



Date: February 13, 2018
To: Board of Directors
From: Finance and Audit (F&A) Committee Chair
Subject: Investment Corporate Standard

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: February 20, 2018

Item No.: 12.4

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve any or all of the ERCOT staff proposed modifications or recommend and approve any other changes to the ERCOT Investment Corporate Standard (Standard) to become effective upon approval by the Board.

Background/History:

The Board has established the Investment Corporate Standard, which requires review at least annually by the Finance and Audit (F&A) Committee, with modifications approved by the Board. The Standard was last approved by the Board on February 14, 2017.

The Standard documents the guidelines and related activities approved by the Board for the investment and management of funds held by ERCOT, whether those funds arise from ERCOT operations or are held by ERCOT on behalf of the ERCOT market.

ERCOT staff has reviewed the Standard and proposes several changes and clarifications, as reflected in **Attachment A**, to become effective upon approval by the Board. The three major changes are as follows:

- 1) Adding a Separately Managed Account as an investment instrument to invest in Treasury Obligations;
- 2) Removing two designated investment officers to clarify fiduciary responsibility; and
- 3) Removing the 60/40 repurchase agreement constraint for operational efficiency.

The Finance and Audit (F&A) Committee is expected to recommend the Board adopt, reject, or amend the Standard at its February 20, 2018 meeting.

Key Factors Influencing Issue:

The key factors influencing the issue are adherence to provisions of Board-approved corporate standards, improved clarity and consistency of policy documents, and the need to provide sound financial guidance for ERCOT's exempt purposes.

Conclusion/Recommendation:

The F&A Committee is expected to review the revised Standard at its meeting on February 19, 2018 and is expected to recommend to the Board whether any revisions should be made to the Standard and whether they should become effective upon approval by the Board.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, after due consideration of the alternatives, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable and in the best interest of ERCOT to revise the Investment Corporate Standard (Standard), as recommended by the Finance and Audit (F&A) Committee, as reflected in **Attachment A**;

THEREFORE, BE IT RESOLVED, that the revised Standard is hereby approved as reflected in **Attachment A**, to be effective immediately.

CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its February 20, 2018 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of February, 2018.

Vickie G. Leady
Assistant Corporate Secretary

ERCOT CORPORATE STANDARD

Document Name:	Investment Corporate Standard
Document ID:	CS3.2
Effective Date:	February 1420, 20178
Owner:	ERCOT Board of Directors and Finance & Audit Committee
Governs:	ERCOT Personnel
Approved:	ERCOT Board of Directors

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>Term</i>	<i>Definition / Description</i>
Designated Investment Officers	ERCOT's President and Chief Executive Officer, Senior Vice President and Chief Operating Officer, Vice President, General Counsel and Corporate Secretary, Vice President and Chief Financial Officer, and Treasurer.
ERCOT	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.
Qualified Institution	<u>A financial institution approved by at least two Designated Investment Officers and will have at a minimum:</u> <ol style="list-style-type: none"> <u>1. A senior debt investment grade rating</u> <u>2. Current audited financial statements; and</u> <u>3. Capital of not less than \$100 million;</u>

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<i>Term</i>	<i>Definition / Description</i>
“Prudent Investor” Standard	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 ~~P~~erudent ~~I~~investor ~~S~~tandard in managing ERCOT’s investment portfolio. The Designated Investment Officers, acting in accordance with the ~~p~~Pudent ~~I~~investor ~~S~~tandard, 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 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.

Any two Designated Investment Officers shall have authority to identify and establish investing relationships with Qualified Institutions.

Attachment A

~~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.~~

Commented [WL1]: This paragraph was included in the Money Market Mutual Fund paragraph.

~~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.~~

Commented [WL2]: This paragraph was moved to the definition section and the money market mutual fund section

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.~~

Commented [WL3]: This was moved to the bank deposit section.

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. The fund shall maintain a rating consistent with the United States Federal Government credit rating. No more than 10 percent of the portfolio shall be invested in any single money market mutual fund.

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

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1. Direct Purchases must have the strategy pre-approved by the Finance and Audit Committee.
2. Separately Managed Accounts will be managed by an investment advisor through a custodian that has been approved by at least two Designated Investment Officers in accordance with the Prudent Investor Standard.

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Attachment A

~~Cash Investments~~Bank Deposits – 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.

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

Commented [WL4]: This paragraph was moved to the start of the section.

~~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;~~

Commented [WL5]: this section was modified and included under the specific investment instrument.

7.6. 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.

~~8.7.~~ INVESTMENT MONITORING

At least monthly two Designated Investment Officers will review the following:

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- ~~1. Credit Analysis – Designated Investment Officers shall at least monthly r~~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.

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- ~~2. 100 Percent Treasury Analysis – Designated Investment Officers shall at least monthly r~~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.

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Attachment A

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

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~~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.~~

4. Direct Treasury Transaction Analysis — ~~Designated Investment Officers shall at least monthly r~~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.

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5. Separately Managed Accounts Analysis — ~~Review the portfolio to ensure investments are matched with anticipated cash flow requirements and in compliance with the Investment Management Agreement.~~

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Investment Reporting — ~~Designated Investment Officers shall provide r~~regular periodic investment reports ~~will be provided~~ 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, and Separately Managed Account Analysis~~. Each report to the Finance and Audit Committee shall include a certification of compliance with the provisions of the Investment Corporate Standard.

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

9.8. 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.