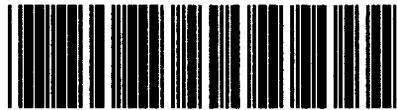


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**REPORTS OF THE ELECTRIC  
RELIABILITY COUNCIL OF TEXAS**

**PUBLIC UTILITY COMMISSION  
OF TEXAS**

**2010 ANNUAL REPORT OF THE ELECTRIC RELIABILITY COUNCIL OF TEXAS,  
INC., PURSUANT TO P.U.C. SUBSTANTIVE RULE §25.362(i)(1)**

COMES NOW, Electric Reliability Council of Texas, Inc. (ERCOT) and files, pursuant to Public Utility Commission of Texas (P.U.C.) SUBST. R. §25.362(i)(1), ERCOT's 2010 Annual Report. The following attachments comprise ERCOT's 2010 Annual Report.

SUBST. R. Section	Document Description	Attachments
§25.362(i)(1)(A)	A strategic plan, including a statement of the mission and vision of the organization, a summary of the industry environment in which it operates, a description of the major challenges it faces, and key strategies it intends to employ to perform its functions and meet its challenges.	A
§25.362(i)(1)(B)	<p>A long-term organizational plan including:</p> <ul style="list-style-type: none"> <li>(i) An overview of the major systems, including both hardware and software, operated by ERCOT, including descriptions of the functionality provided, estimates of remaining useful life, estimates of ongoing maintenance and upgrade costs, and evaluations of the performance of each system;</li> <li>(ii) A description of major capital projects completed in the prior budget year and those expected to be completed in the following budget year, including an explanation of why each project is needed to assist ERCOT in meeting its responsibilities or the benefits it would provide to market participants or consumers;</li> <li>(iii) A schedule summarizing ERCOT's sources and uses of funds for a six-year period beginning with the last historic calendar year and projections for the next five calendar years;</li> <li>(iv) Long-term goals for all ERCOT activities; and</li> <li>(v) An evaluation of ERCOT's performance in meeting its responsibilities and system expectations during the current budget year.</li> </ul>	<p>B</p> <p>B1</p> <p>B2</p> <p>B3</p> <p>B4</p> <p>B5</p>

§25.362(i)(1)(C)	Financial information including:	C
	(i) A copy of an independent audit of ERCOT's financial statements for the report year;	C1
	(ii) A schedule comparing actual revenues and costs to budgeted revenues and costs for the report year, a schedule showing the variance between actual and budgeted revenues and costs, and a schedule showing the assets and liabilities (including level and types of debt);	C2
	(iii) The annual board-approved budget; and	C3
	(iv) A description of any derivative transactions entered into by ERCOT.	C4

Respectfully submitted,

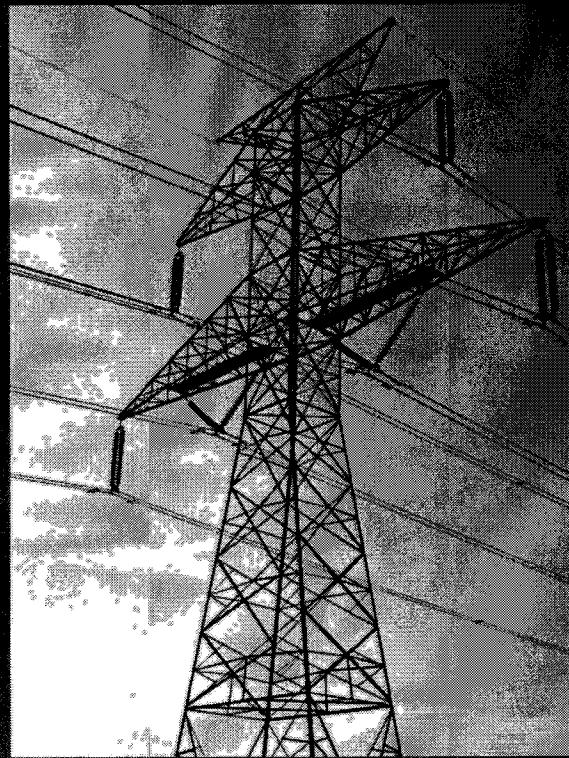


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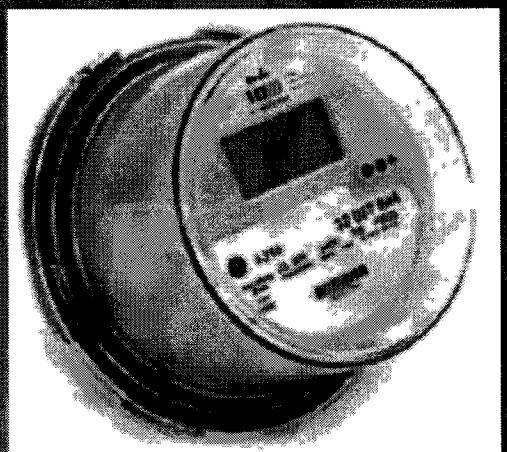
ATTORNEYS FOR ELECTRIC  
 RELIABILITY COUNCIL OF TEXAS, INC.



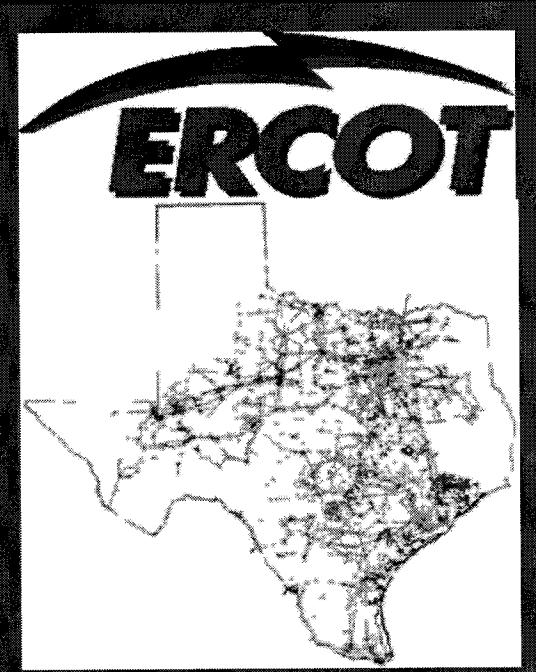
# Electric Reliability Council of Texas



2010 – 2014  
Strategic Plan



- **Vision**
- **Mission**
- **Core Values**
- **Driving Forces**
- **Strategic Objectives & Initiatives**



*The Electric Reliability Council of Texas (ERCOT) manages the flow of electric power to approximately 22 million Texas customers – representing 85 percent of the state's electric load and 75 percent of the Texas land area. As the Independent System Operator for the region, ERCOT schedules power on an electric grid that connects 40,000 miles of transmission lines and more than 550 generation units. ERCOT also manages financial settlement for the competitive wholesale bulk-power market and administers customer switching for 6.5 million Texans in competitive choice areas.*

The strategies and objectives combined in this document are ERCOT's commitment to the future. The Strategic Plan sets the foundation that balances long-term objectives, annual goals, on-going operational priorities, and financial discipline. This is a living document, which must be reviewed and updated annually to address changes in the environment and the industry.

The plan outlines the Vision, Mission and Core Values under which ERCOT will operate over the next five years, and defines the company's strategic objectives and initiatives during that time period.



## VISION

**To be innovative in providing a world class, cost effective, reliable electric grid and efficient electricity markets.**

## MISSION

**ERCOT serves the public interest by:**

- **ensuring open access to transmission and distribution systems;**
- **maintaining system reliability and operations;**
- **enabling retail choice;**
- **operating fair and competitive wholesale markets;**
- **maintaining the renewable energy credits registry; and**
- **providing leadership and independent expertise to improve system reliability and market efficiency.**

# CORE VALUES

- **Accountability** – taking personal responsibility for doing the right things the right way.
- **Innovation** – implementing and operating creative solutions.
- **Customer focus** – listening, responding and delivering quality services to our stakeholders.
- **Integrity** – committing to honest and ethical actions in all that we do.
- **Respect** – recognizing the worth and diversity of our people and their contributions.
- **Expertise** – developing and demonstrating respected skill and knowledge in the industry.
- **Leadership** – developing a vision and ensuring its successful completion.
- **Effectiveness** – providing quality in a cost-efficient manner.
- **Teamwork** – working together to allow our organization to achieve its objectives.
- **Communication** – proactively sharing information internally and externally.

# **DRIVING FORCES**

## **Tension between Markets and Reliability Actions**

The primary objective of the ERCOT organization is the maintenance of the reliability of the electric grid; however, there is a correlation between actions taken to ensure reliability and the impact those actions have on prices within the market place. The market should be designed in such a manner to send accurate price signals and drive reliability. ERCOT is expected to provide a reliable supply of electricity at a reasonable price for the consumers of Texas while working in a complex and transparent environment with the market participants, PUCT and Texas Legislature.

## **Delivering Technology Advances and Complex Services with Increasing Scrutiny of Costs**

As the number and complexity of services requested to be provided by ERCOT continue to increase so will the need for the organization to be transparent in the communication and education of the value of the services offered and the cost associated with their provision.

ERCOT will continue to work with our market participants to determine the cost/benefit of introducing advancing technologies within the industry and assess the impacts to consumers. ERCOT will need to ensure the electric markets evolve to satisfy consumer expectations while maintaining grid reliability.

## **DRIVING FORCES continued...**

### **Growth of Renewable Energy**

The increase in renewable energy generation provides challenges of geographical limitations, intermittent nature, transmission availability and system stability.

### **Continuously Changing Compliance Environment with Stringent Standards**

ERCOT exists within a unique compliance environment due to the unrivaled scope of ERCOT's NERC registrations. Ambiguous and/or expanding registration requirements imposed on the organization, volume of standards and audit documentation requirements, enforcement risk and asynchronicity of NERC and ERCOT terminology are some of the key issues. In particular, ERCOT faces extensive cyber and physical security pressures and requirements.

### **Limited Pool of Critical Skilled and Qualified Resources**

The complexity of the ERCOT ISO environment and the technology required to execute the markets require highly skilled individuals who are in high demand but in little supply. As the ERCOT region transitions from a zonal to nodal market, ERCOT will be challenged to attract and retain individuals with subject matter expertise and familiarity with ERCOT processes as such attributes will become an increasingly valuable commodity in the market place.

## **STRATEGIC OBJECTIVES**

- **Manage the grid in a manner that maintains a high level of reliability.**
- **Effectively manage the evolution of the wholesale and retail markets to meet the changing business environment.**
- **Manage the interrelationships and dependencies between reliability actions and market impacts.**
- **Manage the deployment and stabilization of the nodal market to more efficiently direct-assign local transmission congestion costs, provide better price signals for locating generation and transmission, and develop a day-ahead market.**
- **Continue to demonstrate a reputation of excellent reliability performance while meeting the increasingly demanding and complex requirements for compliance with Federal Reliability Standards and cyber and physical security requirements and ensuring ERCOT ISO's compliance with ERCOT Protocols and Operating Guides.**
- **Manage the complex systems, infrastructure and development processes to enhance and operate the grid and markets.**
- **Develop and maintain productive external relationships through proactive, effective and comprehensive communications.**
- **Attract and retain the right people with the right skills in the right position to develop a culture of excellence that empowers, incents, recognizes and celebrates our achievements.**
- **Prudently ensure adequate funding for the provision of resources needed to pursue and achieve ERCOT's objectives.**

# **STRATEGIC OBJECTIVE (1)**

## **STRATEGIC OBJECTIVE (1)**

**Manage the grid in a manner that maintains a high level of reliability.**

### **INITIATIVES**

- 1.1 Lead the market in the development and implementation of strategy and policy to integrate renewable generation into the ERCOT grid.
- 1.2 Study and make recommendations to develop a long-term transmission strategy for the region and mechanism for incorporating that framework into mid-term transmission planning.
- 1.3 Evaluate and recommend a plan to develop a back-up method of calculating transmission limits in the event of EMS failures.
- 1.4 Develop and implement a coordinated oversight process for generation interconnection through energizing to ensure study, protocol and data sufficiency.
- 1.5 Prepare requirements, develop specifications, and facilitate installation of improved visualization tools for ERCOT operators.
- 1.6 To improve the potential for better operating decisions ERCOT will identify, initiate and complete projects that will:
  - a. Use synchrophasor data to improve dynamic study models and state estimator results.
  - b. Provide system operators displays or applications using synchrophasors that will be of value in making operational decisions.
- 1.7 Evaluate and recommend a plan that would assign responsibilities to Operator desks according to NERC registered functions (RC, BA, TOP, IA, TSP) and decide whether to implement the plan or identify reasons why it should not be done.
- 1.8 Develop a strategy and processes to incorporate new technologies (such as: Distributed Generation, Plug-in Hybrids, AMR-enabled DR/price response, and energy storage) into planning and operations.

## **STRATEGIC OBJECTIVE (2)**

### **STRATEGIC OBJECTIVE (2)**

**Effectively manage the evolution of the wholesale and retail markets to meet the changing business environment.**

#### **INITIATIVES**

##### **Wholesale**

- 2.1 Examine and make recommendations to lead the structured evolution of the wholesale market in cooperation with Market Participants and Regulatory bodies.
- 2.2 Implement a transparent pricing model to ensure appropriate price signals are communicated in support of a viable financial environment within the ERCOT market.
- 2.3 Evaluate opportunities for loads and other technologies (such as energy storage) to participate in Ancillary Service Markets.
- 2.4 Study and make recommendations to continue to enhance and develop price validation tools.
- 2.5 Study and make recommendations regarding the appropriate credit requirements to ensure continued financial stability within the ERCOT market.
- 2.6 Evaluate and implement market incentives to ensure the right mix of needed resources.

##### **Retail**

- 2.7 Study and make recommendations in an effort to lead the evolution of the retail market given advanced metering and technology deployment.

# **STRATEGIC OBJECTIVES (3 & 4)**

## **STRATEGIC OBJECTIVE (3)**

**Manage the interrelationships and dependencies between reliability actions and market impacts.**

### **INITIATIVES**

- 3.1 Identify and recommend the tools/processes/people needed to assess and act upon the convergence of reliability and markets.
- 3.2 Analyze events that result in the need for ancillary services and examine the opportunity to develop new ancillary service products.

## **STRATEGIC OBJECTIVE (4)**

**Manage the deployment and stabilization of the nodal market to more efficiently direct-assign local transmission congestion costs, provide better price signals for locating generation and transmission, and develop a day-ahead market.**

### **INITIATIVES**

- 4.1 Conduct Nodal Market Model Validation and Market Trials in preparation of Nodal system implementation.
- 4.2 Identify the funding mechanism for the implementation of Nodal stabilization releases.
- 4.3 Plan, prioritize and implement Nodal “Parking Deck” features and other prioritized enhancements and reliability/market initiatives.
- 4.4 Define the specific criteria to be measured and analyzed to determine the level to which the success criteria of a nodal market are realized.
- 4.5 Develop and devote expertise to recognize and remedy flaws in the market design.

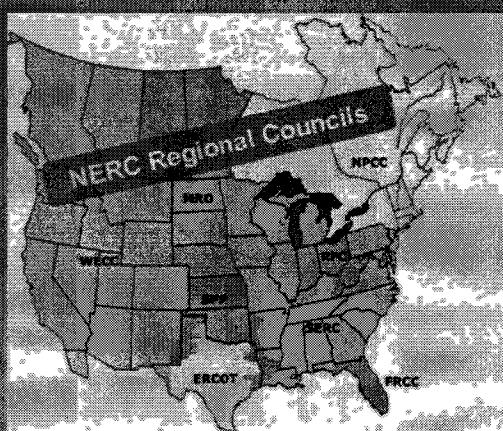
# **STRATEGIC OBJECTIVE (5)**

## **STRATEGIC OBJECTIVE (5)**

Continue to demonstrate a reputation of excellent reliability performance while meeting the increasingly demanding and complex requirements for compliance with Federal Reliability Standards and cyber and physical security requirements and ensuring ERCOT ISO's compliance with ERCOT Protocols and Operating Guides.

### **INITIATIVES**

- 5.1 Enhance and expand "Culture of Compliance" within ERCOT & Texas Interconnect.
- 5.2 Demonstrate compliance with all ERCOT Protocol, NERC & FERC requirements through audits.
- 5.3 Actively participate in key committees and in partnership with NERC/FERC and ISO industry experts to address increasing cyber security requirements, changing reliability standards and functional model requirements.
- 5.4 Explore strategies to build a foundation of confidence through collaboration with our stakeholders.
- 5.5 Prioritize security initiatives to align with IT infrastructure to defend ERCOT ISO sensitive information and critical assets.
- 5.6 Minimize NERC-related risk by achieving the best possible Reliability Standards, registration state, audit performance, and enforcement engagement.
- 5.7 Engage in development of NAESB and NIST Standards.



# **STRATEGIC OBJECTIVES (6 & 7)**

## **STRATEGIC OBJECTIVE (6)**

**Manage the complex systems, infrastructure and development processes to enhance and operate the grid and markets.**

### **INITIATIVES**

- 6.1 Provide cost effective, high availability systems for ERCOT operations with proven recoverability.
- 6.2 Operate ERCOT systems while keeping abreast of advancing technologies and continually implementing operational and performance improvements.
- 6.3 Relocate systems to the new data centers to provide enhanced reliability and to meet future growth.
- 6.4 Implement a business integrated solution delivery process.
- 6.5 Implement Information Life Cycle Management and System Life Cycle Management processes to manage systems demand and capacity.

## **STRATEGIC OBJECTIVE (7)**

**Develop and maintain productive external relationships through proactive, effective and comprehensive communications.**

### **INITIATIVES**

- 7.1 Develop and maintain a comprehensive relationship matrix to build and maintain external relationships between Officers and Key Employees of ERCOT and critical external constituencies and effectively track and report contact with federal and state legislators and regulators.
- 7.2 Maintain a comprehensive and unitary repository of informational/educational and resource documents related to ERCOT, Inc. and the ERCOT market and raise awareness of its public availability via the ERCOT website.
- 7.3 Develop effective initiatives by which key messages will be disseminated to external constituencies.

# **STRATEGIC OBJECTIVE (8)**

## **STRATEGIC OBJECTIVE (8)**

**Attract and retain the right people with the right skills in the right position to develop a culture of excellence that empowers, incents, recognizes and celebrates our achievements.**

### **INITIATIVES**

- 8.1 Review the organizational structure and skills required to implement needed changes to ensure ERCOT is providing services in the most efficient and cost effective matter.
- 8.2 Implement improved performance management and talent identification processes.
- 8.3 Implement a training program that addresses career development and growing skills needed for advancing technologies and changing business drivers.
- 8.4 Enhance the current succession planning process for Executive/Director level positions that looks at the long-term direction of the organization and evaluate the benefits of expanding the process to other positions within the organization.
- 8.5 Enhance our recruiting by capitalizing on ERCOT's image as industry leader in Retail, Wholesale and Systems.
- 8.6 Assess available functionality in existing toolsets to automate processes within support areas and implement recommendations.
- 8.7 Enhance reward and recognition program to incent and celebrate achievements.



# **STRATEGIC OBJECTIVE (9)**

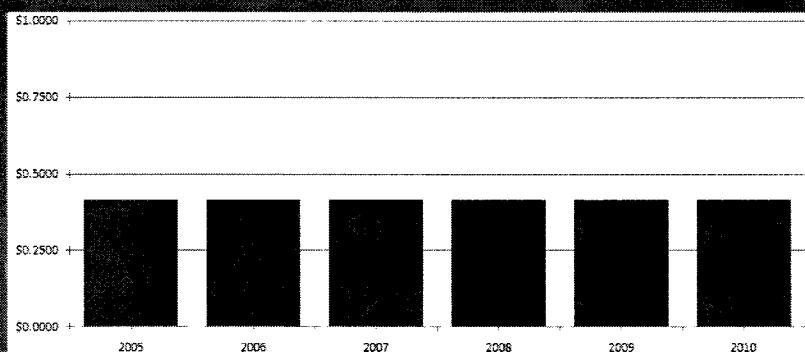
## **STRATEGIC OBJECTIVE (9)**

**Prudently ensure adequate funding for the provision of resources needed to pursue and achieve ERCOT's objectives.**

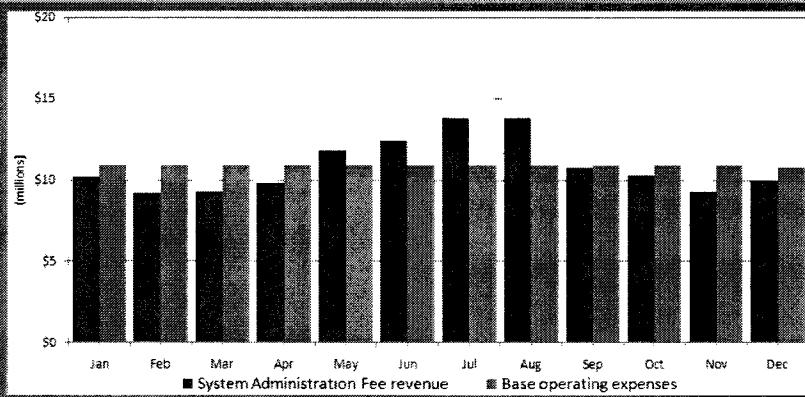
### **INITIATIVES**

- 9.1 Propose long term fee structure for ERCOT.
- 9.2 Propose long term debt structure that meets the needs of the organization and its stakeholders.
- 9.3 Analyze the cost/benefit options regarding facility relocation/consolidation and provide recommendations.
- 9.4 Create a 36 month rolling project horizon with annual projections to six years.
- 9.5 Implement an effective Vendor Management Program (VMP) to manage strategic contracts by assessing the viability of critical vendors and managing vendor relationships and expectations to ensure strategic initiatives are satisfied.

**System Administration Fee:  
ERCOT's primary source of revenue has been held constant since 2005.**



**ERCOT is managed to a balanced financial position – annual expenses are equal to annual revenue.**



# **Electric Reliability Council of Texas, Inc.**



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**7620 Metro Center Drive  
Austin, TX 78744  
512 225 7000**

## **Attachment B**

### **ERCOT's Long-Term Organizational Plan Index**

<b>P. U.C. SUBST. R §25.362(i)(1)(B)</b>	<b>Attachment</b>
(i) An overview of the major systems, including both hardware and software, operated by ERCOT, including descriptions of the functionality provided, estimates of remaining useful life, estimates of ongoing maintenance and upgrade costs, and evaluations of the performance of each system	B1
(ii) A description of major capital projects completed in the prior budget year and those expected to be completed in the following budget year, including an explanation of why each project is needed to assist ERCOT in meeting its responsibilities or the benefits it would provide to market participants or consumers	B2
(iii) A schedule summarizing ERCOT's sources and uses of funds for a six-year period beginning with the last historic calendar year and projections for the next five calendar years	B3
(iv) Long-term goals for all ERCOT activities	B4
(v) An evaluation of ERCOT's performance in meeting its responsibilities and system expectations during the current budget year	B5

## **Overview of Major ERCOT Systems**

An overview of the major systems, including both hardware and software, operated by ERCOT, including descriptions of the functionality provided, estimates of remaining useful life, estimates of ongoing maintenance and upgrade costs, and evaluations of the performance of each system.

The chart consists of major hardware and software systems that were in place in 2010.

## 2010 Major ERCOT Systems



Attachment B-1

Grid Operations		Nodal Market Systems				Market Operations				Enterprise Information Services				Enterprise Applications			
Production Infrastructure consists of IBM i-Series and pSeries server infrastructure configured into a dual redundant (and site fail over) architecture		Energy Management and Market Management functions				Astrom EMS ABB Market Management System ABB Outage Scheduler Siemens MM/PTI Nexant iHedge Mkt Information System CRR CMM VSAT/TSAT OSI PI Historian AMMS CPLEX TIBCO Patomac Economics				Systems operating with sufficient capacities to withstand future growth demands throughout remaining life				Systems operating with sufficient capacities to withstand known future growth demands throughout remaining life			
Production infrastructure consists of IBM i-Series and pSeries server infrastructure configured into a dual redundant (and site fail over) architecture		Energy Management and Market Management functions				Astrom EMS ABB Market Management System ABB Outage Scheduler Siemens MM/PTI Nexant iHedge Mkt Information System CRR CMM VSAT/TSAT OSI PI Historian AMMS CPLEX TIBCO Patomac Economics				Systems operating with sufficient capacities to withstand future growth demands throughout remaining life				Systems operating with sufficient capacities to withstand known future growth demands throughout remaining life			
Transaction processing for the deregulated retail market in Texas		Wholesale Settlements				IBM iSeries running Microsoft Windows Server and IBM pSeries running AIX				IBM iSeries running Microsoft Windows Server and IBM pSeries running AIX				IBM iSeries running Microsoft Windows Server and IBM pSeries running AIX			
Services to facilitate the accurate and timely accounting of the wholesale energy market transactions in ERCOT		Retail Processing				NAESB PaperFree TIBCO Siebel				NAESB PaperFree TIBCO Siebel				NAESB PaperFree TIBCO Siebel			
Enterprise Data Warehouse to facilitate data replication from source systems for purposes of archival, and reports and extracts to enable market data transparency		EDW				Oracle 10g Informatica Cognos Oracle CMNSDK				Oracle 10g Informatica Cognos Oracle CMNSDK				Oracle 10g Informatica Cognos Oracle CMNSDK			
Financial procurement and Human resources management		ERP				Lawson Financials Lawson Procurement, ADP HR/Payroll				Lawson Financials Lawson Procurement, ADP HR/Payroll				Lawson Financials Lawson Procurement, ADP HR/Payroll			
Email & Collaboration		Communication Collaboration				IBM iSeries running Microsoft Windows Server				IBM iSeries running Microsoft Windows Server				IBM iSeries running Microsoft Windows Server			
Company data storage, retrieval and sharing		Shared File Services				Microsoft Windows File Services				Microsoft Windows File Services				Microsoft Windows File Services			
Test automation, Test Development, Defect Reporting		Test Tools				IBM iSeries running Microsoft Windows Server and RedHat Enterprise Linux				IBM iSeries running Microsoft Windows Server and RedHat Enterprise Linux				IBM iSeries running Microsoft Windows Server and RedHat Enterprise Linux			

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## 2010 Major ERCOT Systems

Performance Categories					
Reliability, Usability, and Scalability					
Hardware, Software, and Services					
System operating with sufficient capacities to withstand future growth demands throughout remaining life					
<b>ERCOT Intranet</b>	Document management Server provisioning Employee access /system accounting Service Desk, Portfolio Management Audit Response	IBM xSeries running Microsoft Windows Server	Microsoft IIS, JBoss, Apache, Apeche, BMC Remedy, Autokudit, Adobe Coldfusion MX, Sun Identity Manager (idM)	1-3 Years	\$460,000 annually
<b>Storage Infrastructure</b>					
<b>Production</b>	ERCOT's storage infrastructure houses all production level data within the enterprise. Currently this data totals approximately 1.8PB of usable storage	EMC DMX 3 Storage Array Hitachi USP SAN Array	EMC & Hitachi related management software	2+ Years	\$2,344,000 annually
<b>Disaster Recovery</b>	ERCOT incorporates a mirror replication of all production data able to withstand immediate RPO requirements. This infrastructure is also used for bi-annual DR testing and service resumption plans	EMC DMX 3 Storage Array Hitachi USP SAN Array	EMC & Hitachi related management software	2+ Years	\$1,562,000 annually
<b>Network Infrastructure</b>					
<b>Internet</b>	Manage Internet connections to include Routing, DNS, Content Filtering, Environmental Security	Routers, Switches, Firewalls from Nokia Cisco, Juniper, F5 Loadbalancer	Solarwinds Orion, Aerpoint	3+ Years	\$500,000 annually
<b>WAN</b>	Provide connectivity to ERCOT for Market Participants, Environmental Security, Digital Certificate Mgmt.	Routers, Switches, Firewalls, F5 Loadbalancer	Juniper NSM, Juniper NAC	2 Years	\$300,000 annually
<b>Production / EMMS</b>	Load balancing web servers, network connectivity to servers and environmental security	Routers, Switches, Firewalls, F5 Loadbalancer	Juniper NSM, Juniper NAC	2 Years	\$571,000 annually
<b>Corporate</b>	Network connectivity of corporate servers and workstations, VPN connectivity and environmental security	Routers, Switches, VPN Concentrators, Firewalls	Juniper NSM, Juniper NAC, Juniper SSL/VPN, Symantec Suite	3+ Years	\$571,000 annually

Attachment B-1

## **ERCOT's Major Capital Projects**

A description of major capital projects completed in the prior budget year and those expected to be completed in the following budget year, including an explanation of why each project is needed to assist ERCOT in meeting its responsibilities or the benefits it would provide to market participants or consumers.

The major capital projects in the chart consist of projects that were completed in 2010 and will be completed in 2011 that cost more than \$500,000 in the approved annual budget. These projects were derived from ERCOT's Project Priority List (PPL) and are funded by ERCOT's approved base operating budget. The projects do not include Nodal-related projects that went live in 2010 or Post-Go-Live Nodal-related projects that will go-live in 2011, which are funded by the Nodal budget.

## Major ERCOT Capital Projects completed in 2010\*

Committee	Officer	Project No.	Project	2010 Priority	2010 Portfolio Rank	2010 Budget Range	Summary Description	Benefit Summary	Current Status	Completion date
IO	Richard Morgan	800001_01	MET Center Disposition	1-Critical	2	\$35M - \$40M	Construct one Greenfield Data Center (TCC3) and one Greenfield Data Center/Control Center (BCC1)	ERCOT's demand for processing and data storage has increased 150% annually since 2003 (expanded business functions of ERCOT, such as Nodal and AMR). The current data centers were not designed to support power and cooling densities required by the high density architecture or dynamic reorganization of larger physical servers required by virtualization. Also, the MET Center does not meet the recommendations outlined in the MET Center Analysis Document for space, security, power, cooling, growth, and availability. Projected power and cooling for the existing Taylor data center facility space is low	Complete	Quarter 4, 2010
IO	Richard Morgan	10018_01	Annual Storage Growth	1-Critical	12	\$500k - \$1M	Storage capacity required to handle production growth and required to implement an ILM strategy to mitigate growth to ensure we fit in the current data center	Storage Requirements for all environments. Necessary to support data virtualization and ensure adequate capacity for ongoing operations and growth.	Complete	Quarter 4, 2010
CO	Bill Magness	99910	Minor Capital - Critical	1-Critical	14	\$1M - \$2M	Capital purchases over the course of the year: new desktop and laptop systems, SAN switch upgrades, voice recording system for Outage Coordinators, additional licenses, and other capital items.	Continued maintenance activities in support of ERCOT's infrastructure.	Complete	Quarter 4, 2010

\* Note: These projects do not include Nodal-related projects that went live in 2010.

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## Major ERCOT Capital Projects Expected to be Completed in 2011\*

Committee	Officer	Project No.	Project	2011 Priority	2011 Portfolio Rank	Budget Range	Summary Description	Benefit Summary	Current Status	Expected completion
IO	Richard Morgan	99911	Minor Cap - Critical	1-Critical	2	\$500k - \$1M	Capital purchases over the course of the year: new desktop and laptop systems, SAN switch upgrades, voice recording system for Outage Coordinators, additional licenses, and other capital items.	Continued maintenance activities in support of ERCOT's infrastructure	Execution	Quarter 4, 2011
RO	Mike Cleary	50088_01	Data Research and Reporting (formerly ETS Transition to EDW)	2-High	10	\$1M - \$2M	Deliver a data research and reporting tool for ERCOT Commercial Operations. The project will create ESSID Tracking System (ETS) business logic that will provide accurate, complete, and efficient reporting and research capabilities using retail transaction data.	Brings together data from five (5) application system tables into one view for data analysis to support retail transaction processing. Source for Performance Measures Report (PUC Project No 33049). In addition to the Commission, data is provided to the ERCOT Board and used to evaluate ERCOT's success in attaining its retail goals. Gain efficiencies in the day-to-day support of retail transaction processing. Reduce the number of hours of researching and reporting errors. Permit near-real time query for data currently not in ETS. Reduce development and testing efforts on future projects. Align with Database maintenance strategies and Security standards.	Execution	Quarter 3, 2011
<b>Data Center Buildout (the following projects are sub-projects under the data center buildout effort)</b>										
IO	Richard Morgan	10011_01	Enterprise UNIX				Replace existing UNIX Frames that are approaching end of life. The new UNIX Frames will be installed in the new data centers.	New UNIX Frames will resolve space, power, and cooling issues in existing data centers. New UNIX Frames will provide additional processing capacity at a lower price and will improve reliability.		
IO	Richard Morgan	10015_01	Telecom Equipment - Phase 1				This project will provide telecom equipment and services for the upgrade of the Taylor TC1 Data Center.	Currently, ERCOT does not have the equipment in place to support the expansion of the data centers. This project will provide the needed equipment and services to support the new data centers.		
IO	Richard Morgan	10015_02	Telecom Equipment - Phase 2				This project will provide telecom equipment and services for the upgrade of the TCC3 and BCC1 data centers.	Currently, ERCOT does not have the equipment in place to support the expansion of the data centers. This project will provide the needed equipment and services to support the new data centers.		
IO	Richard Morgan	10016_01	Network Gear - Phase 1				This project will provide network equipment for the upgrade of the TCC3 Data Center.	This project will provide reliable and robust network infrastructure to support ERCOT's business processes.		

IO	Richard Morgan	10016_03	Network Gear - Phase 3					
IO	Richard Morgan	10010_01	Tier 1 Storage	1-Critical	\$25M-\$30M	This project will provide network equipment for the upgrade of the Bastrop Data Center	Currently, ERCOT does not have enough equipment to support the expansion of the data centers. Equipment purchases and installation/configuration are necessary to support the existing and new sites. The project objective is to provide the necessary storage systems, equipment, software, cabling (including Tier 1 Systems, Tier 2 Systems, SAN Directors, SAN Fabric, SAN Switches, and Storage Software), to support the data center expansions in the Taylor and Bastrop facilities	Execution Multiple deliveries through 2011
IO	Richard Morgan	10013_01	Windows/Linux			To replace blade servers and the corresponding chassis that are approaching end of life	Replacing the servers and chassis that are approaching end of life will provide the reliability required to meet ERCOT's production uptime requirements and reduce the risk of server failure	
IO	Richard Morgan	10014_01	Virtual Tape			The project will provide the necessary disk and tape library systems, related equipment, software, and cabling to support backup and restore operations for the data center expansions in Taylor and Bastrop.	The business objectives are to provide backup and restore equipment in the Taylor and Bastrop data centers. Currently, there are not tape or disk library systems to support the data center expansions for TCC3 and Bastrop. In order to support these facilities, disk and tape libraries, cabling, and software must be purchased. New data centers will supply ERCOT with needed expansion space, power, and cooling required to support expanding infrastructure	

\* Note: These projects do not include Post-Go-Live Nodal-related projects that will go-live in 2011.

## **ERCOT's Sources and Uses of Funds (2010-2015)**

A schedule summarizing ERCOT's sources and uses of funds for a six-year period beginning with the last historic calendar year and projections for the next five calendar years.

**Electric Reliability Council of Texas  
Sources and Uses of Funds Summary**

Line Description	2010 Actual	2011 Budget	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
<b>1   Uses of Funds</b>						
2 <i>Operating expenses (excluding depreciation and amortization)</i>	\$ 84,009	\$ 113,227	\$ 124,023	\$ 125,878	\$ 128,803	\$ 131,797
3 <i>Revenue funded capital expenditures</i>	21,871	16,758	12,000	12,000	14,000	14,000
4 <i>Debt funded capital expenditures</i>	32,806	25,138	18,000	18,000	21,000	21,000
5 <i>Debt service</i>	28,869	29,715	30,175	29,724	29,355	29,070
6 <i>Protocol services</i>	743	2,466	2,246	2,293	2,342	2,391
7 <i>Market monitoring</i>	2,417	2,700	2,800	2,900	3,000	3,100
8    Total - Uses of Funds	\$ 170,715	\$ 190,004	\$ 189,244	\$ 190,795	\$ 198,500	\$ 201,358
9						
<b>10</b>						
<b>11   Sources of Funds</b>						
12 <i>ERCOT system administration fee</i>	\$ 132,951	\$ 129,465	\$ 154,499	\$ 156,895	\$ 161,739	\$ 164,280
13 <i>Private wide-area network fees</i>	2,208	2,208	2,255	2,302	2,350	2,400
14 <i>Membership dues</i>	320	320	320	320	320	320
15 <i>Other revenue</i>	20,101	32,873	14,170	13,278	13,091	13,358
16 <i>Interest income</i>	5	-	-	-	-	-
17 <i>Debt issues</i>	32,806	25,138	18,000	18,000	21,000	21,000
18    Total - Sources of Funds	\$ 188,391	\$ 190,004	\$ 189,244	\$ 190,795	\$ 198,500	\$ 201,358
19						
<b>20   Sources of Funds less Uses of Funds</b>	\$ 17,676	\$ -	\$ -	\$ -	\$ -	\$ -

## **ERCOT's Long-Term Goals for All Activities**

ERCOT's long-term goals for all of its activities are provided in ERCOT's Key Performance Indicators (KPIs) that were approved by the ERCOT Board of Directors at its April 19, 2011 meeting. ERCOT's KPIs are subject to ERCOT Board review and approval on an annual basis.



2011

## ERCOT KEY PERFORMANCE INDICATOR MATRIX

### Transmission System Operation

#### 2011 KPIs as approved by the ERCOT Board of Directors at April 19, 2011 meeting

		TARGET	STRETCH
	<b>SYSTEM PLANNING</b>		
Trans 1	Saathoff Regional Planning project Review performance	At least 90% of project review studies completed on time without substantive errors	At least 95% of project review studies completed on time without substantive errors
	<b>TRANSMISSION CONNECTION MANAGEMENT</b>		
Trans 2	Saathoff Generation Interconnection Request (GIR) review performance	At least 90% of GIR screening studies completed on time without errors	At least 95% of GIR screening studies completed on time without errors
	<b>GRID SECURITY MANAGEMENT / REAL-TIME SYSTEM CONTROL / SCHEDULING &amp; DISPATCH</b>		
Trans 3	Saathoff Control Performance Standard 1 (CPS1) frequency control performance	Rolling 12 month CPS1 score > 135	Rolling 12 month CPS1 score > 150
Trans 4	Saathoff Interconnection Reliability Operating Limit (IROL)	No IROL exceedance longer than 30 minutes	No IROL exceedances longer than 15 minutes
	<b>OUTAGE COORDINATION/PLANNING</b>		
Trans 5	Saathoff Outage Coordination performance	At least 95% of outage requests approved or denied within timeline and with mitigation plans developed if required	At least 97% of outage requests approved or denied within timeline and with mitigation plans developed if required
Trans 6	Saathoff Network model update frequency	No more than two instances of models not being provided for scheduled and supplemental data base loads and no more than 4 emergency database loads due to staff error	All models provided for scheduled and supplemental data base loads and no more than 2 emergency database loads due to staff error
	<b>FORECASTING</b>		
Trans 7	Saathoff Operations Load Forecast performance - Mean Average Percent less than 4.0%	Monthly average day ahead load forecasts used for DRUC MAPE all less than 3.5%	Monthly average day ahead load forecasts used for DRUC MAPE all less than 3.5%
Trans 8	Saathoff Wind forecast performance - MAPE based on installed wind capacity less than 20%	Monthly average day ahead wind forecasts used for DRUC MAPE all less than 15%	Monthly average day ahead wind forecasts used for DRUC MAPE all less than 15%
	<b>COMPLIANCE MONITORING &amp; REPORTING</b>		
Trans 9	Saathoff Required Planning Report performance	No more than two reports required by PUCT Rule, DOE project, NERC or State law filed late or with error.	100% of reports required by PUCT Rule, DOE project, NERC or State law completed on time without errors.
Trans 10	Manning Achieve full compliance with NERC/FERC planning and operating standards, OPS, Protocols (this measurement will be monitored by HR&G and adjusted as directed)	No more than 1 high severity and no more than 5 total exceptions from NERC Standards as found in a NERC Compliance Audit excluding current registration mitigation plan regarding TOP	No exceptions from NERC Standards as found in a NERC Compliance Audit.
Trans 11	Manning Assure property, personnel, and cyber assets are protected (cyber and physical) in accordance with NERC CIP Standards and SAS70 Controls.	No more than 1 high severity and no more than 5 total alleged violations from NERC Standards as found in a NERC or TRE initiated CIP CMEP in 2011. SAS70 - No more than 1 exception in logical or physical security controls and an unqualified opinion in logical or physical security controls.	No alleged violations from NERC Standards as found in a NERC or TRE initiated CIP CMEP in 2011. SAS70 - Unqualified opinion and no noted exceptions.
Trans 12	Manning Achieve compliance with ERCOT Protocols and Operating Guides	No more than 3 operating related exceptions from ERCOT Protocols and Operating Guides as found in Protocol Compliance Audit	No operating related exceptions from ERCOT Protocols and Operating Guides as found in Protocol Compliance Audit
Trans 13	Manning Ensure ERCOT ISO compliance with protocol Section 8 and operating guide Section 9 requirements (include in aggregate above)	Ensure EROCT ISO is 95% compliant with responsibilities (stalls) and reliability requirements in Protocols Section 8 and Operating Guides Section 9. Results based on PUCT and Reliability Monitor 2011 audit (Self Reports excluded).	Ensure EROCT ISO is 100% compliant with responsibilities (stalls) and reliability requirements in Protocols Section 8 and Operating Guides Section 9. Results based on PUCT and Reliability Monitor 2011 audit (Self Reports excluded).

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**Retail Operation**

2011 KPIs as approved by the ERCOT Board of Directors at April 19, 2011 meeting

			TARGET	STRETCH
		<b>CUSTOMER SWITCHING/REGISTRY</b>		
RO 1	Day	Retail Market Operation: Conduct retail transaction processing per Protocol timelines	98%	99%
RO 2	Day	Retail Market Operation: End use customer switch notifications processed per PUCT rules	99%	99.9%
		<b>MARKET INFORMATION</b>		
RO 3	Day	Retail Market Operation: Retail extracts available per Protocol timelines	90%	95%
		<b>DISPUTE MANAGEMENT</b>		
RO 4	Day	Retail Market Operation: Manage retail transaction issues and disputes within defined timelines	96%	98%



2011

## ERCOT KEY PERFORMANCE INDICATOR MATRIX

## Wholesale Spot / Cash Market Operation

2011 KPIs as approved by the ERCOT Board of Directors at April 19, 2011 meeting

		TARGET	STRETCH
<b>BIDDING, SCHEDULING AND PRICING</b>			
WO 1	Dumas	DAM executions completed and posted successfully	% of days with successful DAM solution is 97-99 % of time
WO 2	Dumas	DAM executions completed in acceptable timeframe	% of days with posting solution before 1600 is 97-99 % of time
WO 3	Dumas	DAM quality of solution as measure with price corrections	% of hours requiring DAM price correction is < 1.3 % of time
WO 4	Dumas	DRUC results posted by 18:00	# of posted DRUCs past 18:00 per month is 2 - 5
WO 5	Dumas	DRUC solution is solved and posted	% of hours the forecasted demand and ancillary services requirements are satisfied is 97 - 99 %
WO 6	Dumas	HRUC executed every hour(5.5.3)	% of completed HRUCs per month is 95 - 97 %
WO 7	Dumas	HRUC solution is solved and posted	% of hours the forecasted demand and ancillary services requirements are satisfied is 97 - 99 %
WO 8	Dumas	SCED executes at least every five minutes (6.3.2.2)	% of missed SCED intervals per month, excluding intervals during database loads and site failovers is < = 2 %. No more than 2 days per month with more than 12 consecutive missed SCED intervals
WO 9	Dumas	SCED solution is solved and posted	% of 15-Minute Settlement Intervals where price corrections are performed is < 1 %
<b>WHOLESALE METERING, DATA COLLECTION AND DATA AGGREGATION</b>			
WO 10	Day	AMIS interval data is loaded into ERCOT systems by final settlement from the MRE in accordance with Protocols for data loading.	99%
WO 11	Day	IDR meter data is loaded into ERCOT systems by true-up settlement from the MRE in accordance with Protocols for settlement.	99%
WO 12	Day	EPS meter data is accurate and complete as measured by the percent of data that doesn't change after an initial settlement	99%
WO 13	Day	Timely settlements per Protocol timelines	99%
WO 14	Day	Accurate settlements as measured by number of resettlements due to manual data errors	2%
WO 15	Day	MARKET INFORMATION Wholesale extracts available per Protocol timelines	90%
WO 16	Dumas	CRR auctions are performed according to Nodal Protocols Requirements (7.5.1)	By end of month
WO 17	Dumas	Monthly de-ratings of CRRs are within acceptable tolerances	Auction takes less than 5 days to complete and post
WO 18	Day	DISPUTE MANAGEMENT Process disputes within protocol timelines	80% 95% 95%

000032



2011

## ERCOT KEY PERFORMANCE INDICATOR MATRIX

## Renewable Energy Credits

2011 KPIs as approved by the ERCOT Board of Directors at April 19, 2011 meeting

		TARGET			STRETCH		
		Actual	Target	Actual	Target	Actual	Target
Renew 1	Day	Fulfill the protocol obligations for RPS mandate calculations and reporting on time and accurately		99%		99%	

000033



**2011**  
**ERCOT KEY PERFORMANCE INDICATOR MATRIX**

**Customer Care**

**2011 KPIs as approved by the ERCOT Board of Directors at April 19, 2011 meeting**

ACCOUNT MANAGEMENT			TARGET	SEARCH
CC 1	Day	Establish and Maintain Targeted Account Plans and execute per guidelines and schedule.	90%	95%
CC 2	Day	Create, distribute and post Market Notices per the COPS Communication Guide, Section 5, Appendix A.	95%	98%
CC 3	Day	Retail and Wholesale Client Service Staff respond/acknowledge MP account management inquiries no later than COB the next Business Day of receipt for those inquiries not involving disputes	95%	100%

**000034**



2011

## ERCOT KEY PERFORMANCE INDICATOR MATRIX

## Information Technology

2011 KPIs as approved by the ERCOT Board of Directors at April 19, 2011 meeting

		IT APPLICATION SERVICES	TARGET		STRETCH
			Actual	Target	
IT 1	Morgan	Retail Processing Availability - Bus Hours and Non bus. hours (Business hours availability under review)		99.2% Bus Hrs 99% Off Hrs	99.5% Bus Hrs 99.2% Off Hrs
IT 2	Morgan	Texas Market Link Availability			99.5%
IT 3	Morgan	Texas Market Link Report Explorer Availability		99%	99.5%
IT 4	Morgan	Retail API Availability		99%	99.5%
IT 5	Morgan	MarketTrak Availability			99.5%
IT 6	Morgan	Congestion Revenue Rights (CRR) Availability		98%	99.5%
IT 7	Morgan	Market Information System (MIS) Availability		98%	99%
IT 8	Morgan	Market Management System Aggregate Availability		98%	99.5%
IT 9	Morgan	Energy Management System Aggregate Availability		99%	99.5%
IT 10	Morgan	Security Constrained Economic Dispatch (SCED) Availability No outages greater than 30 consecutive minutes More than 12 outages per year	No	99.932%	n/a
IT 11	Morgan	Load Frequency Control (LFC) Availability No outages greater than 30 consecutive minutes No more than 12 outages per year		99.932%	n/a
IT 12	Morgan	Outage Scheduler Availability		99%	99.5%
IT 13	Morgan	Network Model Management System (NMMS) Availability with no more than 2 unplanned outages per month		97%	99%
		STRATEGY & PLANNING			
IT 14	Morgan	Data Center Relocation and Asset Replacement Strategy Implemented on time and on budget		W0 - Equipment Feb W1 - Supp & Corporate May FR - Comm Bastrop Control Center June W2 - Development Systems June W3 Austin Control Room / EMMS Aug W4 DR cap Aug W5 TCCI Prod December	System and Control Room relocated - October

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2011

## ERCOT KEY PERFORMANCE INDICATOR MATRIX

## Other Support and Management Functions

2011 KPIs as approved by the ERCOT Board of Directors at April 19, 2011 meeting

			TARGET	STRETCH
		<b>STRATEGY &amp; BUSINESS PLANNING</b>		
OSM 1	Ruane	Begin program to integrate risk analysis into all major ERCOT cost/benefit, impact analysis, strategic planning, budget preparation and control assessment activities.	* Appointment VP of Risk * Structure Risk Organization * Review current risk profile	n/a
OSM 2	Wullenjohn	Execute the 2011 Internal Audit Plan as approved by the Finance and Audit Committee, and complete the plan by December 31, 2011.	100% completion by year end	105% completion by year end
		<b>INTERNAL AUDIT</b>		
OSM 3	Petterson	Manage spending to be equal to or less than the board-approved expenditure budget for 2011.	Between 0 - 5 percent favorable variance	Greater than 5 percent favorable variance
OSM 4	Petterson	Management recommended and board-approved budget filed with the Public Utility Commission of Texas (PUCT)	Fee filing made with PUCT as instructed by the BOD	n/a
OSM 5	Petterson	SAS70 audit (Type 2)	Unqualified opinion of all control activities	Unqualified opinion of all control activities with no exceptions noted
		<b>HUMAN RESOURCES</b>		
OSM 6	Ierullo	Retain top talent (lose no more than 3% of top talent population annually)	3%	0%
OSM 7	Ierullo	Percent of targeted managers to complete management certificate program annually.	90%	100%
OSM 8	Ierullo	Number of E-Learning courses utilized (assuming average staff level of 600)	1200	1800
OSM 9	Ierullo	Percent of employees (identified in succession plans) who have completed annual development training	90%	95%
OSM 10	Ierullo	Percent of critical positions with named successors.	90%	100%
OSM 11	Ierullo	Identification and review of top talent process.	Completed by end of June	Completed by end of April
OSM 12	Ierullo	Percent of position filled through college campus recruiting	10%	20%
OSM 13	Ierullo	Manage training program to enhance career development and skill improvement through the development of Individual Development Plans (IDPs) for the population.	90%	95%
		<b>FACILITIES/SECURITY</b>		
OSM 14	Morgan	Operate data centers providing availability consistent with data center designed objectives	Met Center 99.75% No unplanned outages	99.982% 100%
OSM 15	Morgan	Update Strategic Facilities Plan	Updated Strategic Facilities Plan completed by July 30th, 2011	Updated Strategic Facilities Plan completed by June 30th, 2011
OSM 16	Morgan	Detail plan for disposition of the MET Center Facility approved and ready for execution per approved schedule.	No later than September 30, 2011	No later than August 31, 2011
OSM 17	Manning	Maintain ERCOT's security posture against cyber and physical security threats.	No more than one Stage 2 or Stage 3 cyber or physical security incident as defined in the Incident Security Response Plan.	No cyber or physical security incidents as defined in the Incident Security Response Plan.
OSM 18	Gage	Annually, respond to media queries within 24 hours.	95%	100%
OSM 19	Gage	Annually, provide timely, thorough and accurate news releases on all ERCOT board meetings, major reports and filings, board and officer changes, and other newsworthy events.	95%	100%
OSM 20	Gage	Annually, ensure postings of current information, reports, and presentations on the ERCOT website and maintain accurate information about ERCOT executives, board members, and general organizational profile.	100%	100%
OSM 21	Gage	Annually, ensure the completion of an annual report and concise fact sheets for use with external constituents as needed.	100%	100%
		<b>PROJECT/PROGRAM MANAGEMENT</b>		
OSM 22	Cleary	Deliver projects on-time	n/a	Variance between target date and forecast date subject to change control.
OSM 23	Cleary	Deliver projects within budget	n/a	Projects meet planning and execution completion dates. Schedule Metric- n/a Projects will have a 0% budget variance subject to change control.
OSM 24	Cleary	Deliver projects within scope	n/a	100% of scope, requirements and objectives are delivered subject to change control.

## Evaluation of ERCOT's Performance

An evaluation of ERCOT's performance in meeting its responsibilities and system expectations during the current budget year. The chart shows ERCOT's year-end financial forecast for 2011 as of April 25, 2011.

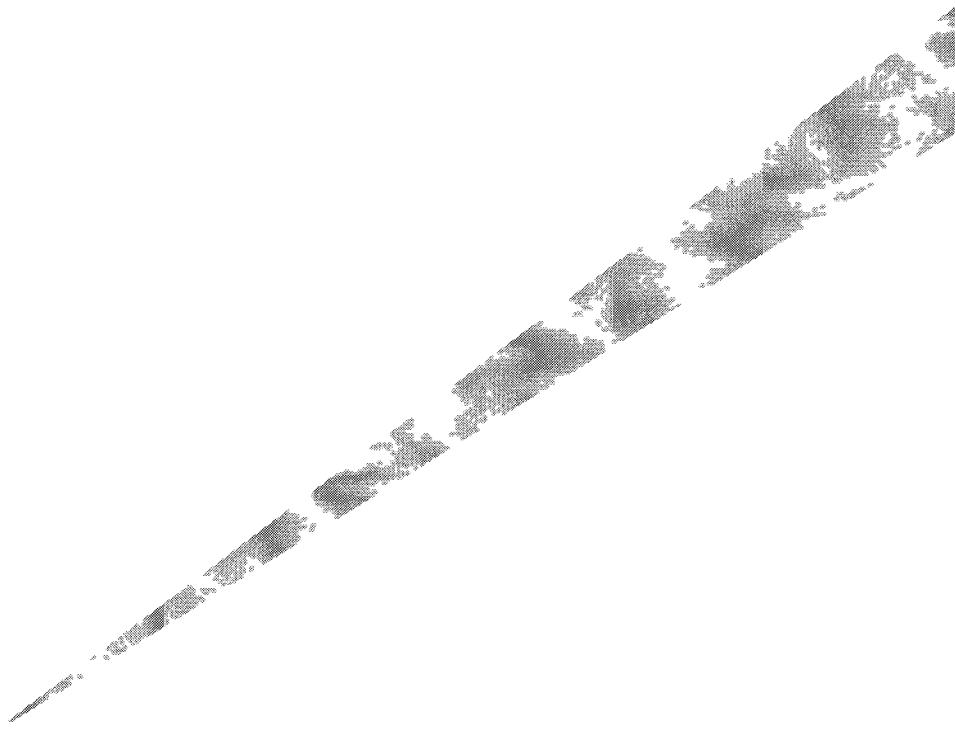
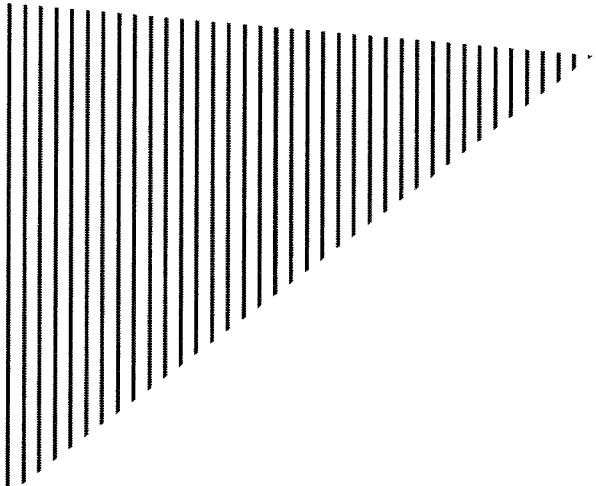
**Electric Reliability Council of Texas, Inc.**  
**Year-end Financial Forecast**  
**As of April 25, 2011**  
**(in Millions)**

	Year-End Financial Forecast		
	2011 Budget	2011 Forecast	\$ Variance
<b>Revenue</b>			
System Administration Fee	129.5	131.8	2.3
Wide-area Network Fees	2.2	2.2	-
NERC Electric Reliability Organization Fee	12.0	12.0	-
Generation Interconnection Study Fees	0.3	0.3	-
Grant Funding from Department of Energy	1.2	1.2	-
Extraordinary Item Revenue	5.0	5.0	-
2010 Carry Forward	14.4	17.7	3.3
Other Revenue	0.4	0.4	-
<b>Total - Revenue</b>	<b>165.0</b>	<b>170.6</b>	<b>5.6</b>
<b>Expense (excluding Depreciation)</b>			
Salary & Benefits	70.3	70.3	-
Outside Services	3.0	3.8	(0.8)
Hardware/Software Maintenance & Licenses	9.9	10.0	(0.1)
Facility & Equipment Costs	13.5	13.3	0.2
Other	4.6	4.8	(0.2)
<b>Subtotal - Operating Expense</b>	<b>101.3</b>	<b>102.2</b>	<b>(0.9)</b>
NERC Electric Reliability Organization Expense	12.0	12.0	-
Protocol Services	2.5	1.0	1.5
Market Monitoring	2.7	2.7	-
Principal Repayment	26.2	26.2	-
Interest Payments	3.5	3.5	-
Revenue-Funded Project Expenditures (40%)	16.8	13.1	3.7
<b>Total - Expense</b>	<b>165.0</b>	<b>160.7</b>	<b>4.3</b>
<b>Excess/(Deficit) of Revenue Over Expense</b>	<b>-</b>	<b>9.9</b>	<b>9.9</b>

## **Attachment C**

### **Financial Information Index**

<b>P.U.C. SUBST. R §25.362(i)(1)(C)</b>	<b>Attachment</b>
(i) A copy of an independent audit of ERCOT's financial statements for the report year	C1
(ii) A schedule comparing actual revenues and costs to budgeted revenues and costs for the report year, a schedule showing the variance between actual and budgeted revenues and costs, and a schedule showing the assets and liabilities (including level and types of debt)	C2
(iii) The annual board-approved budget	C3
(iv) A description of any derivative transactions entered into by ERCOT	C4



FINANCIAL STATEMENTS

Electric Reliability Council of Texas, Inc.  
December 31, 2010 and 2009  
With Report of Independent Auditors

Ernst & Young LLP

 EY ERNST & YOUNG

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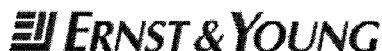
**Electric Reliability Council of Texas, Inc.**

**Financial Statements**

**December 31, 2010 and 2009**

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Report of Independent Auditors.....	1
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Statements of Activities and Net Assets (Deficit) .....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	6



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## Report of Independent Auditors

We have audited the accompanying statements of financial position of the Electric Reliability Council of Texas, Inc. (ERCOT) as of December 31, 2010 and 2009, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of ERCOT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of ERCOT's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ERCOT's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Reliability Council of Texas at December 31, 2010 and 2009, and the results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

April 25, 2011

**Electric Reliability Council of Texas, Inc.**

**Statements of Financial Position**

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
	(In Thousands)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 69,556	\$ 78,815
Accounts receivable	9,344	8,809
Unbilled revenue	9,115	6,590
Restricted cash	255,598	132,331
Prepaid expenses and other current assets	13,982	13,040
Total current assets	<u>357,595</u>	239,585
Property and equipment, net	452,996	114,389
Systems under development	7,381	313,007
Debt issuance costs	467	651
Total assets	<u><u>\$ 818,439</u></u>	\$ 667,632
<b>Liabilities and unrestricted net assets</b>		
Current liabilities:		
Accounts payable	\$ 4,265	\$ 5,722
Accrued liabilities	19,552	13,753
Deferred revenue	3,302	4,270
Market settlement liabilities	65,827	79,204
Security deposits	255,598	132,331
Regulatory liabilities, current portion	—	78
Notes payable, current portion	224,470	168,470
Total current liabilities	<u>573,014</u>	403,828
Notes payable	111,737	196,208
Derivative liability	9,832	12,733
Regulatory liabilities	87,660	38,147
Other long term liabilities	323	1,726
Total liabilities	<u>782,566</u>	652,642
Commitments and contingencies ( <i>Notes 8 and 12</i> )		
Unrestricted net assets	35,873	14,990
Total liabilities and unrestricted net assets	<u><u>\$ 818,439</u></u>	\$ 667,632

*The accompanying notes are an integral part of these financial statements.*

**Electric Reliability Council of Texas, Inc.**

**Statements of Activities and Net Assets (Deficit)**

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
<i>Operating revenues:</i>		<i>(In Thousands)</i>
System administration fees	\$ 132,951	\$ 128,519
Nodal implementation surcharge	119,718	52,113
Reliability organization pass-through	12,169	6,940
Membership fees and other	4,018	3,552
<b>Total operating revenues</b>	<b>268,856</b>	191,124
<i>Operating expenses:</i>		
Salaries and related benefits	54,450	56,166
Depreciation	29,645	28,791
Facility and equipment costs	9,123	8,320
Consulting and legal services	14,035	12,559
Administrative and other	14,462	7,771
Hardware and software maintenance and licensing	9,251	9,752
Amortization of regulatory asset	119,718	52,113
<b>Total operating expenses</b>	<b>250,684</b>	175,472
Income from operations	18,172	15,652
<i>Other income (expense):</i>		
Interest income	7	3,502
Interest expense	(2,733)	(2,720)
Change in valuation of interest rate swap	2,901	2,019
Non-operating income	3,613	12,280
<b>Change in unrestricted net assets (deficit) before deferred pension costs and distribution of net assets</b>	<b>21,960</b>	30,733
Deferred pension costs	(43)	7
Distribution of net assets- Texas RE	(1,034)	-
<b>Change in unrestricted net assets (deficit)</b>	<b>20,883</b>	30,740
Unrestricted net assets (deficit), beginning of year	14,990	(15,750)
<b>Unrestricted net assets, end of year</b>	<b>\$ 35,873</b>	\$ 14,990

*The accompanying notes are an integral part of these financial statements.*

**Electric Reliability Council of Texas, Inc.**

**Statements of Cash Flows**

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
	(In Thousands)	
<b>Cash flows from operating activities</b>		
Change in unrestricted net assets (deficit)	\$ 20,883	\$ 30,740
Adjustments to reconcile change in unrestricted net assets (deficit) to net cash provided by operating activities:		
Depreciation	29,645	28,791
Amortization of debt issuance costs	184	244
Change in valuation of interest rate swap	(2,901)	(2,019)
Change in valuation of assets due to sales and use tax refund	—	8,758
Net (gains) losses on disposition or impairment of capital assets	(44)	27
Changes in operating assets and liabilities:		
Accounts receivable	(535)	(4,465)
Unbilled revenue	(2,525)	3,079
Prepaid expenses and other assets	(942)	3,616
Other long-term liabilities	(1,403)	1,042
Accounts payable	(1,172)	(2,073)
Accrued liabilities	2,972	(2,877)
Deferred revenue	(968)	2,561
Regulatory liabilities	91,909	30,545
Net cash provided by operating activities	<b>135,103</b>	<b>97,969</b>
<b>Cash flows from investing activities</b>		
Capital expenditures for property and equipment and systems under development	(102,527)	(118,161)
Proceeds from sale of property and equipment	13	23
Net cash used in investing activities	<b>(102,514)</b>	<b>(118,138)</b>

Electric Reliability Council of Texas, Inc.

Statements of Cash Flows (continued)

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
	(In Thousands)	
<b>Cash flows from financing activities</b>		
Proceeds from issuance of notes payable	\$ 56,000	\$ 37,400
Repayment of notes payable	(84,471)	(13,637)
(Increase) decrease in restricted cash	(123,267)	92,966
Decrease in market settlement liabilities	(13,377)	(46,349)
Increase (decrease) in security deposits	<u>123,267</u>	<u>(92,966)</u>
Net cash used in financing activities	<u>(41,848)</u>	<u>(22,586)</u>
Net decrease in cash and cash equivalents	(9,259)	(42,755)
Cash and cash equivalents, beginning of year	<u>78,815</u>	<u>121,570</u>
Cash and cash equivalents, end of year	<u>\$ 69,556</u>	<u>\$ 78,815</u>
<b>Supplemental information</b>		
Cash paid for interest	<u>\$ 15,034</u>	<u>\$ 15,331</u>
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Change in accrued capital expenditures	\$ 2,542	\$ (2,881)
Capitalized interest	<u>\$ 12,206</u>	<u>\$ 13,031</u>

*The accompanying notes are an integral part of these financial statements.*

# Electric Reliability Council of Texas, Inc.

## Notes to Financial Statements *(Dollars in Thousands)*

December 31, 2010 and 2009

### **1. Organization and Operations**

The Electric Reliability Council of Texas, Inc. (ERCOT or the Company) is an independent, not-for-profit corporation. Since July 31, 2001, ERCOT has also functioned as the independent system operator for its reliability region which comprises about 85 percent of the electrical load in Texas. The ERCOT region has approximately 82,700 Megawatts of installed generating capacity, including approximately 73,700 Megawatts of available capacity.

The Public Utility Commission of Texas (PUCT) has primary jurisdictional authority over ERCOT which is responsible for ensuring the adequacy and reliability of electricity across the state's main interconnected power grid and for operating and settling the electricity markets it administers. ERCOT's market rules and operations are carried out in accordance with its Protocols filed with the PUCT. The ERCOT electric service region is contained completely within the borders of Texas, and it has only a few direct current ties across state lines to import or export power with neighboring reliability regions. ERCOT has no synchronous connections (alternating current) across state lines. As a result, ERCOT is considered "intrastate" and does not fall under the jurisdiction of the Federal Energy Regulatory Commission (FERC) except for reliability issues under the provisions of the Federal Energy Policy Act of 2005.

ERCOT is governed by a Board of Directors composed of 16 members. One board member is selected from each of the following market participant groups: retail electric providers, independent generators, independent power marketers, investor-owned utilities, municipal-owned utilities, and electric cooperatives. The remaining ten seats on the Board are filled by three consumer representatives, five unaffiliated Board members, the Chair of the PUCT and ERCOT's Chief Executive Officer.

### **2. Summary of Significant Accounting Policies**

#### **Method of Accounting**

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### **Unrestricted Net Assets (Deficit)**

Unrestricted net assets are those that are not subject to restrictions or stipulations and that may be expendable for any purpose in performing ERCOT's objectives. Accordingly, net assets of ERCOT and changes therein are classified and reported as unrestricted net assets (deficit).

Electric Reliability Council of Texas, Inc.

Notes to Financial Statements  
*(Dollars in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities of the financial statements and reported amounts of revenues, expenses, and capital expenditures during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications have been made to prior year amounts to conform to current year classifications.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of deposits in banks, money market investment accounts, and overnight deposits in government-backed securities with an original maturity date of 90 days or less.

Cash and cash equivalents consists primarily of amounts held by ERCOT on behalf of market participants for congestion management funds and prepayments of settlement obligations (as described in Note 2 – Market Settlement Liabilities).

**Restricted Cash**

Restricted cash primarily represents amounts received for security deposits from ERCOT's market participants.

**Accounts Receivable and Revenue Recognition**

ERCOT funds its operations primarily through transaction fees collected from electric service providers operating within the Texas grid. Two volume related fees are charged pursuant to the ERCOT protocols and as approved by both the ERCOT board of directors and the PUCT, each

# Electric Reliability Council of Texas, Inc.

## Notes to Financial Statements (*Dollars in Thousands*)

### **2. Summary of Significant Accounting Policies (continued)**

of which is based on actual volume consumption. Revenues from these fees are recognized in the period that the underlying energy transaction occurs. Amounts not yet billed are accrued and presented as unbilled revenue on the statement of financial position.

*System administration fee* – This fee was 41.71 cents per megawatt hour of adjusted metered load in both 2010 and 2009 and is structured to provide funding for ERCOT's core operations and related services.

*Nodal implementation surcharge* – In 2006, ERCOT began collecting an additional rate of 6.63 cents per megawatt hour (real time net metered generation) in connection with the Texas Nodal Market Implementation Project (TNMIP) described in Note 10. Effective June 2007, ERCOT increased the project surcharge to 12.7 cents per megawatt hour, and, effective June 2008, ERCOT increased the project surcharge to 16.9 cents per megawatt hour. Effective January 2010, ERCOT increased the project surcharge to 37.5 cents per megawatt hour. Revenue recognition for this fee is impacted by regulatory requirements established by the PUCT as described in Note 10.

*Reliability organization pass-through* – In 2008, the system administration fee included 1.69 cents to fund the North American Electric Reliability Corporation (NERC) reliability functions performed primarily by Texas Regional Entity, Inc. (Texas RE), a division of ERCOT through June 30, 2010 (as described further in Note 10). The system administration fees associated with expenses incurred by Texas RE were reported as reliability pass-through revenues. Effective January 2009, ERCOT replaced this portion of the fee with a fixed quarterly Electric Reliability Organization (ERO) billing. The ERO billing is based on actual NERC funding.

ERCOT's other revenue relates to services offered to its participants including connectivity to ERCOT's grid, wide-area network usage, and membership dues. Revenue related to these services is recognized either as the services are performed or at the completion of the project, assuming ERCOT has no significant continuing obligation and collection is reasonably assured. The Company does not maintain an allowance for doubtful accounts as it does not believe it has a material risk of loss associated with lack of collection. Membership dues are recognized over the membership period.