

MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

9:00 A.M.

January 16, 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 **January 16, 2007**. The Meeting was called to order by **Clifton Karnei** who ascertained that a quorum was present. Mr. Karnei noted that, because of the inclement weather forcing some of the Committee members to be available only via conference call and limiting the duration of the meeting, the Committee would address the urgent matters.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present
Miguel Espinosa, Vice Chair	Independent Board Member	Independent Board Member	Present
Nick Fehrenbach	City of Dallas	Consumer	Present
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Present via telephone
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Present via telephone
William Taylor	Calpine Corporation	Ind. Generator	Not Present
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present via telephone

ERCOT staff and guests present:

Barry, Sean	PricewaterhouseCoopers (PwC) via telephone
Byone, Steve	ERCOT (CFO)
Giuliani, Ray	ERCOT
Petterson, Mike	ERCOT
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT via telephone
Wullenjohn, Bill	ERCOT via telephone

Approval of Previous Minutes

Scott Gahn moved to approve the minutes for the previous meetings held on December 12, 2006; **Clifton Karnei** seconded the motion. The motion passed unanimously.

Financial Qualifications of Committee Members and Committee Charter Review

The Committee determined that it would move the discussion of committee member qualification and modifications to its charter, including a provision to require a majority to serve as a quorum, to its February meeting. The Committee also noted that certain of the Charter provisions should be discussed after completion of the Credit Workshop.

Election of Committee Officers for 2007

The Committee discussed its selection of officers for 2007. **Nick Fehrenbach nominated Clifton Karnei to continue to serve as Committee Chair. Miguel Espinosa seconded the motion. The motion passed unanimously.**

Scott Gahn nominated Miguel Espinosa to serve as Committee Vice Chair; Nick Fehrenbach seconded the motion. The motion passed unanimously.

PwC Annual Disclosure of Auditor Independence and Quality Control Process

Sean Barry of PwC summarized the steps that PwC takes to annually confirm its independence of audit clients and confirmed that PwC had taken these steps with regard to its representation of ERCOT. Mr. Barry confirmed that PwC had found no relationships and had provided no services that would impair its independence. Mr. Barry also informed the Committee that PwC performed a number of quality control steps, including training, redundant review, and, in areas of heightened risk, implemented higher risk procedures.

PwC Report on 2007 SAS 70 Audit

Sean Barry informed the Committee that PwC had issued the 2006 SAS 70 audit report in December and, as anticipated, 17 of the 18 areas audited had no exceptions, but one area – Logical Security was qualified. Mr. Barry told the Committee that Ray Giuliani had hosted a conference call with market participants, whereby ERCOT presented the results and answered any questions, and that PwC was involved in this presentation to the market participants. Mr. Barry confirmed that market participants had not raised any significant issues resulting from the SAS 70 report. Mr. Barry stated that PwC would issue a recommendation letter and, together with ERCOT staff, would review lessons learned as well as remediation actions with the Committee at its February meeting.

Update and Approval of Nodal Fee Filing

Steve Byone provided the Committee with an overview of the history of the currently approved interim Nodal Surcharge in the amount of \$0.0663 cents per MWh. Mr. Byone presented the Nodal Program Budget and proposal for the Nodal Surcharge filing that would be presented to the full Board, and explained how ERCOT staff had arrived at the costs to be recoverable via the surcharge, including the debt financing costs that would be paid during development and through the useful life of the assets. Mr. Byone explained that the rate proposed for the Nodal Fee filing (\$0.1270 per MWh) was based upon the assumption that the new rate would go into effect on June 1, 2007. Mr. Byone also explained that the new rate would be in effect through 2012, but that the rate for 2007 would be blended, since the rate would change from the interim rate to \$0.1270 per MWh June 1, 2007. Mr. Byone informed the committee that ERCOT would also request approval of an expedited process to approve potential new rates which might be needed should key assumptions used in determination of the proposed rate materially change.

Miguel Espinosa asked if ERCOT staff had discussed the fee amount with the Public Utility Commission (PUC), and Mr. Byone explained that, although the specific rate had not been individually discussed with the PUC, the same material had been discussed at the December Board meeting, with the PUC Commissioners present. Mr. Espinosa also asked Mr. Byone when the funding ratio for capital expenditures would return to 60% debt /40% revenue. Mr. Byone confirmed that ERCOT was committed to having funding of capital projects for the base budget return to 60% debt/40% revenue by the end of 2008 and that only the Nodal portion of

the budget would have a higher debt funding ratio which is currently estimated at 62% debt/38 revenue.

Mr. Karnei and Mr. Espinosa both noted that if the debt funding ratio became a problem, the fee would need to be increased. Mr. Byone noted that he expected resistance to fee increase and the only other way to control the fee level would be to extend the debt, which ERCOT does not support beyond the useful life of the assets. Mr. Karnei and Mr. Espinosa agreed that ERCOT should not extend debt beyond the useful life of the assets. Mr. Espinosa stated that he would rather have a "pay as you go" fee, but that this would lead to a high and an undesirably lumpy fee. Mr. Fehrenbach noted that some of the assets of the Nodal program might extend beyond 2012 while some might require replacement before the end of 2012. Mr. Barry noted that while there are no specific standards for asset lives, the typical useful life would be 3 years for hardware and 5 years for software. Mr. Byone informed the Committee that the assumption used for the Nodal Program budget and requested fee assumed a 4-year average useful life for all capitalized assets with an assumed "go live" date of January 1, 2009.

After a full and detailed discussion by the Committee, Miquel Espinosa made a motion to recommend the staff's proposed Nodal Budget and proposed Nodal Surcharge filing to the Board. Dan Wilkerson seconded the motion. The motion passed. Nick Fehrenbach abstained and the remainder of the Committee members voted in favor of the motion.

Credit Workshop Update

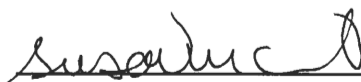
The Committee discussed potential dates for the Credit Workshop and requested that, subject to confirmation with William Taylor and a time confirmation with Mr. Fehrenbach, the Credit Workshop be held on March 5, 2007 from 1 P.M. to 5 P.M. The Committee requested that Cheryl Yager confirm the date and time with Mr. Taylor and Mr. Fehrenbach, and then send notice of the Credit Workshop to all Board members, with encouragement for the other Board members to attend.

Quarterly Investment Results

Cheryl Yager reviewed the Quarterly Investment results with the Committee and confirmed that the investments are being managed within the parameters of the Investment Standard. Ms. Yager noted that the ERCOT prime fund had fallen out of the top 10, but the rates were fairly flat among all of the top groups.

Adjournment

At 9:53 A.M., the meeting was adjourned. The next Committee meeting will be held on the morning of February 20, 2007.



Susan Vincent, Secretary