

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center
8:30 A.M.
December 13, 2005

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at approximately 8:30 a.m. on **December 13, 2005**. The Meeting was called to order by **Clifton Karnei** who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, <i>Chair</i>	Brazos Electric Cooperative	Coop	Present
Darrell Hayslip, <i>Vice Chair</i>	Calpine Corporation	Ind. Generator	Present
Robert Manning	H-E-B Grocery Co.	Consumer	Present
Miguel Espinosa	Independent Board Member	Independent Board Member	Present
Carolyn Gallagher	Independent Board Member	Independent Board Member	Present
James Striedel	Entergy Solutions Supply Ltd.	Ind. REP (Segment Alt.)	Present

ERCOT staff and guests present:

Barry, Sean	PricewaterhouseCoopers
Brenton, Jim	ERCOT
Byone, Steve	ERCOT (CFO)
Connell, Robert	ERCOT
Day, Betty	ERCOT
Doolin, Estrellita	ERCOT
Ettorre, Ed	ERCOT
Fehrenbach, Nikolaus	City of Dallas
Giuliani, Ray	ERCOT (CMO)
Heuer, Lon	PricewaterhouseCoopers
Hinsley, Ron	ERCOT
Johnson, David	ERCOT
Meek, Don	ERCOT
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT

Approval of Previous Minutes

Carolyn Gallagher moved to approve the Minutes for the previous regular meeting held November 15, 2005; Darrell Hayslip seconded the motion. The motion passed.

SAS 70 Audit Update

Sean Barry of PwC informed the Committee that the SAS 70 Audit Report was complete. Mr. Barry mentioned that, because ERCOT has now completed two Type II SAS 70 audits, he would recommend that ERCOT move to having an annual 12-month evergreen-type SAS 70.

Lon Heuer gave a brief overview of the SAS 70 Report for the Committee, reminding everyone that it contained eighteen control objectives (thirteen business processes and five information technology areas) and explained that only two (2) of the areas were qualified: Logical (IT) Security and Physical Security. Mr. Barry explained that PwC had not found evidence of any unauthorized access to ERCOT or its network. Ray Giuliani explained that the Physical Security issue was that the 2 systems that provide access to electronic systems were not synchronized, and the Logical Security Issue was the failure to do an annual recertification of user access. Ron Hinsley noted that, because of the layers of IT protection, his team did not find any indication that an unauthorized user ever had the opportunity to gain access to the ERCOT system. Carolyn Gallagher asked if there was any reason to believe that ERCOT could not have an unqualified SAS 70 next year, and Mr. Giuliani responded that there was not, particularly with the addition of Jim Brenton as Security Director in August 2005.

Mr. Hayslip stated that he wanted to have an unqualified SAS 70 as a goal in 2006. Mr. Espinosa asked Mr. Barry and Mr. Heuer if they received full cooperation from ERCOT. Mr. Barry confirmed that PwC had received complete cooperation from ERCOT and that Betty Day was critical to making the SAS 70 process reasonably efficient. Mr. Giuliani confirmed that the conference call with Market Participants to discuss the final SAS 70 report was scheduled for Wednesday December 14, 2005, and that any Market Participants who needed a copy of the SAS 70 Report should contact ERCOT.

Benefit Audit Update

Steve Byone informed the Committee that, due to some required additional discrimination testing, the Benefits Audits were not quite complete, but that he did not anticipate any issues with these audits. Sean Barry confirmed that Benefits Audits were being finalized, and confirmed that the only open question about these audits was which Forms 5500 ERCOT needed to amend. Mr. Byone stated that he would schedule Committee acceptance of the final Benefits Audits at the next Committee Meeting.

Committee Briefs

- 1. Internal Control Management Process (ICMP) and Audit Point Status.** Cheryl Moseley reported on the progress in addressing internal control gaps. All but one gap have moved from planning to execution, and 22 additional items were completed. There are 53 audit points still in execution. Ms. Moseley also reported that by the end of the month, she expected to have another 30 audit points completed out of a total of 288 audit points.
- 2. Credit Stats.** Cheryl Yager reported that there was not a substantial change in credit exposure from November, and that the 2 PRRs with the desired credit changes (to shorten the notice periods to allow quicker transitions) would be voted on at the Board Meeting later in the day. Ms. Yager noted that there had been an additional mass transition of approximately 10,000 ESI IDs, which was done voluntarily by an LSE, so there was not a market notice. Ms. Yager noted that the LSE's QSE had given notice of intent to terminate, and that the mass transitions would not be complete before the termination of QSE representation. Ms. Yager estimated the potential credit exposure to be in the range of \$200,000 to \$2 Million.

3. **Treasury/Investments.** Cheryl Yager noted that more financial institutions or other credit entities are becoming Market Participants. Ms. Yager told the Committee that, at this point, as ERCOT invests funds, it is avoiding investing funds in Market Participants or their known affiliates. However, at some point, there may need to be a discussion about investing funds in Market Participant entities.

ABC Project Overview.

Mike Petterson provided an overview of the Activity Based Costing (ABC) initiative, which ERCOT began in 2005 in response to the Fee settlement. Mr. Petterson explained that one form of ABC involved budgeting by deliverables, so that costs would be captured in accounts related to the line item, and the relationships defined. Mr. Petterson noted that, over time, the ABC model could become complex, so the company would start small by adopting useful aspects of ABC, to increase ERCOT's understanding of the cost of its activities and to reduce redundancies and inefficiencies. Mr. Petterson told the Committee that ERCOT employees had already begun time tracking, which would be used in the ABC model, and the next steps would be to obtain management commitment and form a cross functional team for the project. Mr. Petterson disclosed that, because of the many competing corporate priorities, external resources would likely be needed. Mr. Byone offered to compile and, in early 2006, bring the Committee a summary Gant Chart with the expected various company initiatives for 2006.

Mr. Karnei asked if ERCOT had complied with the terms of the settlement, and Mr. Petterson confirmed that ERCOT had complied, by incorporating aspects of ABC in its budgeting process. The Committee discussed ways to use ABC to allow ERCOT to have a clearer budget in a manner that would be most efficient and indicated that the company should use "big bucket" cost categories and should adhere to the categories selected, so that the ABC initiative would not become overly complex.

2006 Financial Priorities.

Mr. Byone explained that the Finance division priorities for 2006 included standing-up ERM, clearing audit points, improving PMO,, focusing on balancing risks and controls with business efficiencies, and creating a business continuity plan that would go beyond the current disaster recovery plan.

Adjournment

At approximately 9:40 a.m., the meeting was adjourned and the Committee went into Executive Session. The next meeting will be held on the morning of January 17, 2006.

Susan Vincent, Acting Secretary