



Date: February 4, 2020
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 11, 2020

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 12, 2019.

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 minor clarifications, as reflected in ***Attachment A***, to become effective upon approval by the Board. The changes include refining terminology from Bond Portfolio to United States Treasury Portfolio.

The Finance and Audit (F&A) Committee is expected to recommend the Board adopt, reject, or amend the Standard at its February 11, 2020 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.



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 approve the existing Investment Corporate Standard (Standard), revised as reflected in **Attachment A**, as recommended by the Finance and Audit (F&A) Committee;

THEREFORE, BE IT RESOLVED, that the Standard is hereby approved as revised, 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 11, 2020 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, 2020.

Vickie G. Leady
Assistant Corporate Secretary

ERCOT CORPORATE STANDARD

Document Name:	Investment Corporate Standard
Document ID:	CS3.2
Effective Date:	February 11<u>2</u>, 2020<u>19</u>
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

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

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.

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.

United States Treasury Obligations – ERCOT may purchase 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;

1. The strategy will be pre-approved by the Finance and Audit Committee.
2. -The ~~bond~~ United States Treasury portfolio 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.

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.

6. INVESTMENT LOSSES

Investment losses incurred on 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.

7. INVESTMENT MONITORING

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

1. Credit Analysis – 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.
2. 100 Percent Treasury Analysis – 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.

3. Concentration Analysis –Review investments held through money market mutual funds to identify concentration by fund. Any concerns not satisfactorily resolved with the fund managers will result in movement of the investment to an alternative fund.
4. ~~Bond Portfolio Analysis-United States Treasury Obligations Analysis~~ –Review any direct treasury purchases to ensure purchases are consistent with the plan approved by the Finance and Audit Committee. ~~–~~Review the portfolio to ensure investments are matched with anticipated cash flow requirements and in compliance with the Investment Management Agreement. Investments will have a legal final maturity of not more than three years.

Investment Reporting –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, Direct Treasury Transaction Analysis, and ~~–the Bond-United States Treasury Obligations~~ Portfolio 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.

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.