

MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Airport Hilton

7:30 A.M.

April 18, 2007

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 7:30 A.M. on **April 18, 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
Miguel Espinosa, Vice Chair	Unaffiliated Board Member	Unaffiliated Board Member	Present
Nick Fehrenbach	City of Dallas	Consumer	Present
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Present
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member	Present
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Present
William Taylor	Calpine Corporation	Ind. Generator	Present
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present

ERCOT staff and guests present:

Barry, Sean	PricewaterhouseCoopers (PwC)
Bartley, Steve	CPS Energy
Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Davies, Morgan	Calpine
Day, Betty	ERCOT
Fournier, Marguerite	Competitive Assets
Grimm, Larry	ERCOT
Hancock, Misti	ERCOT
Kolodzies, Eddie	Customized Energy Solutions
Maslon, Sharon	ERCOT
McElfresh, Brandon	ERCOT
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Simpson, Lori	Constellation
Stolle, Brent	PricewaterhouseCoopers (PwC)
Thomas, Robert	Green Mountain
TroxteLL, David	ERCOT
Twiggs, Thane Thomas	Direct Energy
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT
Westbrook, Susan	ERCOT
Wullenjohn, William	ERCOT

Executive Session

At 7:30 AM, the Committee meeting was adjourned and the Committee went into Executive Session until approximately 8:20 AM, when the Committee returned to Open Session.

Approval of Previous Minutes

Dan Wilkerson moved to approve the minutes for the previous meeting held on March 21, 2006. Miguel Espinosa seconded the motion. The motion passed unanimously.

Review Finance and Audit Committee Charter

The Committee briefly discussed the proposed modifications to the Finance & Audit Committee Charter which were included in the materials. Because of the late hour and because the Committee needed time to consider a number of modifications proposed by the Director of Internal Audit, the Committee delayed further discussion of the Charter until the May meeting. William Taylor and Clifton Karnei requested that all proposed modifications be included in a consolidated one-color redline compared to the currently approved Charter.

Review of Credit Workshop Minutes

Nick Fehrenbach moved to approve the minutes from the Credit Workshop held on March 5, 2007; Tom Standish seconded the motion. The motion passed unanimously.

Review Credit Workgroup Charter

Morgan Davies gave an overview of the proposed modifications to the Credit Workgroup ("CWG") Charter. Clifton Karnei noted that the CWG administration and governance procedures had been modified to make them more consistent with other ERCOT committees, and he asked the Committee members for comments to the proposed changes. Nick Fehrenbach discussed his concerns regarding: (1) the voting qualification requirement (he believes that the qualification should instead be for a quorum); (2) lack of proxy restriction prohibiting voting in multiple segments; and (3) qualification for membership. The Committee requested that the selection of the Chair and Vice Chair be changed to occur at the same time as the other Committees. The Committee will continue its discussion of the Charter at the May Committee meeting.

Confirmation of CWG Chair and Vice Chair

Cheryl Yager informed the Committee that the Credit Work Group had nominated Morgan Davies with Calpine as CWG Chair and Amanda List with Strategic Energy as CWG Vice Chair.

Michel Gent made a motion to approve the recommendation of the CWG and approve Morgan Davies as Chair of the Credit Workgroup and, subject to approval of the revisions to the CWG Charter, Amanda List as Vice Chair of the CWG; Scott Gahn seconded the motion. The motion passed unanimously.

CWG Report on ERCOT Credit Matters

Morgan Davies provided the Committee with a report of ERCOT credit matters and the matters being addressed by the Credit Working Group ("CWG"), including creditworthiness standards, potential credit insurance, and the review of PRRs and NPRRs for credit issues.

Mr. Davies also reviewed the intended scope of the planned request for proposal for a third party credit assessment (RFP), which was included in the materials, and discussed the need to

determine the amount of acceptable risk and balance this with the need to maintain access to the ERCOT market. Clifton Karnei noted that the RFP scope must include modeling of the "perfect storm" of credit losses. The Committee discussed the RFP scope in detail. Scott Gahn noted that the Committee did not want a mere repeat of the Black & Veatch study that was done several years ago, but they wanted new information. Ms. Yager confirmed that staff already had the previous study and that the RFP was intended to obtain new information. The Committee authorized ERCOT staff to issue the RFP, and Ms. Yager confirmed that staff intended to issue the RFP by the end of April.

Financial Audit Review

Mike Petterson summarized the results of the annual 2006 financial statement audit by PricewaterhouseCoopers ("PwC"). Sean Barry confirmed that the audit was complete and that PwC had issued an unqualified ("clean") opinion. Mr. Barry confirmed that 2006 financial results were favorable, with revenues up and operating expenses down and unrestricted net deficit moving toward zero.

Brent Stolle overviewed the details of the audit report, noting that several audit adjustments were identified during the audit. These adjustments included, in the fixed asset area: (1) \$2.2 million reconciling issue relating to fixed assets (increasing assets); (2) \$1.7 million software impairment (decreasing assets); \$1.3 million missed accruals (increased system under development assets).

Mr. Stolle also informed the Committee that PwC had reviewed management's conclusions regarding the post retirement health benefits which item was discussed with the Committee in the March Committee meeting. Management determined that post retirement health care benefit plan (FAS 106) obligations were deemed not material for 2005. In addition, based upon ERISA counsel advice, PwC concurred with management and determined that these benefits were terminated as of July 2006, and as a result, no liability for ERCOT existed on December 31, 2006.

Mr. Barry informed the Committee that during the last year, the requirements for external auditor evaluation of internal controls of private companies have become more stringent and call for reporting on internal control issues in the same manner as public companies, even though the auditing for private companies is different from public companies. Mr. Barry explained that the PwC had determined one "material weakness" and two "significant deficiencies" relating to the audit adjustments presented by Mr. Stolle in its review of ERCOT's internal controls. He explained that as a general rule, all audit adjustments are categorized as either material weaknesses, significant deficiencies, or control deficiencies. Mr. Barry explained that the material weakness related to the audit adjustment in the fixed asset area and the significant deficiencies related to the accrual and software impairment audit adjustments. Mr. Barry noted that ERCOT staff had identified the impairment issue, which was quite positive. Mr. Barry told the Committee that ERCOT had made significant internal control improvements in 2006 but audit adjustments clearly indicate more improvement is needed. He noted that staff had put additional processes in place to correct these issues and management's responses were included in the report. William Taylor asked what improved processes had been put into place for 2006. Mr. Byone discussed management's intended review of all supporting processes, people and technology to ensure the right focus throughout the company. Dan Wilkerson asked Mr. Byone if he was getting support on internal controls from the other business areas of the company, and Mr. Byone confirmed that he was. Mr. Wilkerson asked if PwC had looked at the processes for paying in a timely manner. Mr. Barry confirmed that this was not included, and Mr. Wilkerson questioned whether this should be added. Mr. Karnei noted that the Committee was concerned that two of the issues were repeated from the previous year, and he stated that the Committee did not want to see issues in these areas for 2007.

Miguel Espinosa moved to accept the PwC audit of ERCOT's 2006 financial statements; Dan Wilkerson seconded the motion. The motion passed unanimously.

Debt financing and Liability Management

The Committee reviewed the financing options presented by staff, including (a) bank debt with interest rate swaps and (b) senior notes by private placement. The Committee discussed the recommendations in detail. Mr. Karnei stated that the Committee needed to see the estimated pricing and costs for the options before deciding upon the method of financing. Ms. Yager told the Committee that the costs and pricing were comparable, but that if the Committee wanted to see the pricing and costs at a point in time (understanding that pricing would change each day), an executive session could be scheduled. William Taylor requested that staff schedule a special Committee meeting before the May Board meeting, so the Committee could determine its recommendation. Mr. Gahn requested that the information include the cost to pay down the variable rate interest with a swap. Mr. Karnei noted that the Committee also wanted to see the balance sheet impacts of the options. The Committee asked that a special meeting be scheduled in the next three weeks, to discuss the financing options in further detail.

Preview of Proposed Texas Regional Entity Budget and Timeline

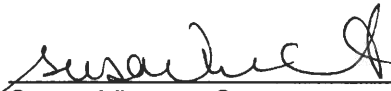
Larry Grimm previewed the first draft of the Texas Regional Entity ("TRE") 2008 budget and timeline with the Committee. The Committee discussed the budget briefly and requested that they discuss when more information was available. Mr. Grimm confirmed that FERC was expected to make a determination on the proposed Delegation Agreement on April 19th. The Committee agreed that the TRE Workshop, to allow market participant input on the budget, should be scheduled for May 17, 2007 at 9 A.M. Mr. Karnei and Mr. Wilkerson asked that the TRE budget be discussed at the special Committee meeting to be scheduled on the financing options.

Review of Investment Funds Held at ERCOT

Cheryl Yager confirmed that the yield on investment of funds held at ERCOT had stayed in a consistent range to the previous month and was within the benchmark parameters.

Adjournment

At 10:00 A.M., the meeting was adjourned. The next Committee meeting will be held on the morning of Wed. May 17, 2007.



Susan Vincent, Secretary