



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 168
March 17, 2009; 7:30am – 10:00am*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order Executive Session	C. Karnei	7:30am
2.	Decision required	2a. Approval of executive session minutes (Vote) (02/17/09)	C. Karnei	7:30am
	Informative	2b. EthicsPoint update	B. Wullenjohn	7:32am
	For discussion	2c. Chief Audit Executive compensation and salary adjustment	B. Kahn	7:40am
	For discussion	2d. Internal Audit status report	B. Wullenjohn	7:55am
	For discussion	2e. External audit strategy	M. Petterson	8:05am
	Informative	2f. Contracts, personnel, litigation and security	Various	8:20am
		Recess Executive Session		8:30am
		Convene General Session		
3.	Decision required	Approval of general session meeting minutes (Vote) (02/17/09)	C. Karnei	8:30am
4.	For discussion	Financial update		
	For discussion	4a. Update on investment balances	S. Byone	8:32am
	Decision required	4b. Update on ERCOT, Inc. tax status	S. Byone / M. Grable	8:40am
	For discussion	4c. Update on debt funding and financing plan	S. Byone	8:50am
	Decision required	4d. Financial standard (Vote)	S. Byone	9:00am
5.	Decision required	Reconsideration of Nodal Surcharge rate (Vote)	S. Byone	9:10am
6.	For discussion	Financial audit update	M. Petterson	9:25am
7.	For discussion	Financial oversight for Nodal Program	S. Byone	9:35am
8.	Informative	Committee Briefs (Q&A only)	All	9:45am
9.	Informative	Future agenda items	S. Byone	9:50am
		Adjourn ISO meeting	C. Karnei	9:55am

** Background material is enclosed or will be distributed prior to meeting. All times shown in the agenda are approximate. The next Finance & Audit Committee Meeting will be held Tuesday, April 21, 2009, at ERCOT, 7620 Metro Center Drive, Austin, Texas 78744, in Room 168.*

Decision required
For discussion

3. Approval of General Session Minutes Clifton Karnei

- **Approval of General Session Minutes**
 - Vote 2/17/09

DRAFT ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
MINUTES OF THE FINANCE & AUDIT COMMITTEE – GENERAL SESSION
7620 Metro Center Drive – Austin, Texas 78744
February 17, 2009

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. convened on the above-referenced date. Miguel Espinosa confirmed that a quorum was present and called the meeting to order at approximately **7:30 a.m.** The Committee met in Executive Session from **7:30 a.m.** to **8:05 a.m.**, at which time it recessed to General Session.

General Session Attendance

Committee members:

Ballard, Don	Office of Public Utility Counsel	Residential Consumer	Present
Cox, Brad	Tenaska Power Services	Independent Power Marketer	Present
Espinosa, Miguel (Vice Chair)	Unaffiliated Board Member	Unaffiliated Board Member	Present
Gent, Michehl	Unaffiliated Board Member	Unaffiliated Board Member	Present
Jenkins, Charles	Oncor	Investor Owned Utility	Present
Karnei, Clifton (Chair)	Brazos Electric Cooperative	Cooperative	Not Present; however, Mr. Wilkerson voted as his Proxy
Thomas, Robert	Green Mountain Energy	Independent Retail Electric Provider	Present
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Smitherman, Barry	Public Utility Commission	PUC Chairman	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Deskins, Andy	Wachovia Bank
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doolin, Estrellita	ERCOT – Assistant General Counsel
Grable, Mike	ERCOT – Vice President and General Counsel
Kahn, Bob	ERCOT – President and Chief Executive Officer
Leady, Vickie	ERCOT – Associate Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant - Finance
O'Desky, Amy	ERCOT – Supervisor, Internal Audit
Petterson, Mike	ERCOT – Controller
Prall, Kyle	ERCOT – Financial Analyst III, Credit
Spells, Vanessa	ERCOT – Manager, Credit
Stauffer, Tarra	ERCOT – Legal Assistant
Troxtehl, David	ERCOT – Director, Program Management Office
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of Prior Meeting General Session Minutes

Michehl Gent moved to approved the minutes for the General Session of the Finance & Audit Committee meeting held on January 20, 2009. Robert Thomas seconded the motion. The motion passed by voice vote with no abstentions.

Review of Significant Accounting Policies

Treatment of Investment Losses

Mike Petterson addressed the Committee and referred the Committee to the materials previously distributed covering the review of significant accounting policies, specifically treatment of potential investment losses on investment funds held at The Reserve. He added that this topic would be covered at the Board of Directors meeting following the F&A meeting and that the decision template (including background information) identified as Board agenda item 11(d), could be found in the Board meeting materials. Mr. Petterson summarized the information in the decision template and, along with Steve Byone and Cheryl Yager, responded to questions about losses recorded to date, possible future losses, the recommendation to pay interest to Market Participants and the Texas RE even though no interest had been received from the Reserve, and other related issues. At the conclusion of the discussion, **Charles Jenkins moved to recommend that the ERCOT Board confirm its direction that (1) ERCOT bear losses recorded on investment in funds offered by The Reserve rather than uplift or otherwise share the losses with Market Participants and Texas RE, and (2) ERCOT pay Market Participants and Texas RE a reasonable, market-based rate of interest for the time that funds are held by ERCOT on their behalf. Michehl Gent seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Sales Tax Gain Contingency

Mike Petterson directed the Committee's attention to the Interoffice Memorandum entitled "Accounting Treatment for Sales Tax Refund Requests" distributed prior to the meeting. He noted the analysis and conclusion set out in the memo in support of the decision to exclude recognition of sales tax refund that had been requested by ERCOT in the 2008 financial statements. Miguel Espinosa asked the Committee if further discussion was needed and members agreed none was needed.

Review of Nodal Surcharge Options and Debt Financing

After directing the Committee to materials distributed prior to the meeting, Ms. Yager led a discussion of Nodal surcharge options and debt financing. Ms Yager pointed out that the Nodal program cost that would be financed through the Nodal Surcharge (\$526.4M) did not include financing costs or interdependent projects costs. Ms. Yager and the Committee discussed at length Nodal Program cost recovery options described in the materials as Options 1 through Option 5. She noted that staff did not consider Option 1 ("No Change") to be consistent with previously stated financing goals, but included it for comparison purposes. She noted further that ERCOT believes the scenarios shown in Options 2 through Option 5 could be financed with the following caveats: (1) The plan is approved by the PUCT, (2) credit markets do not deteriorate, and (3) no significant unexpected borrowing needs arise. Ms. Yager asked the Committee to consider which option they preferred for recommendation to the Board. Robert Thomas asked how much the Nodal project debt would add to the total ERCOT debt and Mr. Byone and Ms. Yager concurred that it would be an additional \$150M. In response to an observation by Mr. Jenkins, Ms. Yager confirmed that the peak debt did not change much among the options. Mr. Byone added that the options with a quicker pay down would likely be

easier to finance. After a lengthy discussion, **Charles Jenkins moved to recommend that the Board approve Option 2 (“Flat Fee Option”). Michehl Gent seconded the motion. The motion passed by voice vote.**

Miguel Espinosa informed the Committee that he had requested Bob Kahn and Bob Helton to prepare a plan for integrating Steve Byone and the ERCOT Finance group into the Nodal process.

Review and Approval of Updated Investment Standard

Cheryl Yager directed the Committee to information in their materials covering the review and approval of revisions to the Investment Standard. Ms. Yager led a discussion on key changes to the Investment Standard proposed for the purpose of improving credit quality of investment; protecting liquidity; and defining who bears risk of loss on investment for market funds and fielded questions and comments.

On improving credit quality of investment, Ms. Yager recommended ERCOT limit investment options to ones that are “obligations of or guaranteed by the US Government” (Treasuries); establish an internal monthly review of instruments in money market funds and provide the Board with a list of securities held in funds. On protecting liquidity, Ms. Yager suggested that ERCOT require diversification in at least two fund families and move toward limiting amounts held per fund. Ms. Yager then discussed considerations for determining who should bear the risk of loss. Mike Grable referred the Committee to his Memorandum on “Assigning Investment Losses to Market Participants” in the materials. Committee members commented that ERCOT appeared to be in the forefront of this issue compared to other ISOs.

Committee members discussed the options included on the redline version of the Investment Standard for investment losses. **Charles Jenkins moved to recommend that the Board approve the changes to the Investment Standard presented in the Board materials and identified as Board Agenda Item 11(b) including Option B for Investment Losses and excluding the final sentence from the Option B description and Option A in its entirety. Dan Wilkerson seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Credit Update

Review of ERCOT Market Credit Risk Standard Draft

Cheryl Yager referred the Committee to the draft ERCOT Market Credit Risk Corporate Standard included in their materials. Steve Byone commented that the Corporate Standard has been in draft form for over a year. Robert Thomas asked if the Credit Model had been vetted by Market Participants and Ms. Yager said that it had been presented to Market Participants, but ERCOT had not been asked to provide further background material. Mr. Byone said this item would be brought back to F&A Committee for consideration in the future.

Review of Credit Statistics

Cheryl Yager directed Committee members to the Credit Statistics report in their materials covering credit data as of December 31, 2008 and as of January 31, 2009. She noted that not much had changed since the previous month and that there were a large number of Guarantee Agreements in place. Steve Byone commented that less than 10% of Market Participants meet credit criteria and are accordingly required to post collateral. Mr. Byone informed the Committee that ERCOT monitors exposure on a daily basis. Ms. Yager added that staff monitors all information available including market press releases and anecdotal information.

Cheryl Yager noted that ISOs play catch up on collateral and sometimes must operate in a reactive mode when exposure changes.

Review of Unsecured Credit Process

Cheryl Yager referred the Committee to the Unsecured Credit Process Overview in their materials that included a process summary, key statistics and a review of key ISO credit policies and proposed changes. Ms. Yager highlighted the proposed ISO credit changes versus those already in place at ERCOT. Ms. Yager also directed the Committee to the data on unsecured credit key statistics and invited questions and comments. She also provided an overview on minimum credit rating for unsecured credit, minimum bank letter of credit rating, and bank letter of credit concentration limit per Market Participant.

Update on Financial Statement Requirement Enforcement

Cheryl Yager told the Committee that ERCOT was in the process of preparing a filing with the Public Utility Commission to notify them of entities that do not comply with the Financial Statement requirement in the Protocols. Ms. Yager further said that with the Committee's permission, ERCOT intends to waive prior non-compliance in 2008. She added that ERCOT intended to make a similar filing with the PUCT every quarter going forward within 30 days of the due date for financial statements.

Update on Uplifts in Process

Ms. Yager informed the Committee that in June/July 2008, the market experienced short payments when five Market Participants defaulted on their agreements with ERCOT. She added that ERCOT was in the process of uplifting the amounts of unpaid invoices to QSE's on a Load Ratio Share basis.

Review and approval of the Standard Form Guarantee Agreements

Mike Grable referred the Committee to the standard form guarantee agreements and other materials distributed prior to the meeting relating to the Board Agenda Item 11(c). Mr. Grable noted that, as previously instructed by the Committee, the Market Participant Guarantee Agreement and Foreign Market Participant Guarantee Agreement forms had been revised to incorporate a waiver of substantive defenses and provisions on demand and receipt of funds. Charles Jenkins asked that ERCOT Legal review the ADR language to confirm that Market Participants' ADR rights were preserved. Mr. Jenkins referred to the decision template in the Board materials and commented that the sentence including the phrase "equal footing" was not accurate. Mr. Byone agreed to remove the sentence. **Dan Wilkerson moved to recommend that the Board approve the Market Participant Guarantee Agreement and Foreign Market Participant Guarantee Agreement forms presented in the Board materials. Robert Thomas seconded the motion. The motion passed by voice vote with no abstentions.**

Committee Briefs

Materials for the following areas were distributed prior to the meeting:

1. Market Credit
2. Internal Control Management Program (ICMP)
3. Enterprise Risk Management (ERM)
4. Project Management Organization (PMO)

Future Agenda Items

The following list of agenda items was proposed for the meeting scheduled for March 2009:

1. Standing Internal Audit agenda items
2. Market Credit Risk Standard
3. Financial audit update
4. Update on Nodal filing
5. Third party audit planning
6. Committee briefs
7. Future agenda items

Steve Byone added that review of the Market Credit Risk Standard would be added to the agenda for the meeting scheduled for April 2009.

Adjournment

Miguel Espinosa adjourned the meeting at approximately 9:35 a.m.

Estrellita J. Doolin
Assistant General Counsel and
Finance & Audit Committee Secretary

4a. Update on investment balances

Steve Byone

Electric Reliability Council of Texas, Inc Investment Fund Balances at February 28, 2009 (dollars in millions)

<u>Investment Account</u>	<u>Chase</u> Treas and Repo	<u>Federated 068</u> Treas and Repo	<u>Federated 0125</u> Treas only	<u>Subtotal</u>
Operating	\$ 0.4	\$ 3.6		\$ 4.0
TRE		\$ 2.5		\$ 2.5
Market	\$ 10.2	\$ 30.7	\$ 24.2	\$ 65.1
Deposit/Restricted	\$ 69.6	\$ 22.3	\$ 61.8	\$ 153.7
Total	\$ 80.2	\$ 59.1	\$ 86.0	\$ 225.3
Percentage	36%	26%	38%	100%

<u>Investment Account</u>	<u>(Prime Fund)</u> <u>Reserve</u>	<u>Accrued Loss</u>	<u>Reserve</u> <u>Subtotal</u>
Operating	\$ 1.3	\$ 0.8	\$ 0.6
TRE	\$ 0.5	\$ 0.3	\$ 0.2
Market	\$ 5.1	\$ 2.9	\$ 2.2
Total	\$ 6.9	\$ 4.0	\$ 2.9

Note 1 ERCOT investments in The Reserve's Primary Funds have been reclassified from Cash and Cash Equivalents to Other Current Assets and are recorded net of a reserve for potential losses of \$4.0 million.

Note 2 Treasury and Treasury Repo Money Market Funds are beginning to open up again. ERCOT will open additional accounts as they become available.

Note 3 As of February 28, ERCOT had borrowed \$39.8 million from TCR Revenues (held as Market Cash) as authorized by ERCOT's Financial Standard.

- **Background on ERCOT, Inc. Tax Status**
- **Timeline**
- **Projected debt outstanding**
- **“Make Whole” provisions on current fixed rate debt**
- **Historical benefit of tax-exempt financing**
- **Potential savings using tax-exempt financing**

Quotes from PUCT Open Meeting February 26, 2009

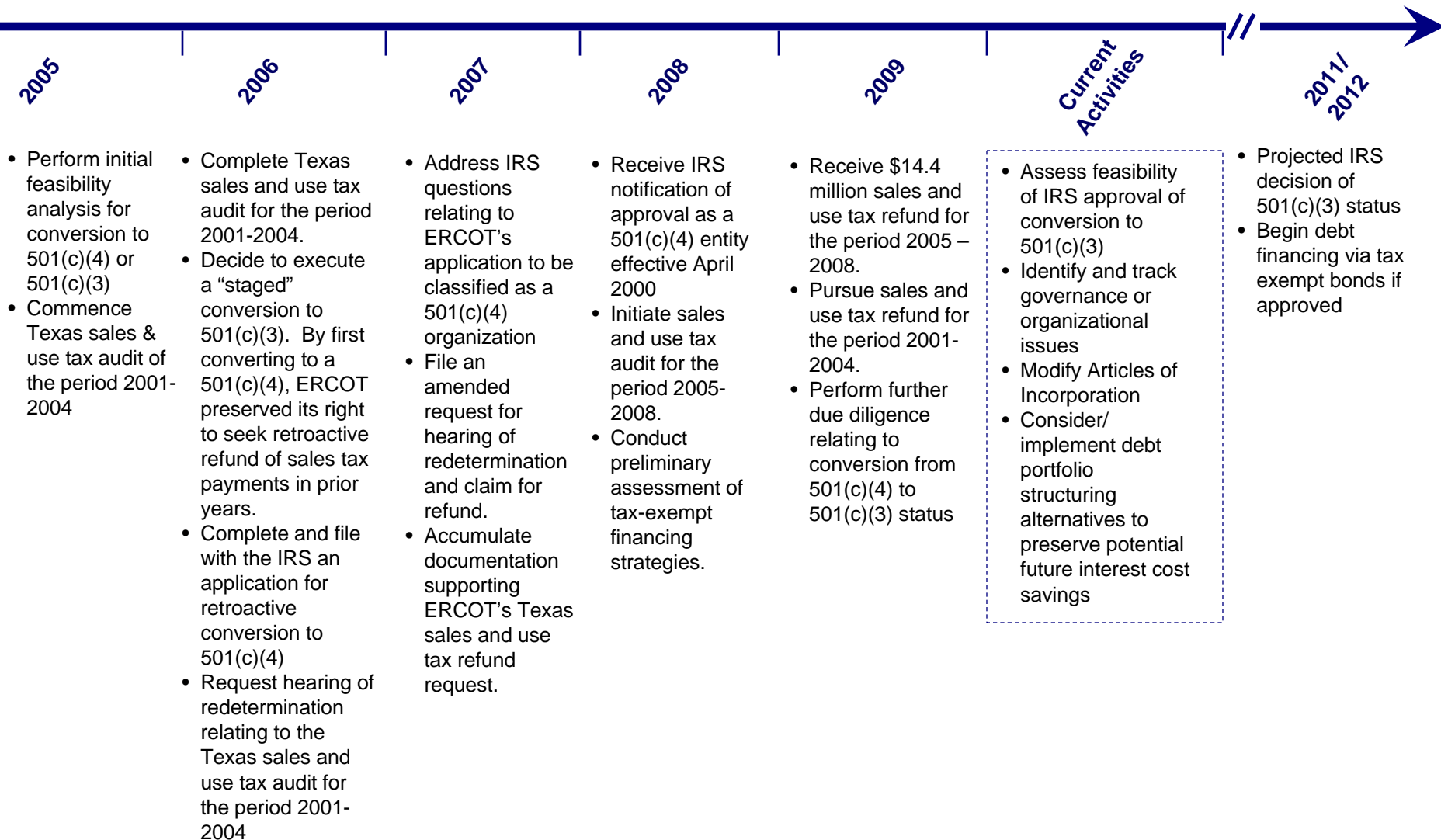
PUCT Chairman, Barry T. Smitherman

- ***“I’ve mentioned—I don’t know—half a dozen times maybe that given the amount of debt ERCOT is continuing to incur that we really need to look at the potential benefits of ERCOT becoming an entity that borrows tax-exempt.”***
- ***“As we ladle on more debt the advantages of borrowing at a lower rate are big and getting bigger”***

- **ERCOT has been pursuing changes in its tax-exempt status since 2005**
 - Two primary benefits – reduced taxes and reduced interest expense
 - Timeline on next slide
- **Sales tax savings**
 - Recovered to date - \$14.4 million
 - Pending - \$12.0 million
 - 10-year NPV of expected future savings \$18 million
- **Preliminary analysis indicates potential interest expense savings highly dependent on “timing” of new debt issue**
 - Tax-exempt interest rate relative to Treasuries ranged from 70% of Treasuries (an incremental benefit) to 200% of Treasuries (an incremental cost) over the previous 10 years
 - For 5-year maturities, the 10-year average gross rate of benefit is approximately 20%
 - Increased administrative cost will reduce these savings

4b. Steps Toward Tax-Exempt Status (2005 – Present)

Steve Byone



Interest Expense Analysis

Tax-Exempt Structure

4b. Projected Debt Outstanding

Steve Byone

	Actual	Estimated	Begin Tax-Exempt Program				
			31-Dec-08	31-Dec-09	Estimated 31-Dec-10	Estimated 31-Dec-11	Estimated 31-Dec-12
Estimated balances							
Senior Notes	81.8	68.2	54.5	40.9	27.3	13.6	-
Term Loan - fixed portion	(1) 180.0	160.0	120.0	60.0	-		
Fixed rate debt - 1			200.0	150.0	100.0	50.0	-
Fixed rate debt - 2			-	40.0	40.0	40.0	60.0
Floating rate debt	(2) 79.1	227.2	89.4	79.0	65.1	4.6	20.0
Total debt	<u>340.9</u>	<u>455.4</u>	<u>463.9</u>	<u>369.9</u>	<u>232.4</u>	<u>108.2</u>	<u>80.0</u>
Fixed	261.8	228.2	374.5	290.9	167.3	103.6	60.0
Floating	(2) 79.1	227.2	89.4	79.0	65.1	4.6	20.0
Total	<u>340.9</u>	<u>455.4</u>	<u>463.9</u>	<u>369.9</u>	<u>232.4</u>	<u>108.2</u>	<u>80.0</u>
Fixed	77%	50%	81%	79%	72%	96%	75%
Floating	23%	50%	19%	21%	28%	4%	25%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Note: Total debt levels are consistent with 2009 budget. The break out between fixed and floating rate debt and projected debt retirement are indicative only.

(1) Reflects only the portion of the \$212.5 million Term Loan that is "fixed" using interest rate swaps. The remainder of the Term Loan balance is reflected with other floating rate debt.

(2) Assume all additional debt incurred through Dec 31, 2010 is allowed to float, pending a move to a 501(c)(3) status and that as of December 31, 2010, ERCOT can/has issued tax-exempt debt. Assume floating rate debt balance ranges between 20-30% of total outstanding from Dec 31, 2010 forward.

4b. “Make Whole” Provisions on Current Fixed Rate Debt

Steve Byone

- **Fixed rate instruments typically have “make whole” provisions**
 - Lenders have funded the debt from a fixed rate source and need to maintain a locked-in “spread”
 - The cost of the “make whole” is primarily driven by
 - The remaining life and amortization schedule of the debt – the longer the term remaining, the higher the cost to break the contract
 - As debt is retired, breakage costs are reduced
 - Current interest rates relative to the contract fixed rate – the lower the current rate, the higher the cost to break the contract
 - Over time, this cost may fluctuate dramatically, both up and down. However, given the current historically low interest rates in the market, the impact of this factor is expected to reduce breakage costs as future interest rates are likely to rise.
- **Senior Notes “make whole” provision**
 - Considers remaining cash flow stream
 - Discounts at a comparable Treasury rate + 50 basis points
- **Interest rate swaps breakage**
 - On a breakage date, based on forward estimate of comparable LIBOR values (mark to market values) over the remaining life of the swap

4b. "Make Whole" Provisions on Current Fixed Rate Debt

Steve Byone

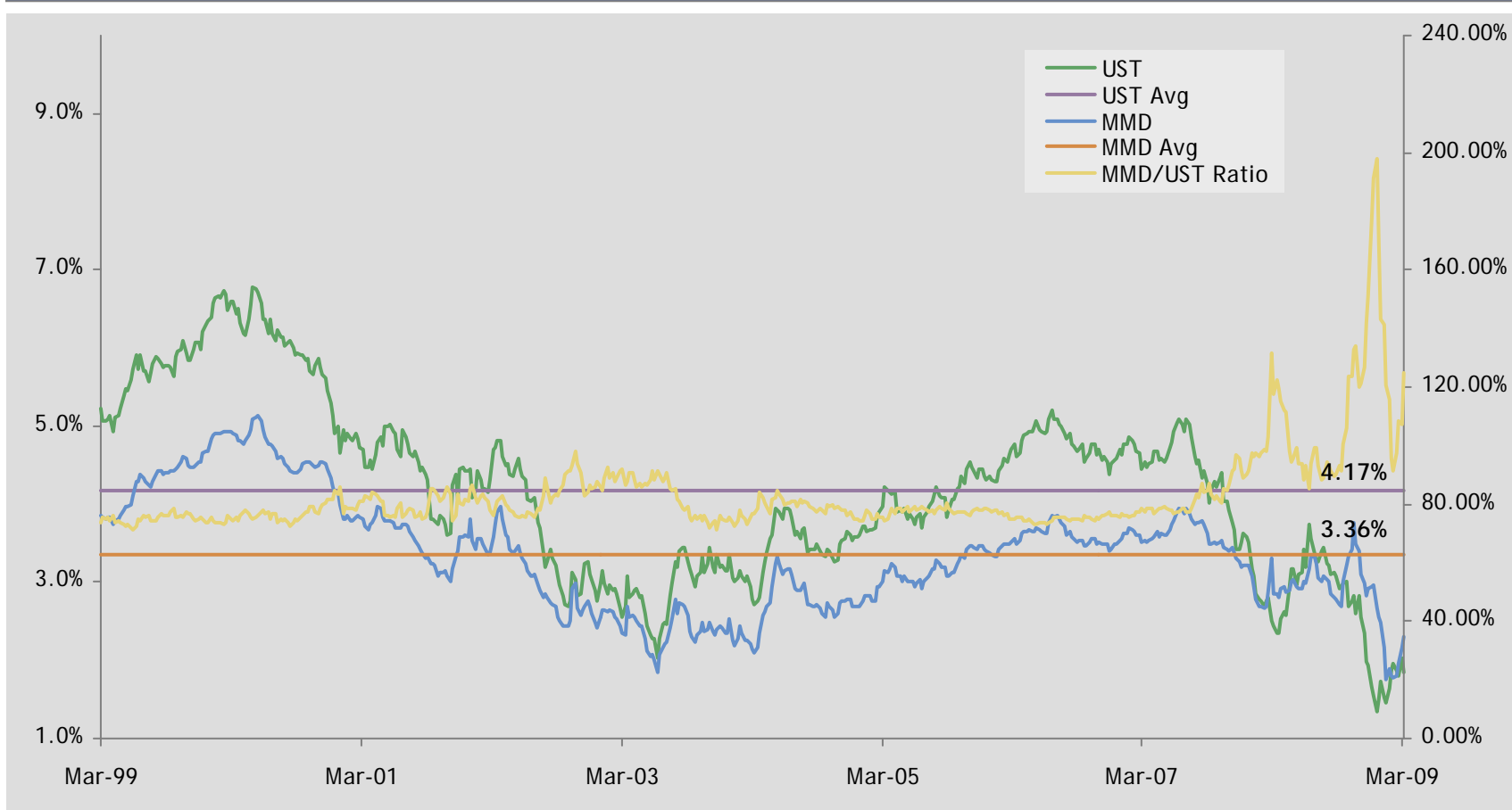
Estimated breakage costs at February 28, 2009

(in \$ millions)

	Fixed rate debt balance	Estimated breakage cost
Senior Notes	81.8	9.6
Interest rate swaps	180.0	13.4
	<u>261.8</u>	<u>23.0</u>

4b. Historical Benefit of Tax-Exempt Financing – 5 Year MMD to 5-Year Treasuries – From March 1999 to Date

5-year UST, 5-year MMD and MMD/UST Ratios¹ (%)



¹ 5-year US treasury and MMD rates from March 1999 to March 2009. Municipal Market Data Index (MMD) is a daily tax-exempt index based upon actual trading activity of a series of par bond equivalent yields.

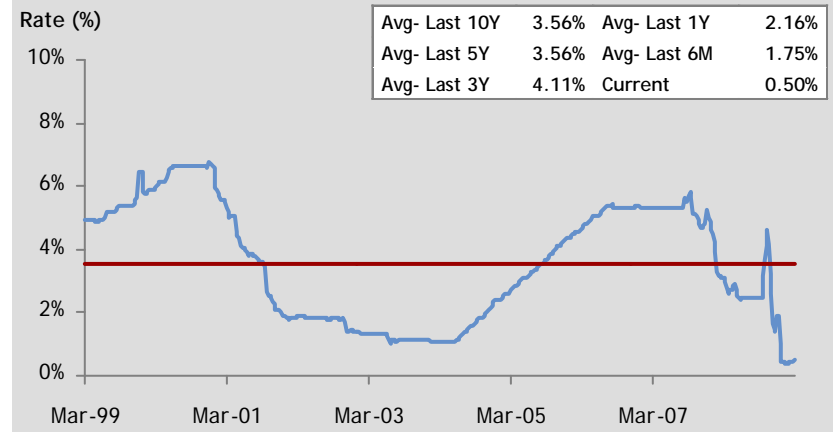
- From March 1999 to date, 5-yr AAA MMD yields have traded at approximately 81% of the 5-year U.S. Treasury yield (5yr MMD/UST ratios from March 1999 to March 2007 were 78%)

4b. Historical Benefit of Tax-Exempt Financing – SIFMA to 1- month LIBOR – From March 1999 to Date

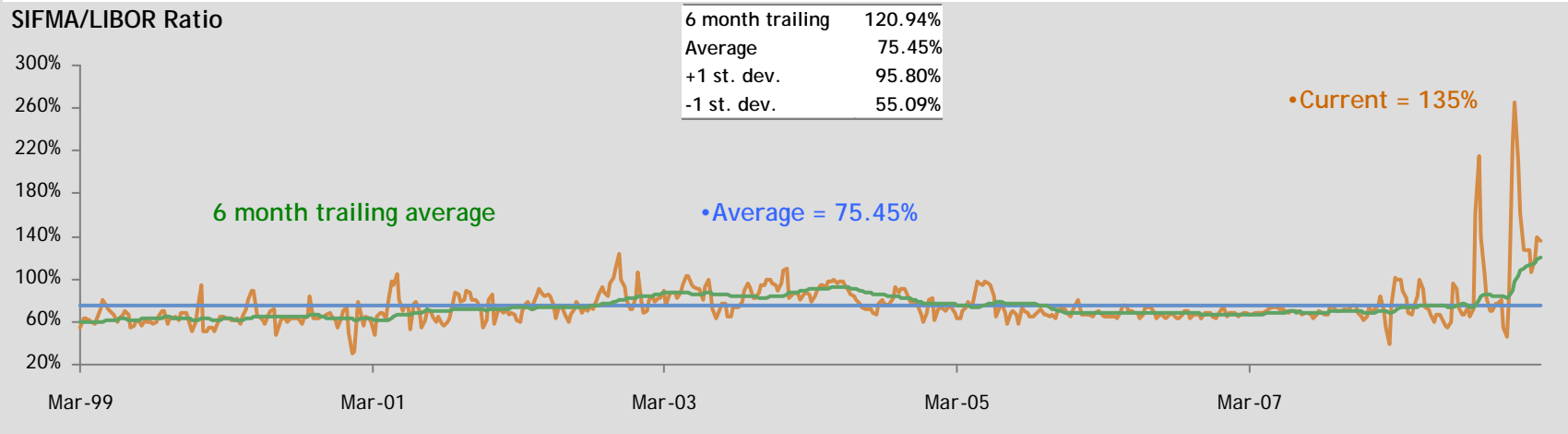
Weekly SIFMA index¹



1-month LIBOR¹



Weekly tax-exempt index as a percentage of 1-month LIBOR¹



¹ Reflects market conditions as of February 27, 2009. The Securities Industry and Financial Markets Association (SIFMA) Index is a high-grade market index released by Municipal Market Data ("MMD"). The index includes 7-day tax-exempt variable rate demand obligations with the highest short-term ratings (VMIG-1/ A-1+) and with at least \$10 million outstanding

- **Scenario 1 – Would there be a net savings if ERCOT could issue tax-exempt debt today?**
 - Doubtful, given
 - Tax-exempt interest rates have been higher than taxable interest rates for the last several months.
 - While this is expected to be a temporary condition, it is not clear when rates will revert to historical trends
 - Much of our current debt level is fixed and breakage costs are high given the current low interest rate environment
 - At February 28, 2009, it would cost approximately \$23 million to break all existing fixed price debt instruments

- **Scenario 2 - Would there be a net savings if ERCOT could issue tax-exempt debt at December 31, 2010?**
 - Likely, although benefits may be somewhat limited
 - See high level analysis on next slide
 - Savings shown are contingent upon
 - Tax-exempt interest rates relative to taxable interest rates reverting to approximate 10-year historical averages
 - Comparability of credit spreads between the taxable and tax-exempt options
 - Adequate liquidity in both the taxable and tax-exempt markets
 - Analysis does not consider refinancing existing fixed rate debt, only refinancing outstanding floating rate debt (which can be done without penalty)
 - Any refinancing of existing fixed rate debt will be dependent on the breakage cost at the time relative to the benefit to be achieved.

4b. Potential Savings Using Tax-Exempt Financing

Steve Byone

High level cost benefit

(in \$ millions)

		31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14	Total
Estimated interest cost - Taxable						
Fixed-Tax	5.20%	9.10	6.50	3.90	1.30	20.80
Fixed-Tax	5.20%	1.04	2.08	2.08	2.60	7.80
Floating-Tax	4.50%	3.79	3.24	1.57	0.55	9.15
		13.93	11.82	7.55	4.45	37.75
Estimated interest cost - Tax exempt						
Fixed-TE	4.40%	7.70	5.50	3.30	1.10	17.60
Fixed-TE	4.40%	0.88	1.76	1.76	2.20	6.60
Floating-TE	3.50%	2.95	2.52	1.22	0.43	7.12
		11.53	9.78	6.28	3.73	31.32
Net difference - interest only		2.40	2.04	1.27	0.72	6.43
Anticipated add'l other costs		0.50	0.50	0.50	0.50	2.00
Net anticipated savings		1.90	1.54	0.77	0.22	4.43

Fixed Rate	Tax exempt rate	Taxable
Benchmark	3.4%	4.2%
Credit spread	1.0%	1.0%
"All in" rate	<u>4.4%</u>	<u>5.2%</u>

Variable Rate	Tax exempt rate	Taxable
Benchmark	2.5%	3.5%
Credit spread	1.0%	1.0%
"All in" rate	<u>3.5%</u>	<u>4.5%</u>

Assumptions

Cost benefit analysis only for debt at December 31, 2010 that has NOT been fixed previously.

- The Senior Notes and the fixed portion of the Term Loan are excluded from this analysis

Benchmark rates reflect the 10 year average.

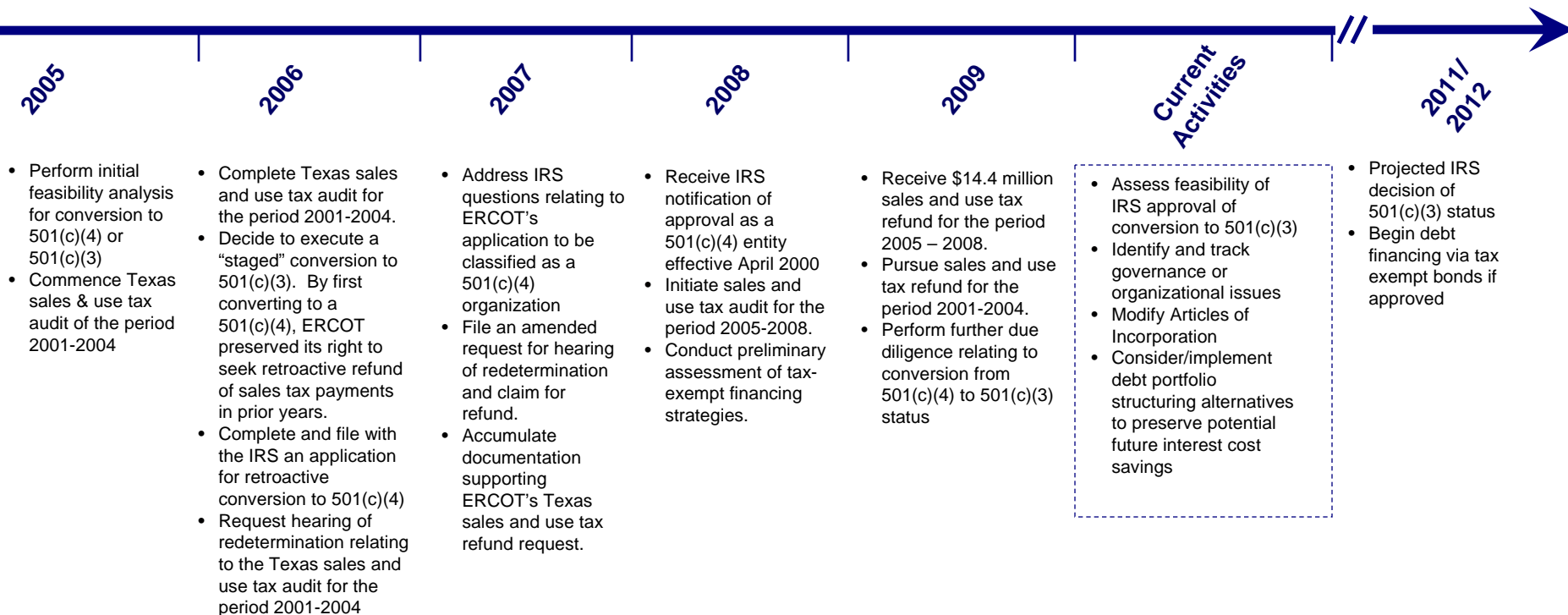
Credit spreads are comparable between the markets.

4b. Steps Toward Tax-Exempt Status (2005 – Present)

Steve Byone

• Next Steps

- Continue to pursue transition to 501(c)(3)
- Consider steps to preserve flexibility to reissue debt under tax-exempt structure

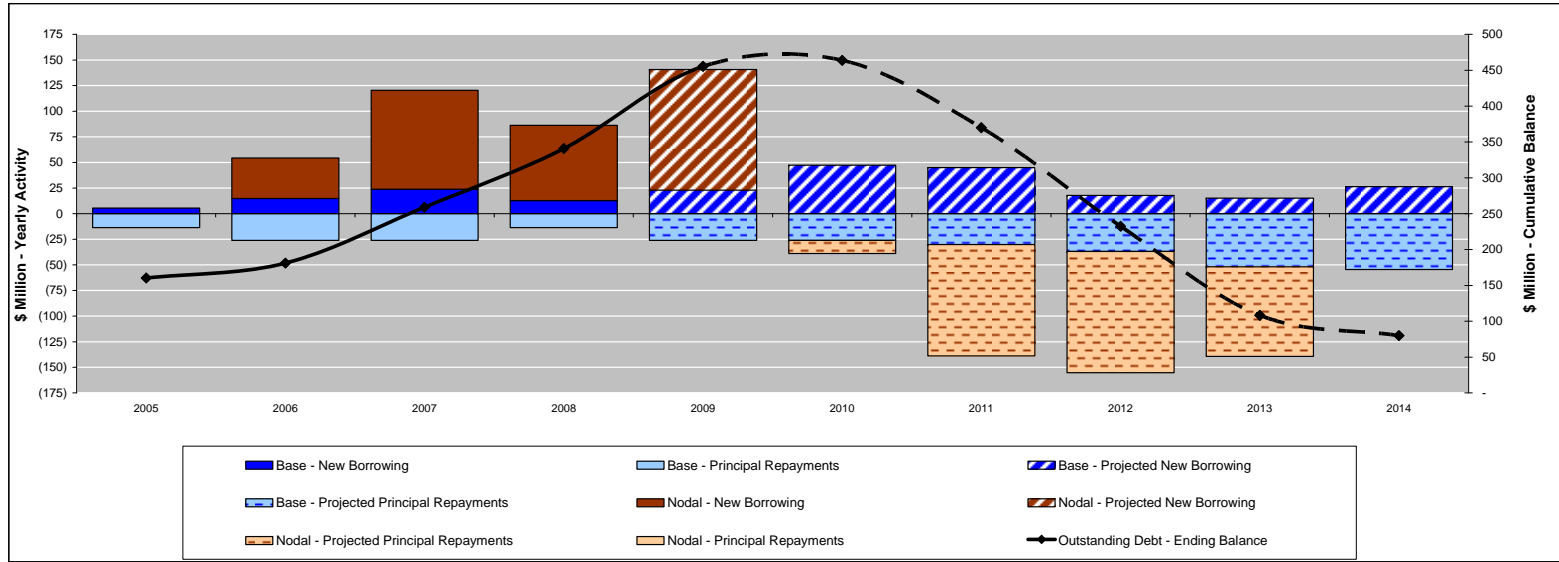


- **ERCOT projects borrowings of \$141 million in 2009.**
 - \$118 Nodal
 - \$23 Base
- **Temporary financing plan dependent upon Nodal Surcharge level**
 - More details expected in April
- **Five-year debt profile – key assumptions**
 - Nodal Program is revenue funded at \$0.169 through 2009 and \$0.375 thereafter (option 3b)
 - Base capital expenditures as included in 2009 budgets, revenue funded 40% in the year of purchase
 - Debt repaid over the average useful life of the assets

4c. Update on Debt Funding and Financing Plan

Steve Byone

Electric Reliability Council of Texas (ERCOT)
Consolidated (Base Operations & Nodal) Debt Trend (reflects February Board approved revised Nodal Program Budget)
 (in Millions)



Line		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1	Beginning Balance										
2	Nodal Program	-	-	39.5	136.1	209.6	327.4	314.7	205.9	87.5	-
3	Base Operations	178.4	160.2	141.6	122.9	131.3	128.0	149.2	164.0	144.9	108.2
4	Sub-total	178.4	160.2	181.1	259.0	340.9	455.4	463.9	369.9	232.4	108.2
5											
6	New Borrowing										
7	Nodal Program	-	39.5	96.6	73.5	117.8	-	-	-	-	-
8	Base Operations	(4.5)	7.5	7.4	22.1	22.9	47.3	45.0	17.8	15.2	26.4
9	Sub-total	(4.5)	47.0	104.0	95.6	140.7	47.3	45.0	17.8	15.2	26.4
10											
11	Principal Repayments										
12	Nodal Program	-	-	-	-	-	(12.7)	(108.8)	(118.4)	(87.5)	-
13	Base Operations	(13.7)	(26.1)	(26.1)	(13.7)	(26.1)	(26.1)	(30.1)	(36.9)	(51.8)	(54.6)
14	Sub-total	(13.7)	(26.1)	(26.1)	(13.7)	(26.1)	(38.8)	(138.9)	(155.3)	(139.3)	(54.6)
15											
16	Net Change										
17	Nodal Program	-	39.5	96.6	73.5	117.8	(12.7)	(108.8)	(118.4)	(87.5)	-
18	Base Operations	(18.2)	(18.6)	(18.7)	8.4	(3.2)	21.1	14.9	(19.2)	(36.6)	(28.2)
19	Sub-total	(18.2)	20.9	77.9	81.9	114.6	8.4	(93.9)	(137.6)	(124.1)	(28.2)
20											
21	Ending Balance										
22	Nodal Program	-	39.5	136.1	209.6	327.4	314.7	205.9	87.5	-	-
23	Base Operations	160.2	141.6	122.9	131.3	128.0	149.2	164.0	144.9	108.2	80.0
24	Sub-total	160.2	181.1	259.0	340.9	455.4	463.9	369.9	232.4	108.2	80.0
25											

During the February 26, 2009 PUCT Open Meeting, the Commission expressed a desire for ERCOT to develop a more definitive policy on debt financing...

- **“If we are going to go forward with this amount of debt we need to have a policy in place where everybody at the ERCOT table agrees and we agree this is how much debt we are going to have rather than defaulting to well lets have more debt because that means this year and next year our assessment is lower.” – *Barry T. Smitherman***
- **“ERCOT has to bring everybody together and come up with a policy on this” – *Barry T. Smitherman***
- **“It has been the Commission’s policy for entities that we regulate to have a 60/40 debt to equity ratio” – *Barry T. Smitherman***

In response, ERCOT staff has developed a proposed change to the ERCOT Financial Corporate Standard:

Sources of Financing. ERCOT will use a combination of equity (revenue funding) and debt to finance **current year Project activity**. In determining the combination of equity and debt to be used, ERCOT will consider the impact of the current year decision on future years, **but in no event will ERCOT propose to revenue fund less than 40 percent of Project Budgets.**

F&A discussion and possible Vote

5. Reconsideration of Nodal Surcharge Rate (Vote)

Steve Byone

During the February 26, 2009 PUCT Open Meeting, Chairman Barry T. Smitherman requested that ERCOT develop a plan to address the equity contribution level for the Nodal Program...

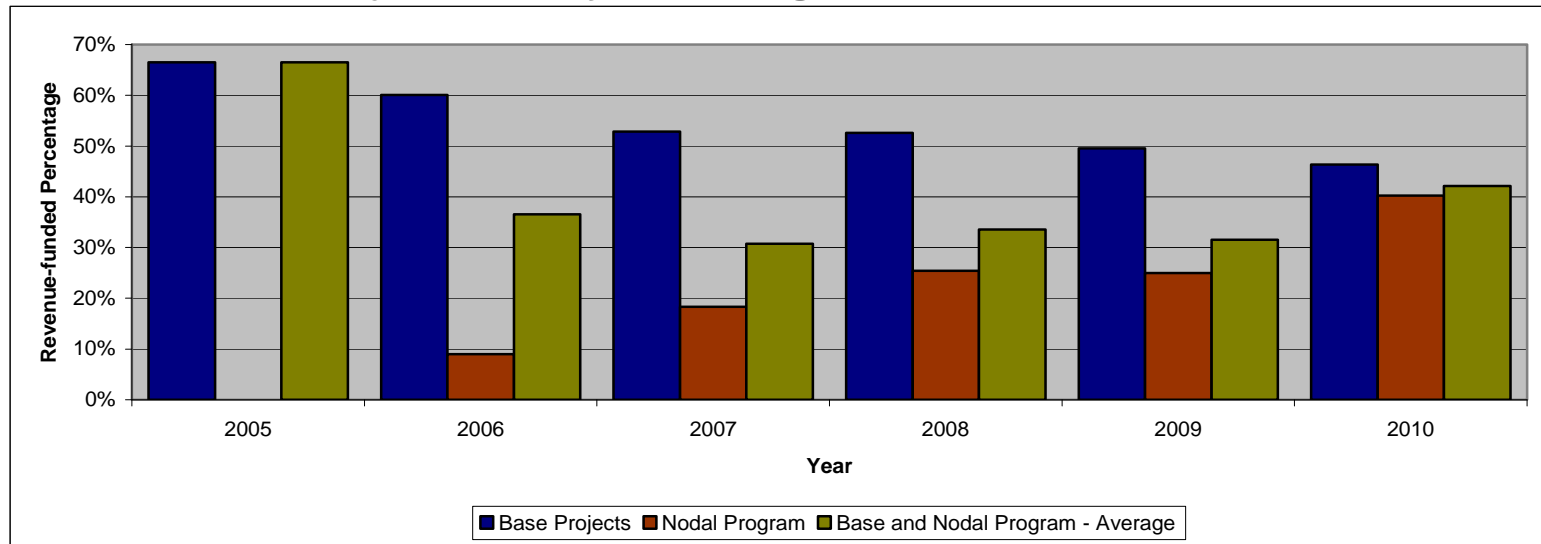
- **“If we are going to go forward with this amount of debt we need to have a policy in place where everybody at the ERCOT table agrees and we agree this is how much debt we are going to have rather than defaulting to well lets have more debt because that means this year and next year our assessment is lower.” – *Barry T. Smitherman***
- **“I would like a plan for how to get this debt to equity ratio back in line with what we have always talked about” – *Barry T. Smitherman***
- **“It has been the Commission’s policy for entities that we regulate to have a 60/40 debt to equity ratio” – *Barry T. Smitherman***

In response to the Commission’s feedback, ERCOT staff recommends the Board re-consider the amount of the requested Nodal Surcharge increase .

5. Reconsideration of Nodal Surcharge Rate (Vote)

Steve Byone

Project Equity Funding (2005 – 2010)



Cumulative Revenue-funding Percentages	2005	2006	2007	2008	2009	2010	Average
Base Projects	66%	60%	53%	53%	50%	46%	46%
Nodal Program	NA	9%	18%	25%	25%	40%	40%
Base and Nodal Program - Average	66%	37%	31%	34%	32%	42%	42%

Notes:

(1) Nodal Surcharge is assumed increased on January 1, 2010 to a level that will ensure 40 percent revenue funding of total cumulative Nodal Program implementation costs by December 31, 2010. This is consistent with Option 3b with a Nodal Surcharge of \$0.375 per MWh.

(2) 2009 and 2010 figures represent budgeted numbers.

5. Reconsideration of Nodal Surcharge Rate (Vote)

Steve Byone

For ease of comparison between options, please note that these options have not been updated since the Board's February 2009 meeting.

	Historical ERCOT Capex Revenue Funding Options (40%)									
	No Change	Flat Fee Options		Historical ERCOT Capex Revenue Funding Options (40%)		Rate Parity Options		100% Funding Options		
	Option 1	Option 2a	Option 2b	Option 3a	Option 3b	Option 4a	Option 4b	Option 5a	Option 5b	
	\$0.169 through full recovery	\$0.169 through 2009; Flat fee through 2014	\$0.226 through 2009; Flat fee through 2014	\$0.226 through 2009; 40% rev funding by go-live	\$0.169 through 2009; 40% rev funding by go-live	\$0.169 through 2009; \$0.473 thereafter	\$0.226 through 2009; \$0.473 thereafter	\$0.169 through 2009; 100% rev funding by go-live	\$0.226 through 2009; 100% rev funding by go-live	
Nodal costs to be financed	526.4	526.4	526.4	526.4	526.4	526.4	526.4	526.4	526.4	
Debt financing costs	146.0	92.6	89.8	78.7	75.4	64.1	61.0	38.9	38.0	
Costs recoverable via Nodal Surcharge	<u>\$ 672.4</u>	<u>\$ 618.9</u>	<u>\$ 616.1</u>	<u>\$ 605.0</u>	<u>\$ 601.8</u>	<u>\$ 590.5</u>	<u>\$ 587.4</u>	<u>\$ 565.3</u>	<u>\$ 564.4</u>	
Expected Nodal Surcharge - 2009 (\$/MWh)	\$ 0.169	\$ 0.169	\$.169 / .226	\$.169 / .226	\$ 0.169	\$ 0.169	\$.169 / .226	\$ 0.169	\$.169 / .226	
Expected Nodal Surcharge - 2010 thru full recovery (\$/MWh)	\$ 0.169	\$ 0.285	\$ 0.273	\$ 0.324	\$ 0.375	\$ 0.473	\$ 0.473	\$ 1.315	\$ 1.264	
Projected end of collection period (if rate remains in effect for full period)	2nd Qtr 2019	4th Qtr 2014	4th Qtr 2014	1st Qtr 2014	3rd Qtr 2013	4th Qtr 2012	3rd Qtr 2012	4th Qtr 2010	4th Qtr 2010	
Estimated "peak" Nodal debt (curr - Dec 2008, all options - Dec 2010)	383.6 Dec-10	344.7 Dec-10	331.7 Dec-10	314.8 Dec-10	327.4 Dec-09	327.4 Dec-09	311.4 Dec-09	327.4 Dec-09	311.4 Dec-09	
Percent revenue funding during development	27.1%	34.5%	37.0%	40.2%	40.2%	46.5%	49.7%	100.0%	100.0%	

Note: All amounts are in \$ millions unless otherwise noted.

5. Reconsideration of Nodal Surcharge Rate (Vote) Steve Byone

F&A Discussion and Possible Vote

For discussion

- **Internal Audit concluded “a realignment of the reporting relationship for the Nodal Finance Organization” and “staffing changes which strengthen the financial acumen of [the] team” were needed.**
- **Proposed management actions:**
 - Transition existing finance function from the Nodal PMO to the CFO
 - Confirm division of responsibilities with new Nodal executive in charge
 - Ensure necessary resources are available
 - Review and update Nodal financial policies and practices
 - Review the approved budget and schedule and confirm all material elements are reasonably reflected
 - Devise reporting practices addressing
 - Content, format, frequency, distribution, sensitivity analysis, and reforecasting

Q&A only

ERCOT Market Credit Status

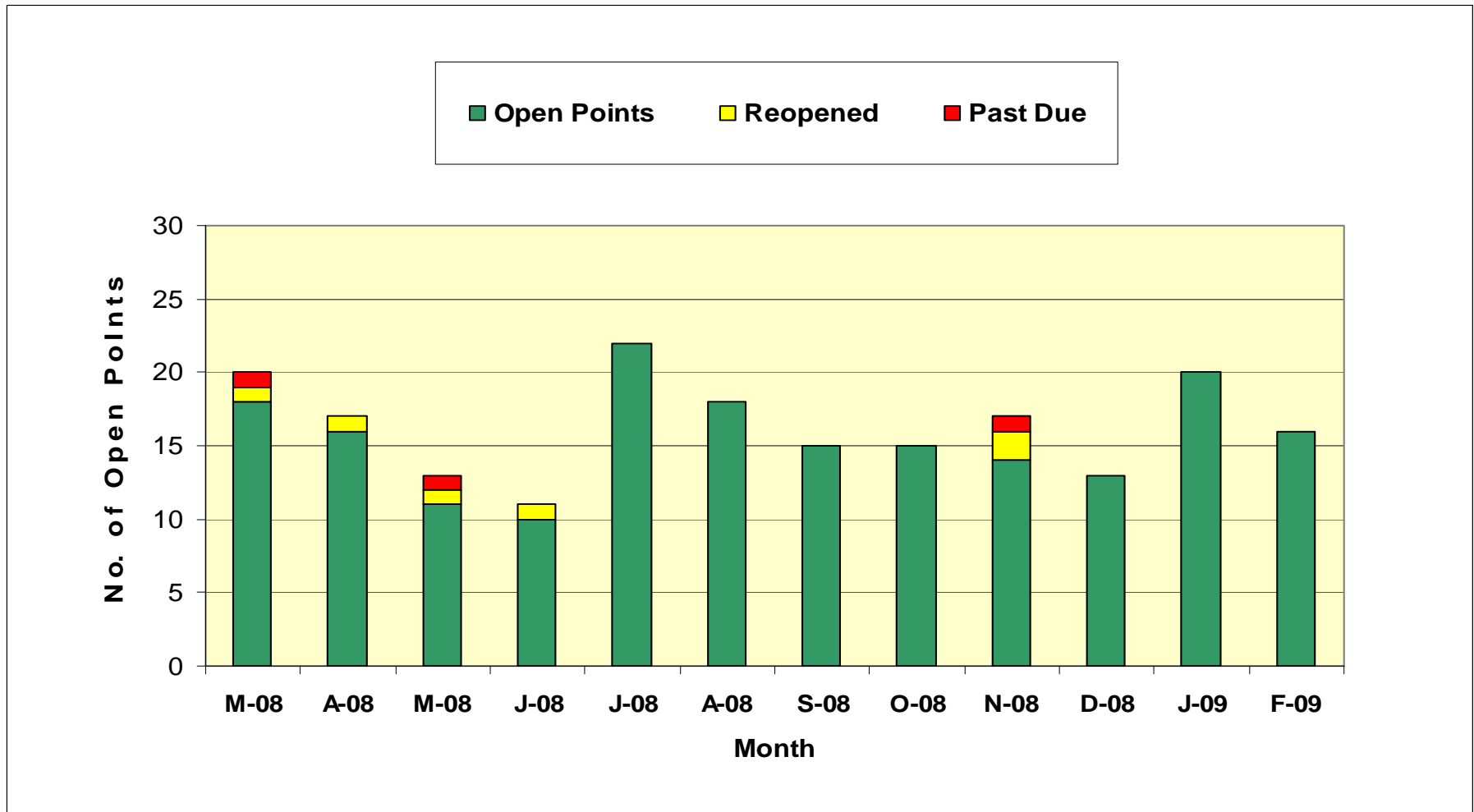
as of 1/31/2009					as of 2/28/2009					
	# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted		# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
Exposure in the ERCOT Market (owed to ERCOT)										
<u><i>QSEs that meet ERCOT Creditworthiness Standards</i></u>										
Ratings over BBB-	13	31,661,363	9%	179,802,684	U	13	28,918,584	8%	181,793,916	U
<u><i>QSEs that do not meet ERCOT Creditworthiness Standards</i></u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	53	192,216,509	54%	318,801,000	S	55	186,855,178	54%	313,886,912	S
Guarantee Agreements	20	130,874,251	37%	512,784,745	S	21	131,705,963	38%	417,000,171	S
Total Exposure	86	354,752,123	100%			89	347,479,725	100%		
Other QSEs in the ERCOT Market (ERCOT owes)										
<u><i>QSEs that meet ERCOT Creditworthiness Standards</i></u>										
Ratings over BBB-	4	(5,892,480)	-8%	37,338,279	U	4	(5,836,479)	-17%	35,347,047	U
<u><i>QSEs that do not meet ERCOT Creditworthiness Standards</i></u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	56	(48,925,263)	-69%	51,471,405	S	54	(16,627,336)	-49%	29,947,855	S
Guarantee Agreements	7	(15,792,605)	-23%	101,502,000	S	6	(11,178,137)	-34%	127,061,174	S
Total	67	(70,610,348)	-100%			64	(33,641,952)	-100%		
Total	153					153				

U: Unsecured since these QSEs meet the creditworthiness standards

S: Secured i.e. required to post collateral since these QSEs do not meet the creditworthiness standards

8. Committee Brief: ICMP – Status of Open Audit Points

Cheryl Moseley



Audits Completed	3	3	3	3	3	2	4	1	3	5	1	2
Points Added	11	3	0	6	11	2	0	0	4	11	12	9
Points Completed	9	6	4	8	0	6	3	0	2	15	5	13

All but one open audit point projected to be complete by September 30, 2009.

Audits Completed

(last 3 months)

Internal Audits

- Protocol 1.4 Ethics Compliance
- Annual Employee Ethics Compliance Audit
- PC Remediation Plan (Special Request-Part 2 of 2)
- FY2008 Fraud Auditing
- NERC CIP Standards – Auditable Compliance (Special request – Part 2 of 2)
- Nodal “Budget to Actual” Management Review (Special Request)

External Audits*

- 2008 SAS70 Audit (PricewaterhouseCoopers)
- Nodal Program Review of New Schedule/Budget (Report #8; Utilicast, LLC)
- Nodal Program Review – Integration (Report #9; Utilicast, LLC)

Open Audits

Internal Audits

- 2008 Year End Accruals Review
- Credit Process
- Protocol 1.4 Required Audit – Confidentiality Compliance
- ERCOT’s Long-Term Technology Strategy
- Change Control/Release Management
- Business Continuity and Disaster Recovery Plan

External Audits*

- 2008 Financial Audit (PricewaterhouseCoopers)
- Nodal Program Review – Infrastructure and Integration Readiness (Report #10; Utilicast, LLC)

Planned Audits

(next 3 months)

Internal Audits

- Q1 2009 Fraud Auditing
- Employee & Contract Worker Onboarding, Transfer, Offboarding and Employee Termination Processes
- IT System Availability & Performance
- Operational Procedure Compliance

External Audits*

- 2009 SAS70 Audit (PricewaterhouseCoopers)

**Consultation/
Analysis Reports
Completed**
(last 3 months)

External Assessments
1 security assessment

**Open Consultation/
Analysis Reviews**

External Assessments

**Planned Consultation/
Analysis Reviews**
(next 3 months)

External Assessments
1 security assessment
planned

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of March 1st, 2009)

Strategic	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Legal and Regulatory Compliance
Strategy Development Corporate objective setting adequately incorporates informed stakeholder input, market realities and management expertise.	Performance Monitoring Clearly defined and actively monitored performance metrics linked to mission and goals - Performance status communicated and corrective action taken.	Customer Choice Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.	Grid Operations Information required to operate the grid is efficiently gathered. Appropriate tools are prudently configured to efficiently operate the system.	Review Practices Prudent measures are taken to insure that company disclosures are properly vetted and not misleading.	Legal & Legislative Operations are conducted in compliance with all laws and regulations. Impacts of current and proposed legislation are understood and communicated.
Mission and Goals Corporate objectives and performance standards are understood and followed.	Business Practices Business planning, processes and management standards are effective and efficient.	Nodal Implementation Project Nodal Implementation on budget on schedule, and within defined scope.	Planning Long-range planning methods enable efficient responses to system changes that are necessary to maintain reliability standards.	Disclosure Reporting and other disclosures to intended parties is timely, accurate and effective.	Internal Control Compliance Internal Control Compliance, processes and management standards are effective and efficient.
New Strategic Plan needs to be integrated into the latest business planning cycle.	Annual review, training & testing for 2009 started in January. PUC Emergency Operations plan attestation to be issued by May 1st, 2009.	Program "RED" based on the old schedule & budget. New budget & schedule approved by the BOD. Management Action Plans developed for recommendations in Utilicast review # 9. No critical path milestones have been missed since the new schedule was base-lined in October 2008. Software integration and integration testing is a critical risk area of the program. The program is currently reorganizing teams to better support this area and leadership is working on risk mitigation plans. Data center capacity to support Nodal systems and the build out of integration testing (iTest) and EDS environments has been identified as another key risk. The program recently assigned project managers to these infrastructure projects and conducted project kick-off meetings. Project schedules expected in two weeks.	System Planning department staffing has been reorganized/improved and a plan is in place to increase staff to meet stakeholder desire for more "study horsepower". A list of studies desired by ERCOT and ERCOT Stakeholders is being prepared and will be prioritized.		ERCOT is developing processes to institutionalize the ongoing training on current policies and procedures for all ERCOT staff and contract workers.
Reputation Positive perceptions by stakeholders lead to less cost and greater flexibility resulting in enhanced enterprise value.	Workforce Organization design, managerial and technical skills, bench strength and reward systems aligned with corporate goals.	Counterparty Credit Maintain credit risk exposure for overall market within acceptable limits.	Bulk System Resources Market Participants construct and make available adequate bulk electric grid resources.	Communication Internal & external communications are timely and effective.	Industry Standards Business practices provide stakeholders with required assurances of quality.
Increased publicity associated with the delay of the Nodal market and the associated cost increases, new fee filings for the nodal surcharge and System Administration fee, high congestion, high price volatility and credit defaults during 2008 have negatively impact ERCOT's reputation.	The rolling 12-month turnover has dropped to 6.4%. Contractor agreements have been modified for key individuals to continue work; however, there is still some risk of contractors leaving due to the shorten contracts until the PUCT approved the continuation of the Nodal project. ERCOT readiness continues to be an on-going issue with the delay in Nodal. Training is being reviewed to meet the needs of the Nodal market and procedures are currently being updated for ERCOT readiness. As of the end of February, ERCOT had 37 open full-time positions.	A draft Credit Risk standard has been circulated and is being reviewed with stakeholders. A proposal is expected to be submitted to F&A in April.			Although current decentralized compliance activities are adequate, ERCOT is in the process of centralizing the compliance function to provide more focus on these issues. The Chief Compliance Officer started on Feb 1. We expect to announce the centralized compliance organization in March.
Fiscal Management ISO design requires competent, prudent and cost effective provision of services.	Technology Infrastructure Information systems, supporting facilities and data are effectively managed and are reliable.	Administration, Settlement & Billing Market rules fairly applied to all participants. Accounting is timely and accurately reflects electricity production and delivery.	Operational Responsibility Market participant conduct their operations in a manner which facilitates consistent grid reliability.	Adequacy and Integrity Robust processes exist to support management assertions embodied within financial reports.	Regulatory Filings Evidence, testimony and other supporting materials are compelling and successful.
Investment Standard - The BOD approved revisions to the Standard in February. All current investments are made within the scope of the new approved Standard.	Systems remain stable in all areas. The TCC1 data center expansion is planned for completion September 2009. Enough capacity for Nodal go-live and for the start of advanced metering will be available with the completion of the TCC1 expansion. The south side data center plan calls for full production operations by February 2011 and the new TCC3 facility to be ready by May 2011.		Response of generators and LaaRs to grid operation events has been improving. Enhanced enforcement of NERC standards and ERCOT Protocols and Operating Guides will exist through the ERO / TRE and IMM which will provide additional incentive for improved performance. Increased wind generation will present additional operational challenges that a study indicated can be met. A joint ERCOT Staff and TAC Renewable Technologies Task Force is addressing a number of outstanding operational and planning issues regarding wind generation and is making recommendations on changes to more reliably integrate wind generation.		

Legend: Elevated Risk Level

Reduced Risk Level

(New Risk Categories / Descriptions Indicated in **Green**)

8. Committee Brief: PMO David Troxtell

Year to Date Project Activity by Division

	Phase	Not Started	Initiation	Planning	Execution	Closing	Closed	Totals Excluding Non-Active	Cancelled	On Hold	Deferred	Totals by CART	Go-Live* (To Date)	Current Projected Go-Live (by Y.E.)	Original Projected Go-Live (by Y.E.)
CART	Corporate Operations	4	0	6	12	1	1	24	0	0	0	24	4	10	10
	IT Operations	2	2	0	3	0	0	7	0	0	0	7	0	6	6
	Market/Retail Operations	4	1	2	4	1	1	13	2	0	0	15	1	5	5
	System Operations	1	0	1	3	0	0	5	0	0	0	5	0	4	4
	Totals by Phase	11	3	9	22	2	2	49	2	0	0	51	5	25	25
	Total Non-Active								2						

* Note: Some projects in Closing and Closed Status went live in 2008

* Projects Gone Live in February 2009









(CO) PR-60058_01 Microsoft Project Server

8. Committee Brief: PMO David Troxtell

Year to Date Project Priority List (PPL) Status

PPL Iterations	Origination	Project Phases								Deferred Projects	Subtotal	Grand Total
		Not Started	Initiation	Planning	Execution	Closing	Closed	On Hold	Cancelled			
Original 2009 (October) PPL											45	
	PUCT				2						2	
	Market				1		1				2	
	ERCOT	11	3	9	14	1	1		2		41	
Unexpected Carry Over From 2008											6	
	PUCT										0	
	Market										0	
	ERCOT				5	1					6	
New Projects Added (Since PPL Approval in January 2009)											0	
	PUCT										0	
	Market										0	
	ERCOT										0	
2009 PPL Totals to Date											51	
	PUCT	0	0	0	2	0	0	0	0	0	2	
	Market	0	0	0	1	0	1	0	0	0	2	
	ERCOT	11	3	9	19	2	1	0	2	0	47	
Totals by Project Phase		11	3	9	22	2	2	0	2	0	51	

Year to Date Projects Over \$1 Million

(CART) Project Number and Description	Total Budget	Total Committed	Metrics	
(Duration) Phase (Sponsor)	Scheduled Completion		Schedule	Budget
(CO) PR-60075_01: Identity Access Management <i>Schedule stoplight red due to time taken to re-schedule around Nodal 168 hour test.</i>	\$2.66M	\$2.44M		
<i>(2006-2009) Currently in Execution (B. Kahn)</i>	<i>Expected Completion 4th Qtr 2009</i>			
(CO) PR-80001_01: (2 sub-projects, PR-80001_02 & PR-80001_03) MET Center Facility Analysis Deployment Phase 2	\$70M	\$1.35M		
<i>(2008 - 2011) PR-80001_01, PR-80001_02 & PR-80001_03 currently in Planning (B. Kahn)</i>	<i>Expected Completion 1st Qtr 2011</i>			
(MO/RO) PR-70007_01: MarkeTrak Enhancements	\$1.62M	\$1.64M		
<i>(2007-2009) Currently in Execution (T. Doggett)</i>	<i>Expected Completion 1st Qtr 2009</i>			
(CO) PR-80047_01 TCC1 Data Center Expansion	\$6.75M	\$.065M		
<i>(2009-2009) Currently in Execution (B. Kahn)</i>	<i>Expected Completion 4th Qtr 2009</i>			

8. Committee Brief: PMO David Troxtell

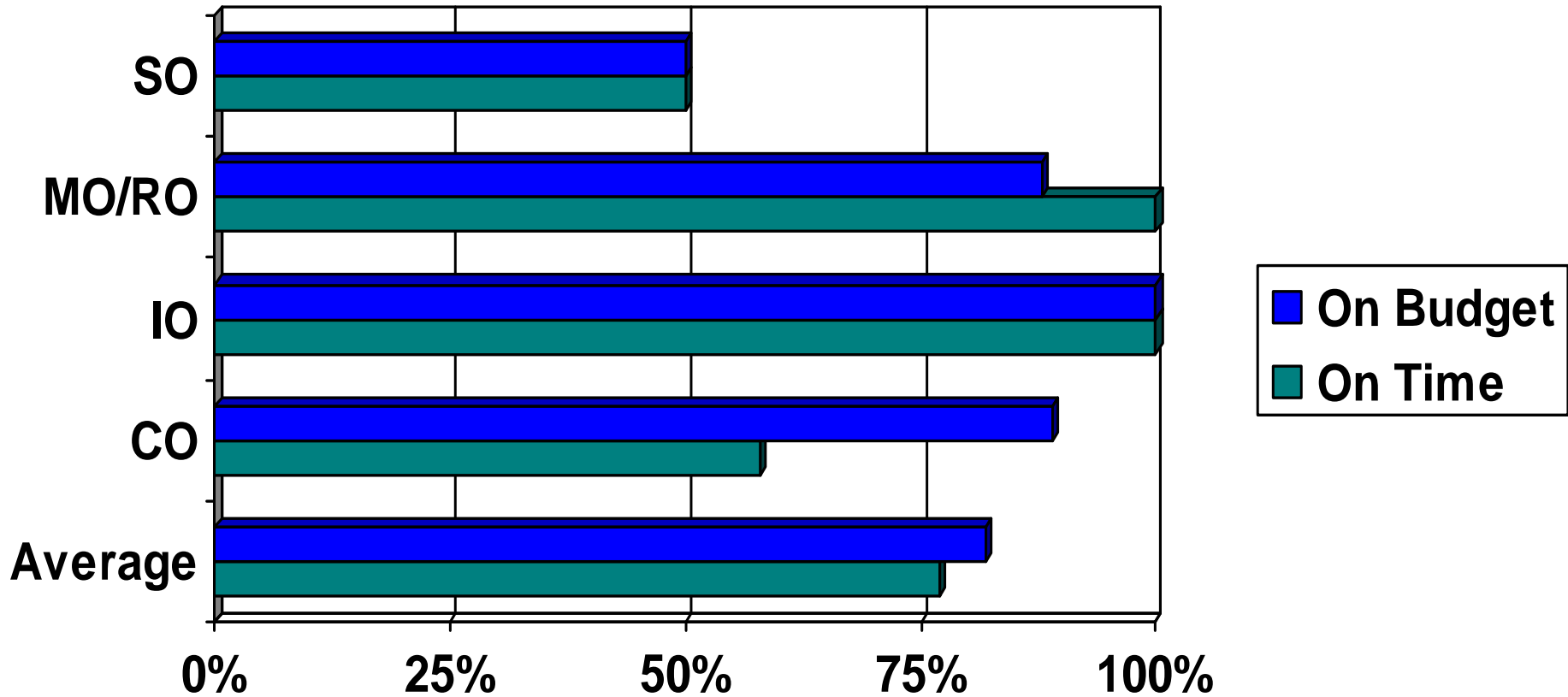
Baseline Budget vs. Actuals for Projects Closed in Lawson for 2009

Project	Description	Year Implemented	Baseline Budget	Actuals	\$ Variance Fav/(Unfav)	% Variance Fav/(Unfav)	Explanation
60020_02	Lawson 9.0 Upgrade Phase II	2008	\$ 663,700	\$ 580,418	\$ 83,282	13%	Based on multiple failed attempts of upgrading the application in the test environment, the project team planned and budgeted for a failed migration to the production environment; fortunately, the migration was successful on the first attempt.
50070_02	Unit Testing Automation and Electronic Submittal via Web	2008	48,100	43,037	5,063	11%	Less internal development and testing labor required than projected.
70054_02	Blade Refresh Phase II	2008	275,200	257,438	17,762	6%	
40066_04	Lodestar 4.7 Upgrade	2008	410,500	\$ 638,305	(227,805)	(55)%	<ul style="list-style-type: none"> • iTest schedule was extended due to system instability (CR#5) • Additional scope added (CR#6) • No rebaselines for the above change requests
60094_01	Physical Access Control Software and Hardware Upgrade	2008	666,500	\$ 646,726	19,774	3%	
		Count = 5	\$ 2,064,000	\$ 2,165,923	\$ (101,923)	(5)%	

NOTES:

1. Baseline budget does not include change controls that were approved without granting a new baseline budget.
2. List and totals include projects delivered and reported in previous years Project Management reports but closed in Lawson in 2009.
3. Favorable is when a project is delivered under budget. (UnFav)orable is when a project is delivered over budget.
4. Explanations are not required for variance + or - 10%

2009 Active Projects Performance



Note: Includes projects started in previous years.
Projects that change to inactive states will impact results.

Go Live Projects for February 2009

- **PR- 60058_01 Microsoft Project Server Upgrade**
 - **Scope:**
 - Upgrade Microsoft Project Server from 2003 to 2007
 - Automate project status reports.
 - **Deliverables:**
 - Migrate project schedules from Project Server 2003 to 2007
 - Automate project status reports
 - **Timeline:** September 2007 – February 2009

Large Project Moving to Execution

- **80047_01 TCC1 Data Center Expansion**

- **Scope:**

- Expand existing TCC1 Data Center by 2,000 square feet.

- **Deliverables:**

- Additional 2,000 square feet in existing TCC1 Data Center
- Reconfigure TCC1 2nd floor to accommodate displaced employees
- Relocate annex workshop to new equipment storage area

- **Timeline:**

- January 2009 – November 2009

- **Approval Dates:**

- Final COCART approval to move to Execution, February 25, 2009

- **Board Request:**

- Board previously approved at January 2009 BoD Meeting. No further action required at this time

Large Project Moving to Execution

- **80027_01 Advanced Metering Interim Settlement Solution**

- **Scope:**

- This project supports the interim settlement of all provisioned Advanced Meters using actual 15 minute data as defined by PUCT Project 34610 (SubProject 3, ERCOT Settlement Project).

- **Deliverables:**

- The creation of a new usage data loading process for ERCOT to receive 15-minute interval data from advanced meters
- Ability for Market to receive interval data from ERCOT using dynamic extracts
- Ability to settle distributed generation received from advanced meters
- Changes to ERCOT's IT infrastructure and storage in order to accommodate increased volume 15-minute data used in settlements of up to one million ESIDs.

- **Timeline:**

- Go-live November 2009

- **Approval Dates:**

- ERCOT Executive Team Approval, March 2, 2009

- **Board Request:**

- Approval to gate to Execution with budget over \$1M

Large Project Moving to Initiation

- **PR-90004_01 Data Storage**

- **Scope:**

- Procure multi-level tiered storage to support standard production growth and Information Life Cycle (ILM) strategy

- **Deliverables:** Executed in two phases:

- phase 1 to purchase, install and configure high-speed, tier-1 storage to support production
- phase 2 to purchase, install and configure multi-tiered storage in support of ILM strategy

- **Timeline:**

- March 2009 – December 2009

- **Board Action:**

- None at this time – approved for 2009 PPL. Project over \$1M – will request approval to move into Execution and final NTE amount at future BoD meeting.

Large Project Update

- **70007_01 MarkeTrak Enhancements**

- **Scope:**

- Enhance the tool to allow for Market Participants (MPs) to manage and track their retail issues and data resolutions with ERCOT more efficiently

- **Deliverables:**

- Increased usability
- Improved workflow of MarkeTrak Issues
- Enhanced reporting functionality

- **Timeline:**

- September 2007 – January 2009

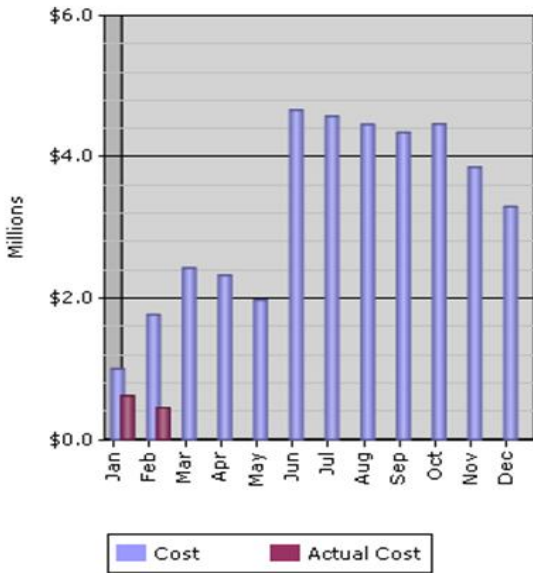
- **Board Request:**

- Approval to increase NTE budget amount

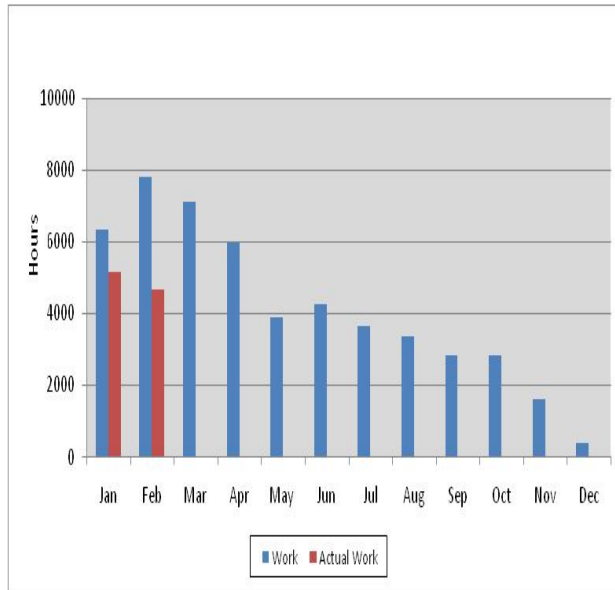
ERCOT Enterprise Projects Summary Report

ERCOT	Overall Projects Report					Reporting Period:	2/28/2009
	Projects in Ercot's Portfolio					Portfolio Performance	
	On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget
	-	1	11	22	2		
	Closed	2	Total Active		36		
	Cancelled	2	Projects Not Started		11	Current Year Funded Budget: \$38,150,000	

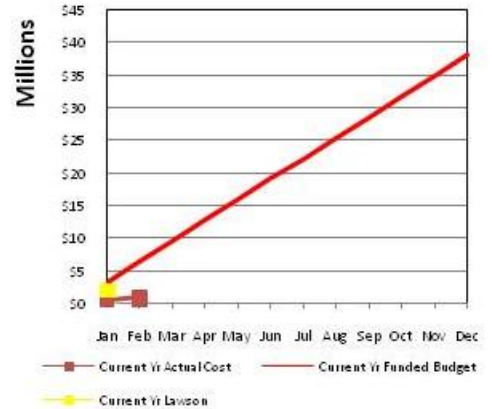
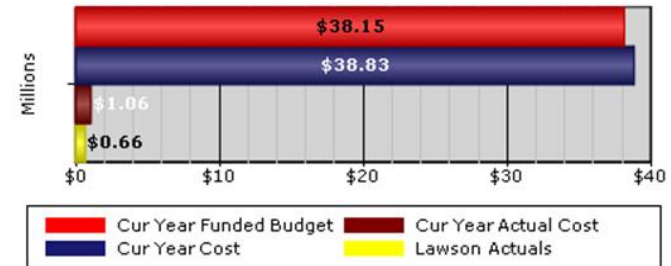
ERCOT Projects
Current Year - Cost



ERCOT Projects
Current Year - Work



ERCOT Projects
Current Year to Date Financials



** The Current Year Funded Budget \$38,150,000 includes \$20.0M budget for the MET Center Disposition project and \$6.75M budget for the TCC1 Taylor Data Center Expansion project.

Future Agenda Items – April 2009

- **Standing Internal Audit agenda items**
- **Market Credit Risk Standard**
- **Financial audit update**
- **Update on Nodal filing**
- **Insurance update**
- **Financing update**
- **Investment update**
- **Annual review of the procedures for handling reporting violations**
- **Committee briefs**
- **Future agenda items**

Quarter 1

- √ •Elect officers and confirm financial qualifications
- √ •Vote on CWG Chair/Vice Chair

Quarter 2

- Report results of annual independent audit to the Board
- Review the procedures for handling Reporting violations
- Review results of annual audit, together with significant accounting policies (including required communications)
- Review ERCOT Annual Report
- Review operating plan and budget assumptions
- Review and approve Internal Audit Department Charter
- Conduct annual review of insurance coverage(s)
- Review the Company's dealings with any financial institutions that are also market participants

Quarter 3

- Appoint the independent auditors for upcoming year
- Approval of independent auditor fees for upcoming year
- Review of committee charter
- Approve the Guidelines for Engagements of External auditors for Other Services (pre-approval policy)
- Assessment of compliance, the internal control environment and systems of internal controls
- Review and approval of annual operating budget
- Report by CWG Chair on ERCOT credit policy
- Review updated year-end forecast

Quarter 4

- Approve audit committee meeting planner for the upcoming year, confirm mutual expectations with management and the auditors
- Review and approval of Financial & Investment policies
- Approve scope of internal auditing plan for upcoming year
- Assessment of the adequacy and effectiveness of the Internal Audit staff
- Perform Finance & Audit committee Self Assessment
- Review requirements for membership in CWG
- Review and approve CWG charter
- Review updated year-end forecast
- Review the Company's dealings with any financial institutions that are also market participants
- Review scope of annual financial audit
- Review of external auditor quality control procedures and independence

Recurring Items

- Review minutes of previous meeting
- Report monthly matters to the Board (chair)
- Review EthicsPoint activity
- Review significant audit findings and status relative to annual audit plan
- Review investment results quarterly