



MEMO

Date: January 11, 2005
To: Board of Directors
From: Clifton Karnei, Finance and Audit Committee Chair
Subject: Amendments to Finance and Audit Committee Charter

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: January 18, 2005

Agenda Item No.: 7b

Issue:

- (1) The reporting structure for the senior internal auditor.
- (2) The size of the Finance and Audit Committee as set forth in the Committee Charter.

These issues will be considered by the F&A Committee at its meeting prior to the Board meeting. The Chair expects the Committee to make a recommendation for the Board to approve, in substance, proposed amendments to the Committee Charter as described in **Attachment A**.

Background/History:

The F&A Committee believes it is prudent to have the senior internal auditor report to the Chair of the Committee as well as administratively to the CEO.

In the past, ERCOT had several representatives from each market segment serving on the Board. Now that there is only one representative from each segment represented on the Board, it is impractical for there to be a Board representative from each segment on the F&A Committee.

Key Factors Influencing Issue:

- Access of the senior internal auditor to the F&A Committee.
- Conform the F&A Committee Charter to the current practice of having five members on the Committee.

Alternatives:

- (1) Approve proposed F&A Committee Charter amendments as recommended by the



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Committee; (2) reject the Committee's recommendation; or (3) remand these issues to the Committee with instructions.

Conclusion/Recommendation:

The Chair expects the Committee to recommend amendments to the Finance and Audit Committee to address the issues described herein.