

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

9:00 A.M.

May 4, 2007

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at **9:00 A.M.** on **May 4, 2007**. The Meeting was called to order by **Clifton Karnei** who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present via telephone
Miguel Espinosa, Vice Chair	Unaffiliated Board Member	Unaffiliated Board Member	Present
Nick Fehrenbach	City of Dallas	Consumer	Present via telephone
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Present via telephone
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member	Present via telephone
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Present via telephone
William Taylor	Calpine Corporation	Ind. Generator	Present via telephone
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present via telephone

ERCOT staff and guests present:

Byone, Steve	ERCOT
Capezzuti, Nancy	ERCOT
Doolin, Estrellita	ERCOT
Grimm, Larry	ERCOT
Hancock, Misti	ERCOT
Harris, Mike	ERCOT
Jones, Sam	ERCOT
Petterson, Mike	ERCOT
Thorne, James	ERCOT
Vincent, Susan	ERCOT
Westbrook, Susan	ERCOT
Wullenjohn, Bill	ERCOT (via telephone)
Yager, Cheryl	ERCOT

Other Board Members and Segment Alternates:

Andrew Dalton	Valero Energy Corporation	Industrial Consumers	Present
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present via telephone
Jean Ryall	Constellation Energy Commodities Group	Ind. Power Marketers	Present via telephone

Executive Session

At 9:02 AM, the Committee meeting was adjourned and the Committee went into Executive Session until approximately 10:00 AM, when the Committee returned to Open Session.

Debt Financing and Liability Management

Clifton Karnei overviewed the financing options for (a) costs related to the Texas Nodal Market Implementation Program (TNMIP) which are not funded with the Nodal Surcharge through the development period, (b) capital expenditures from base operations not concurrently funded with the System Administration Fee, and (c) working capital needs, which the Committee had discussed in detail at the previous meeting and in Executive Session. Cheryl Yager explained that this debt will be in addition to the Senior Notes, which have an outstanding balance of approximately \$96 million.

Miguel Espinosa moved to recommend that the Board authorize (a) debt financing of up to \$300 million, in addition to the 2002 Senior Notes, using bank debt which would pay off and replace the existing Term Note and Revolver, and would include up to \$225 million in an advancing term loan and up to \$75 million in a revolving credit facility; and (b) interest rate derivative products of up to \$130 million of the new debt; Dan Wilkerson seconded the motion. The motion was approved by a vote of seven to one, with the one opposing vote by Nick Fehrenbach.

2008 Texas Regional Entity Budget

Larry Grimm presented an overview of the proposed 2008 Texas Regional Entity (“TRE”) Budget and staffing plan. He explained that while there are still many unknowns with respect to the TRE, the proposed budget is based on FERC and NERC requirements for the “Delegated” or “statutory” activities (proposing and enforcement of the NERC Reliability Standards), and is set forth in categories dictated by NERC. Mr. Grimm explained that the budget also includes the costs for the “non-statutory” activities, since TRE would also perform ERCOT Protocols compliance functions. The Committee members extensively discussed the level of staffing and whether certain positions should be filled with full-time employees or contractors, particularly in the short run. There was also discussion regarding which administrative functions needed to be filled by TRE as well as ERCOT. Mr. Espinosa and Mr. Karnei voiced general concern about the ability to functionally separate the TRE from ERCOT, acknowledging that Commissioner Parsley and the PUC wanted to retain the TRE functions within ERCOT, and asked that the full Board discuss this in detail at the next meeting. The Committee discussed whether the Board should have separate meetings for TRE matters, in order to have a clearer separation for the TRE division and the Board’s fiduciary duties. James Thorne agreed to add a discussion about TRE staffing and governance issues to the agenda for the next Executive Session of the Board of Directors.

Mr. Grimm also reviewed the budget development schedule and highlighted the following items:

- 5/16/07 Finance & Audit Committee/Board – Preliminary Budget Presentation and Final Business Plan Review
- 5/17/07 Public Workshop/Open Meeting – Business Plan and Proposed Budget Presentation
- 5/28/07 Finance & Audit Committee Special Meeting – Budget Review and Recommendation (if necessary)
- 6/1/07 NERC – Final Business Plan and Budget (Draft) due to NERC (Statutory and Non-Statutory Functions)
- 6/19/07 Board – Final Budget Approval

7/12/07 NERC – Final Board Approved Budget Due

In response to a question from Mr. Karnei, Susan Vincent confirmed that the Workshop was already on the ERCOT web site calendar and a notice regarding the Workshop would be distributed at least seven days prior to the meeting. She also told the Committee that she would also inform the TAC members about the Workshop during the May 4th TAC meeting.

Review Finance and Audit Committee Charter

The Committee considered several proposed changes to the Finance & Audit Committee Charter. Because of the late hour and time needed to consider a modifications proposed William Taylor, the Committee delayed further discussion of the Charter until the May 16, 2007 meeting.

Adjournment

At 11:15 A.M., the meeting was adjourned. The next Committee meeting will be held on the morning of Wednesday May 16, 2007.

Susan Vincent, Secretary