

## ERCOT CORPORATE STANDARD

<b>Document Name:</b>	<b>Investment Corporate Standard</b>
<b>Document ID:</b>	<b>CS3.2</b>
<b>Effective Date:</b>	<b>Upon Board Approval</b>
<b>Owner:</b>	<b>ERCOT Board of Directors and Finance &amp; Audit Committee</b>
<b>Governs:</b>	<b>ERCOT Personnel</b>
<b>Approved:</b>	<b>ERCOT Board of Directors</b>

### 1. PURPOSE

The purpose of the ERCOT Investment Corporate Standard is to document the guidelines and related activities for the investment and management of funds held by ERCOT. ERCOT invests and manages funds received from a variety of sources including:

- 1) fees described in ERCOT protocols;
- 2) proceeds from the issuance of debt;
- 3) receipts from congestion revenue rights auctions;
- 4) receipts relating to market settlement operations;
- 5) security deposits from market participants; and
- 6) receipts from other miscellaneous sources.

The Investment Corporate Standard does not apply to the Electric Reliability Council of Texas, Inc. 401(k) Savings Plan investments, which are managed separately.

### 2. TERMS & DEFINITIONS

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

### 3. DELEGATION OF AUTHORITY

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

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

### 4. INVESTMENT OBJECTIVES

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

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

### 5. INVESTMENT INSTRUMENTS

To ensure ERCOT's three primary investment objectives are met, Designated Investment Officers shall ensure ERCOT invests only with Qualified Institutions offering money market mutual funds investing in U.S. treasury securities or a combination of U.S. treasury securities and repurchase agreements backed by U.S. treasury securities. ERCOT will make a reasonable effort to keep investments in funds investing 100 percent in treasuries. Investments should be diversified among a number of money market mutual funds offered by a variety of Qualified Institutions.

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

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

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

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

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

Money Market Mutual Funds – ERCOT will only invest in money market mutual funds which are defined under Securities and Exchange Commission Rule 2a-7, have at least \$1 billion of assets under management, and which invest in U.S. treasury securities or a combination of U.S. treasury securities and repurchase agreements backed by U.S. treasury securities. ERCOT will make a reasonable effort to keep investments in funds investing 100 percent in treasuries.

Direct Treasury Purchases – ERCOT may directly purchase United States Treasury obligations, the principal and interest of which are fully guaranteed by the government of the United States, if the strategy for such transactions have been pre-approved by the Finance and Audit Committee.

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

## **6. INVESTMENT CONSTRAINTS**

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

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

## **7. INVESTMENT LOSSES**

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

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

## 8. INVESTMENT MONITORING

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

100 Percent Treasury Analysis – Designated Investment Officers shall at least monthly review investments held through money market mutual funds to ensure funds are invested in 100 percent treasuries or repurchase agreements backed by treasuries. Any concerns not satisfactorily resolved with the fund managers will result in movement of the investment to an alternative fund.

Concentration Analysis – Designated Investment Officers shall at least monthly review investments held through money market mutual funds to identify concentration by counterparty. Any concerns not satisfactorily resolved with the fund managers will result in movement of the investment to an alternative fund.

Repurchase Agreement Analysis – Designated Investment Officers shall at least monthly review investments held through money market mutual funds to ensure portfolio has at least 60 percent invested in U.S. treasuries and no more than 40 percent in repurchase agreements backed by U.S. treasuries. Any concerns not satisfactorily resolved with the fund managers will result in movement of the investment to an alternative fund.

Direct Treasury Transaction Analysis – Designated Investment Officers shall at least monthly review any direct treasury purchases to ensure purchases are consistent with the plan approved by the Finance and Audit Committee. The Finance and Audit Committee will receive notification of auction results.

Investment Reporting – Designated Investment Officers shall provide regular periodic investment reports to ERCOT's Finance and Audit Committee which summarize monthly Credit Analysis, 100 Percent Treasury Analysis, Concentration Analysis, Repurchase Agreement Analysis, and Direct Treasury Transaction Analysis. Each report to the Finance and Audit Committee shall include a certification of compliance with the provisions of the Investment Corporate Standard.

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

## 9. CORPORATE STANDARD ADOPTION

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