-	112,198	0.0%
18	Program Operating Expense	*S20*	86,503,463	28,928,832	115,432,295	21.3%
19			**$ 509,435,724**	**$ 32,160,959**	**$ 541,596,683**	**100%**

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 3: Market Management System (MMS)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 15,544,948	$ 352,183	$ 15,897,130	13.0%
2	External Resource	82,020,516	67,831	82,088,347	67.3%
3	Administrative & Employee Expenses	121,845	-	121,845	0.1%
4	Software & Software Maintenance	5,324,327	-	5,324,327	4.4%
5	Hardware & Hardware Maintenance	7,125,763	2,266	7,128,029	5.8%
6	Subtotal - Direct Costs	110,137,399	422,279	110,559,679	90.7%
7	Backfill	19,641	-	19,641	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	11,317,626	11,061	11,328,686	9.3%
10	Subtotal - Indirect Costs	11,337,267	11,061	11,348,328	9.3%
11					
12	Total - Asset Costs	**$ 121,474,666**	**$ 433,340**	**$ 121,908,006**	**100%**

Market Management System (MMS), a real-time mission critical system, consists of a set of market clearing engines and a relational database housing the set of market rules as defined in the ERCOT protocols to be used in operating and managing the ERCOT markets – Day Ahead Market, Ancillary Services, Reliability Unit Commitment, Congestion Revenue Rights, and the Real-Time Security Constrained Economic Dispatch/Locational Marginal Price Calculator.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 4: Energy Management System (EMS)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 9,265,244	$ 262,266	$ 9,527,510	15.4%
2	External Resource	39,881,883	143,855	40,025,738	64.5%
3	Administrative & Employee Expenses	119,023	-	119,023	0.2%
4	Software & Software Maintenance	3,189,245	-	3,189,245	5.1%
5	Hardware & Hardware Maintenance	4,996,283	2,770	4,999,054	8.1%
6	Subtotal - Direct Costs	57,451,678	408,891	57,860,569	93.3%
7	Backfill	30,609	-	30,609	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	4,106,556	11,092	4,117,647	6.6%
10	Subtotal - Indirect Costs	4,137,164	11,092	4,148,256	6.7%
11					
12	Total - Asset Costs	**$ 61,588,842**	**$ 419,983**	**$ 62,008,825**	**100%**

Energy Management Systems (EMS) is a mission critical system designed to operate the power grid in real-time – the functionality includes communicating to the market through Inter-Control Center Communications Protocol (ICCP)/ Remote Terminal Unit (RTU), Supervisory Control and Data Acquisition, Load Forecast, Renewable Power Production forecast, Frequency Control, and a suite of Network Applications containing the State Estimator, Contingency Analysis, real time stability analysis tool, as well as power flow and stability tools used in study applications such as outage coordination studies.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 5: External Web Services (EWS)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 6,923,122	$ 161,406	$ 7,084,528	13.6%
2	External Resource	33,623,462	-	33,623,462	64.3%
3	Administrative & Employee Expenses	51,103	-	51,103	0.1%
4	Software & Software Maintenance	2,046,557	-	2,046,557	3.9%
5	Hardware & Hardware Maintenance	4,905,773	2,672	4,908,445	9.4%
6	Subtotal - Direct Costs	47,550,017	164,077	47,714,095	91.3%
7	Backfill	7,828	-	7,828	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	4,556,101	5,653	4,561,754	8.7%
10	Subtotal - Indirect Costs	4,563,929	5,653	4,569,582	8.7%
11					
12	Total - Asset Costs	**$ 52,113,946**	**$ 169,730**	**$ 52,283,676**	**100%**

External Web Services (EWS) provides machine to machine Application Programming Interface (APIs) to external Market Participants and the Market Information System (MIS) Portal.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 6: Market Information System (MIS)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 4,819,708	$ 228,075	$ 5,047,783	14.8%
2	External Resource	19,340,965	18,289	19,359,254	56.7%
3	Administrative & Employee Expenses	115,641	-	115,641	0.3%
4	Software & Software Maintenance	1,943,113	-	1,943,113	5.7%
5	Hardware & Hardware Maintenance	4,744,643	3,228	4,747,871	13.9%
6	Subtotal - Direct Costs	30,964,070	249,591	31,213,661	91.4%
7	Backfill	4,482	-	4,482	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	318	-	318	0.0%
9	Interest Expense	2,925,058	6,157	2,931,216	8.6%
10	Subtotal - Indirect Costs	2,929,858	6,157	2,936,016	8.6%
11					
12	Total - Asset Costs	**$ 33,893,928**	**$ 255,749**	**$ 34,149,677**	**100%**

The Market Information System (MIS) Portal is the primary Nodal Market Participant interface providing both Graphical User Interface (GUI) and web service interfaces. The MIS is the means by which Market Participants access reports generated by Current-Day Reports (CDR) or Enterprise Data Warehouse (EDW).

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 7: Settlements & Billing (S&B)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 8,279,279	$ 186,275	$ 8,465,554	29.5%
2	External Resource	13,597,360	38,635	13,635,994	47.5%
3	Administrative & Employee Expenses	24,842	-	24,842	0.1%
4	Software & Software Maintenance	1,889,607	-	1,889,607	6.6%
5	Hardware & Hardware Maintenance	2,114,758	1,462	2,116,220	7.4%
6	Subtotal - Direct Costs	25,905,845	226,371	26,132,217	91.1%
7	Backfill	177,978	-	177,978	0.6%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	2,377,433	4,005	2,381,438	8.3%
10	Subtotal - Indirect Costs	2,555,411	4,005	2,559,417	8.9%
11					
12	Total - Asset Costs	**$ 28,461,257**	**$ 230,377**	**$ 28,691,633**	**100%**

The main function of the Settlements & Billing (S&B) component is to generate the settlement statements and invoices as prescribed by the protocols for both the Day Ahead Market (DAM) and Real-Time Market (RTM).

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 8: Network Model Management System (NMMS)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 5,546,409	$ 69,664	$ 5,616,073	20.5%
2	External Resource	15,783,515	215,458	15,998,973	58.4%
3	Administrative & Employee Expenses	36,091	-	36,091	0.1%
4	Software & Software Maintenance	2,609,914	-	2,609,914	9.5%
5	Hardware & Hardware Maintenance	1,980,457	1,145	1,981,602	7.2%
6	Subtotal - Direct Costs	25,956,387	286,266	26,242,653	95.9%
7	Backfill	4,465	-	4,465	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	1,124,835	4,348	1,129,183	4.1%
10	Subtotal - Indirect Costs	1,129,300	4,348	1,133,648	4.1%
11					
12	Total - Asset Costs	**$ 27,085,687**	**$ 290,614**	**$ 27,376,301**	**100%**

The purpose of the Network Model Management System (NMMS) is to: (a) provide capabilities to input, edit network model data and validate the data for use in numerous applications; and (b) create network model cases to be used for annual planning, Congestion Revenue Rights auctions, Dynamic Simulation and Network Operations models; deploying these network cases to the production system so the model data can be used in the respective applications when the corresponding equipment is operational in the field.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 9: Enterprise Data Warehouse (EDW)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 5,979,132	$ 123,718	$ 6,102,850	22.5%
2	External Resource	8,964,741	11,279	8,976,020	33.1%
3	Administrative & Employee Expenses	67,749	-	67,749	0.2%
4	Software & Software Maintenance	2,977,226	-	2,977,226	11.0%
5	Hardware & Hardware Maintenance	7,619,696	3,791	7,623,487	28.1%
6	Subtotal - Direct Costs	25,608,544	138,788	25,747,332	94.8%
7	Backfill	3,831	-	3,831	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	1,399,485	2,649	1,402,135	5.2%
10	Subtotal - Indirect Costs	1,403,316	2,649	1,405,965	5.2%
11					
12	Total - Asset Costs	**$ 27,011,860**	**$ 141,437**	**$ 27,153,297**	**100%**

The Enterprise Data Warehouse (EDW)/ Enterprise Information Services (EIS) is the repository of all the archived data and provides extracts/reports for Market Participants, compliance reporting as well as market monitoring and market analysis.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 10: Congestion Revenue Rights (CRR)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 3,063,355	$ 36,447	$ 3,099,802	16.4%
2	External Resource	9,143,635	39,665	9,183,300	48.6%
3	Administrative & Employee Expenses	32,817	-	32,817	0.2%
4	Software & Software Maintenance	1,908,059	-	1,908,059	10.1%
5	Hardware & Hardware Maintenance	3,016,120	1,555	3,017,674	16.0%
6	Subtotal - Direct Costs	17,163,986	77,667	17,241,653	91.3%
7	Backfill	24,224	-	24,224	0.1%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	1,610,841	1,264	1,612,105	8.5%
10	Subtotal - Indirect Costs	1,635,065	1,264	1,636,329	8.7%
11					
12	Total - Asset Costs	**$ 18,799,051**	**$ 78,931**	**$ 18,877,982**	**100%**

The Congestion Revenue Rights (CRR) component is to auction the available network capacity of the ERCOT Transmission System that is not allocated to Non Opt-In Entities (NOIEs), Wind Generation Resources (WGR) or sold in previous auctions and to facilitate bilateral trading on the Market Information System (MIS).

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 11: Current-Day Reports (CDR)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 2,185,682	$ 28,683	$ 2,214,365	14.4%
2	External Resource	8,770,903	-	8,770,903	57.0%
3	Administrative & Employee Expenses	52,442	-	52,442	0.3%
4	Software & Software Maintenance	881,179	-	881,179	5.7%
5	Hardware & Hardware Maintenance	2,151,640	368	2,152,009	14.0%
6	Subtotal - Direct Costs	14,041,846	29,052	14,070,897	91.4%
7	Backfill	2,032	-	2,032	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	144	-	144	0.0%
9	Interest Expense	1,326,480	123	1,326,603	8.6%
10	Subtotal - Indirect Costs	1,328,657	123	1,328,780	8.6%
11					
12	Total - Asset Costs	**$ 15,370,502**	**$ 29,175**	**$ 15,399,677**	**100%**

The Current-Day Reports (CDR) system provides access to reports, policies, guidelines, procedures, forms and applications, as required by the Nodal protocols. Reports delivered by CDR include data with a latency of less than eight hours, and will be either in the form of predefined, scheduled reports, or reports that are generated on demand and as data end points to External Web Services (EWS).

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 12: Commercial Systems Integration (CSI)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 3,255,101	$ 28,690	$ 3,283,792	29.3%
2	External Resource	5,345,970	-	5,345,970	47.6%
3	Administrative & Employee Expenses	9,767	-	9,767	0.1%
4	Software & Software Maintenance	742,922	-	742,922	6.6%
5	Hardware & Hardware Maintenance	831,443	189	831,632	7.4%
6	Subtotal - Direct Costs	10,185,204	28,879	10,214,083	91.0%
7	Backfill	69,974	-	69,974	0.6%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	934,717	915	935,633	8.3%
10	Subtotal - Indirect Costs	1,004,692	915	1,005,607	9.0%
11					
12	Total - Asset Costs	**$ 11,189,896**	**$ 29,795**	**$ 11,219,691**	**100%**

Commercial Systems Integration (CSI) integrates upstream operational systems with downstream billing and financial and risk management systems (collectively known as commercial systems).

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 13: Credit Management Module (CMM)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 2,152,093	$ 186,250	$ 2,338,343	28.1%
2	External Resource	3,476,573	41,209	3,517,782	42.2%
3	Administrative & Employee Expenses	10,179	-	10,179	0.1%
4	Software & Software Maintenance	689,013	-	689,013	8.3%
5	Hardware & Hardware Maintenance	1,120,355	583	1,120,939	13.5%
6	Subtotal - Direct Costs	7,448,213	228,043	7,676,256	92.2%
7	Backfill	42,593	-	42,593	0.5%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	599,591	7,771	607,363	7.3%
10	Subtotal - Indirect Costs	642,185	7,771	649,956	7.8%
11					
12	Total - Asset Costs	**$ 8,090,398**	**$ 235,814**	**$ 8,326,211**	**100%**

The purpose of the Credit Monitoring and Management (CMM) application is to provide a software tool for the ERCOT credit staff to ensure financial credit risks to the Market Participants are monitored and mitigated, if needed. Essentially, the CMM application serves two high level purposes, to: (a) determine the credit exposure of the participants in the ERCOT markets; and (b) ascertain whether Market Participants meet credit standards and acquire necessary collateral instruments from them, if needed.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 14: Registration (REG)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 1,083,374	$ 152,008	$ 1,235,382	21.7%
2	External Resource	1,627,841	3,896	1,631,737	28.7%
3	Administrative & Employee Expenses	12,763	-	12,763	0.2%
4	Software & Software Maintenance	764,695	-	764,695	13.4%
5	Hardware & Hardware Maintenance	1,769,253	875	1,770,128	31.1%
6	Subtotal - Direct Costs	5,257,926	156,779	5,414,704	95.1%
7	Backfill	13,691	-	13,691	0.2%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	262,982	3,485	266,467	4.7%
10	Subtotal - Indirect Costs	276,673	3,485	280,157	4.9%
11					
12	Total - Asset Costs	**$ 5,534,598**	**$ 160,264**	**$ 5,694,862**	**100%**

The Registrations system (REG) is where Market Participant entity relationships are defined and propagated to the rest of the ERCOT systems.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 15: Market Participant Identity Management (MPIM)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 924,467	$ 9,257	$ 933,724	18.2%
2	External Resource	2,284,737	-	2,284,737	44.6%
3	Administrative & Employee Expenses	8,986	-	8,986	0.2%
4	Software & Software Maintenance	456,374	-	456,374	8.9%
5	Hardware & Hardware Maintenance	1,158,809	583	1,159,392	22.6%
6	Subtotal - Direct Costs	4,833,373	9,840	4,843,213	94.5%
7	Backfill	505	-	505	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	280,765	349	281,115	5.5%
10	Subtotal - Indirect Costs	281,270	349	281,619	5.5%
11					
12	Total - Asset Costs	**$ 5,114,643**	**$ 10,189**	**$ 5,124,832**	**100%**

Market Participant Identity Management (MPIM) is a single application that manages Market Participant access to ERCOT Systems.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 16: Outage Scheduler (OS)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 936,417	$ 160,455	$ 1,096,872	33.5%
2	External Resource	1,484,809	210,795	1,695,604	51.8%
3	Administrative & Employee Expenses	2,247	-	2,247	0.1%
4	Software & Software Maintenance	75,267	-	75,267	2.3%
5	Hardware & Hardware Maintenance	171,766	2,010	173,776	5.3%
6	Subtotal - Direct Costs	2,670,505	373,260	3,043,765	92.9%
7	Backfill	473	-	473	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	220,501	11,114	231,615	7.1%
10	Subtotal - Indirect Costs	220,974	11,114	232,088	7.1%
11					
12	Total - Asset Costs	**$ 2,891,479**	**$ 384,375**	**$ 3,275,854**	**100%**

The Outage Scheduler (OS) supports the ability to submit transmission equipment and generation resource outage requests and to manage those requests throughout their life cycles. The Outage Scheduler makes outage data available to other ERCOT systems and provides the capability for managing outage life cycles including enforcing outage scheduling rules.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 17: ERCOT Visibility (Openview)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 468,679	$ 45,814	$ 514,492	16.6%
2	External Resource	913,924	309,575	1,223,499	39.5%
3	Administrative & Employee Expenses	5,260	-	5,260	0.2%
4	Software & Software Maintenance	1,127,606	-	1,127,606	36.4%
5	Hardware & Hardware Maintenance	(17,538)	-	(17,538)	-0.6%
6	Subtotal - Direct Costs	2,497,930	355,389	2,853,319	92.0%
7	Backfill	184	-	184	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	245,590	1,488	247,078	8.0%
10	Subtotal - Indirect Costs	245,775	1,488	247,263	8.0%
11					
12	Total - Asset Costs	**$ 2,743,704**	**$ 356,877**	**$ 3,100,581**	**100%**

ERCOT Visibility (Openview)/ Business Service Management (BSM) provides the framework in which ERCOT can bring the various, deployed departmental monitoring tools into one event stream to provide a holistic view of systems at ERCOT. BSM allows the management of IT infrastructure components in an ordered, standardized manner, defining rules, actions and alerting characteristics on faults or potential issues in the environment. It is primarily used for monitoring servers, devices, networks, databases & applications to ensure faults are detected and alerted upon in a timely manner.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 18: Planning Model On Demand (MOD)

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 298,068	$ 5,203	$ 303,271	20.8%
2	External Resource	848,218	-	848,218	58.1%
3	Administrative & Employee Expenses	1,940	-	1,940	0.1%
4	Software & Software Maintenance	140,259	-	140,259	9.6%
5	Hardware & Hardware Maintenance	106,431	22	106,453	7.3%
6	Subtotal - Direct Costs	1,394,916	5,224	1,400,141	95.8%
7	Backfill	240	-	240	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	60,450	253	60,702	4.2%
10	Subtotal - Indirect Costs	60,689	253	60,942	4.2%
11					
12	Total - Asset Costs	**$ 1,455,606**	**$ 5,477**	**$ 1,461,083**	**100%**

Planning Model On Demand (MOD) is a temporal based model staging tool used to build time-targeted branch models for use in steady-state power flow cases. MOD is an integral part of the consolidation of network modeling databases used by ERCOT.

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 19: ERCOT.com Website Enhancements

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 30,535	$ -	$ 30,535	27.2%
2	External Resource	65,216	-	65,216	58.1%
3	Administrative & Employee Expenses	39	-	39	0.0%
4	Software & Software Maintenance	(194)	-	(194)	-0.2%
5	Hardware & Hardware Maintenance	(1,574)	-	(1,574)	-1.4%
6	Subtotal - Direct Costs	94,022	-	94,022	83.8%
7	Backfill	22	-	22	0.0%
8	Indirect Support Allocation	-	-	-	0.0%
8	Facilities Allocation	-	-	-	0.0%
9	Interest Expense	18,154	-	18,154	16.2%
10	Subtotal - Indirect Costs	18,176	-	18,176	16.2%
11					
12	Total - Asset Costs	**$ 112,198**	**$ -**	**$ 112,198**	**100%**

The sales tax refund, from obtaining 501(c)(4) status in 2009, was allocated across the Nodal Assets. For the ERCOT.com asset, this credit allocation exceeds the expenses for software and hardware leaving a credit total balance in those cost categories. The software actual expense is $296.95 with the sales tax credit being ($491.22). The hardware actual expense is $0.00 with the sales tax credit being ($1,573.87).

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 20: Program Operating Expense

Line	Cost Category	Cost at Nodal Go-Live (December 1st, 2010)	Cost during Nodal Stabilization Period (December 31st, 2011)	Total	% Total
1	Internal Labor	$ 11,220,074	$ 4,015,648	$ 15,235,722	13.2%
2	External Resource	26,870,776	10,138,707	37,009,484	32.1%
3	Administrative & Employee Expenses	1,395,249	39,365	1,434,614	1.2%
4	Software & Software Maintenance	9,471,239	4,043,928	13,515,167	11.7%
5	Hardware & Hardware Maintenance	5,501,881	2,432,383	7,934,264	6.9%
6	Subtotal - Direct Costs	54,459,219	20,670,032	75,129,251	65.1%
7	Backfill	5,933,411	-	5,933,411	5.1%
8	Indirect Support Allocation	15,664,674	-	15,664,674	13.6%
8	Facilities Allocation	7,316,690	-	7,316,690	6.3%
9	Interest Expense	3,129,470	8,258,800	11,388,270	9.9%
10	Subtotal - Indirect Costs	32,044,244	8,258,800	40,303,044	34.9%
11					
12	Total - Asset Costs	**$ 86,503,463**	**$ 28,928,832**	**$ 115,432,295**	**100%**

Electric Reliability Council of Texas, Inc. (ERCOT)
Nodal Program Costs
Schedule 21: Projected Recovery of Nodal Program Costs

	Date	Beginning balance to be recovered	Plus interest expense	Plus Post Go-Live expenditures	Less Nodal Surcharge revenue	Ending balance to be recovered
	Dec-10	$ 222,687,389	$ 776,229	2,085,624	9,111,585	$ 216,437,657
	Jan-11	216,437,657	738,017	1,710,249	9,845,438	209,040,485
	Feb-11	209,040,485	684,826	1,740,796	8,771,033	202,695,073
	Mar-11	202,695,073	747,105	2,061,294	8,492,640	197,010,832
	Apr-11	197,010,832	738,504	2,054,351	9,230,014	190,573,673
	May-11	190,573,673	696,642	1,926,982	10,344,582	182,852,714
	Jun-11	182,852,714	660,668	1,981,484	12,681,198	172,813,668
Actual	Jul-11	172,813,668	654,901	1,460,068	13,634,182	161,294,454
	Aug-11	161,294,454	626,277	1,805,128	14,360,179	149,365,680
	Sep-11	149,365,680	590,179	1,602,984	11,239,524	140,319,320
	Oct-11	140,319,320	544,675	1,774,343	9,259,520	133,378,817
	Nov-11	133,378,817	452,180	1,927,172	8,271,182	127,486,988
	Dec-11	127,486,988	420,326	1,692,268	9,540,002	120,059,580
	Jan-12	120,059,580	437,624	7,691	9,041,185	111,463,709
	Feb-12	111,463,709	389,718	-	8,370,276	103,483,151
	Mar-12	103,483,151	391,468	-	8,749,187	95,125,432
	Apr-12	95,125,432	348,162	-	9,163,566	86,310,027
	May-12	86,310,027	352,886	-	10,938,497	75,724,416
	Jun-12	75,724,416	315,152	-	12,200,900	63,838,669
	Jul-12	63,838,669	271,446	-	13,688,633	50,421,481
Estimated	Aug-12	50,421,481	222,232	-	13,409,427	37,234,286
	Sep-12	37,234,286	170,488	-	11,377,256	26,027,518
	Oct-12	26,027,518	123,042	-	9,538,870	16,611,690
	Nov-12	16,611,690	82,932	-	8,621,835	8,072,786
	Dec-12	8,072,786	48,010	-	8,120,797	0
	Jan-13	0	-	-	-	0
	Feb-13	0	-	-	-	0
	Total	n/a	**$ 11,483,687**	**$ 23,830,430**	**$ 258,001,506**	n/a

Notes:
1. Beginning balance to be recovered is computed as $509.4 million less $247.0 million nodal surcharge revenue during implementation and $39.7 million collected through the system administration fee for "interdependent projects".
2. Total Nodal Program implementation cost is assumed as $544.7 million ($509.4 million incurred by the go-live date+ $11.5 million interest after the go-live date + $23.8 million in post-go-live project costs).
3. Full recovery of Nodal Program implementation costs (including post go-live expenditures and finance charges) is expected on December 26, 2012.

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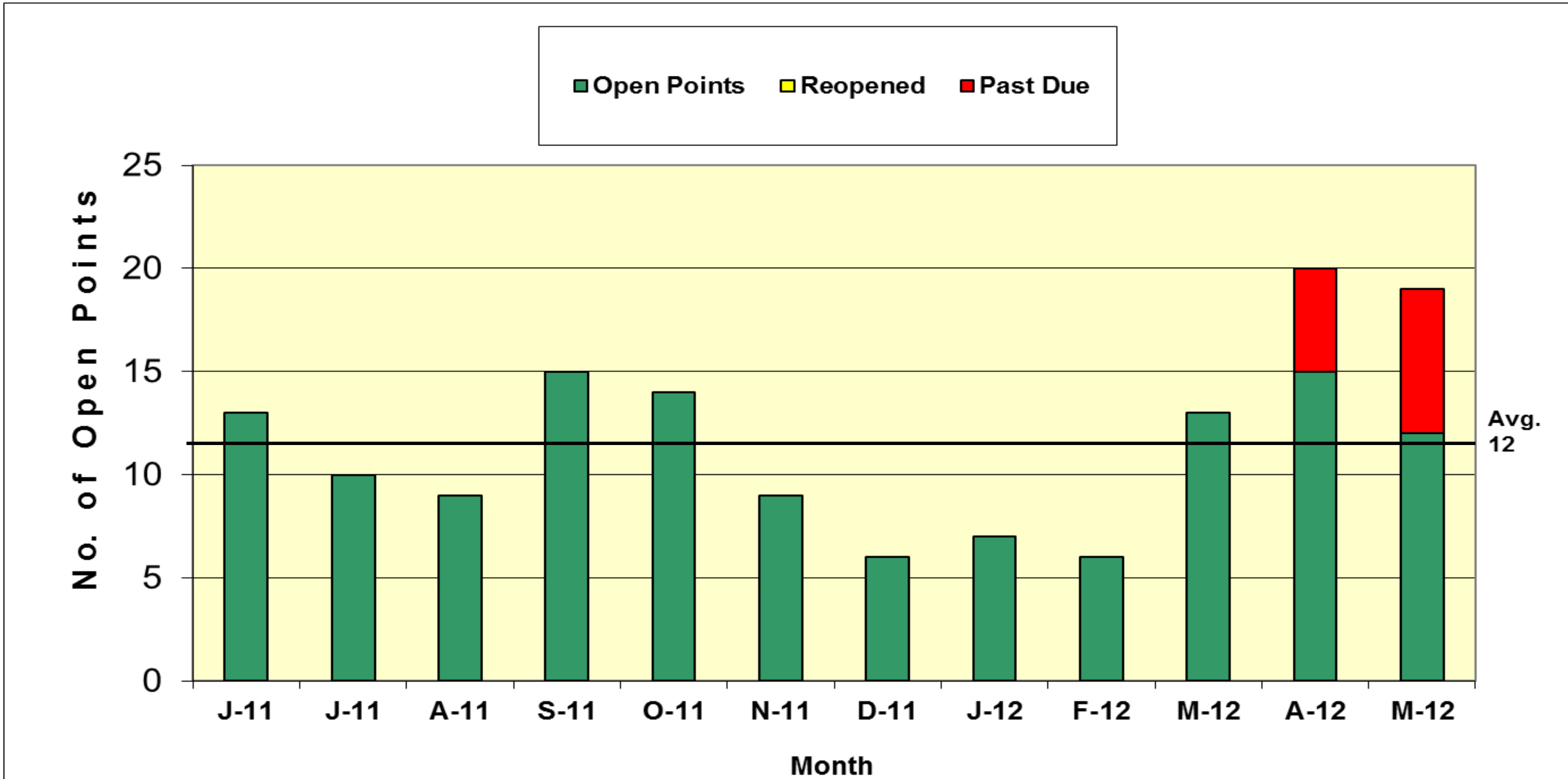
Item	6d
Topic	Status of Open Audit Points
Presenter	Oscar Macakiage
Purpose	Provide update to Committee

Committee Brief ICMP: Status of Open Audit Points



													Totals
Audits Completed	4	0	3	4	1	2	6	1	0	2	1	1	25
Points Added	7	0	2	8	0	0	3	3	0	9	12	0	44
Points Completed	7	3	3	2	1	5	6	2	1	2	5	1	38

All audit points expected to be complete by 10/31/12.

Committee Brief: ICMP – Audits

Audits Completed
(last 3 months)

Internal Audits
- Crisis Communications Procedures
- Audit of Compliance with "Must" and "Shall" Requirements in the Protocols
- Congestion Revenue Rights Processes
- Annual Report on Fraud Prevention, Monitoring and Testing

External Audits
- 2011 Financial Audit (Ernst & Young, LLP)

Audits in Progress

Internal Audits
- Review of Vendors Compliance with Contract Terms and Conditions
- Change Control / Release Management
- Protocol 1.4 Required Audit – Confidentiality Compliance Audit
- Cash and Investments
- Audit of Critical Spreadsheets
- Accounts Payable
- Review of the CDR and SARA Report

External Audits
- Nodal Program Audit (Navigant Consulting, LLC)
- 2012 Type 2 SSAE16 Audit (BrightLine CPAs & Associates, Inc.)
- Department of Energy Grant OMB A-133 audit (Ernst and Young)

Planned Audits
(next 3 months)

Internal Audits
- Business Continuity Plan (Including Disaster Recovery Plan)
- Credit Quality Assessment
- Annual Corporate Controls Testing Summary
- Nodal Protocol 3.10(5) Required Audit – Consistent Information in Operations Models
- Audit of Project Prioritization

External Audits
- None

Committee Brief: ICMP – Security Assessments

Consultation/Analysis Reports Completed

(last 3 months)

Assessments

- Consulting and Advisory Services Activity on ERCOT's Vulnerability Assessments Follow-Up Process

Open Consultation/ Analysis Reviews

(in progress)

Assessments

- Consulting Activity on ERCOT's Federal Visa and Permanent Residency Program for Foreign Nationals

Planned Consultation/ Analysis Reviews

(next 3 months)

Assessments

- None

Item	7
Topic	Future Agenda Items
Presenter	Grady Roberts
Purpose	Discuss future agenda items

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Item	8
Topic	Other Business
Presenter	Grady Roberts
Purpose	Discuss other business

Convene to Executive Session

Reconvene to Open Session

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Item	12
Topic	Vote on matters from Executive Session
Presenter	Jorge Bermudez
Purpose	Vote on matters considered during Executive Session