

MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:00 A.M.

June 19, 2007

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 8:00 A.M. on **June 19, 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	Not Present
William Taylor	Calpine Corporation	Ind. Generator	Present
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Steve Bartley	CPS Energy	Municipal	Present
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present

ERCOT staff and guests present:

Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Davies, Morgan	Calpine
Doolin, Estrellita	ERCOT
Grimm, Larry	Texas Regional Entity
List, Amanda	Strategic Energy
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Seeley, Chad	ERCOT
TroxteLL, David	ERCOT
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT
Westbrook, Susan	ERCOT
Wullenjohn, William	ERCOT

Executive Session

At 8:01 A.M., the Committee meeting was adjourned and the Committee went into Executive Session until approximately 8:36 A.M., when the Committee returned to Open Session.

Approval of Previous Minutes

Miguel Espinosa made a motion to approve the minutes of the Committee meeting held on May 16, 2007; Nick Fehrenbach seconded the motion. The motion passed unanimously.

Update on Credit Review RFP

Clifton Karnei explained that while in executive session, Cheryl Yager had provided a brief update on the status of the proposals received in response to the Credit Review Request for Proposal ("RFP"). Mr. Karnei noted that the Committee had set a special Committee meeting for July 16, 2004 from 2:00 P.M. to 4:00 P.M., to be held in executive session, to discuss the vendor proposals in detail.

Approval of Finance & Audit Committee Charter

Clifton Karnei reminded the Committee that it had voted to approve specific credit responsibility language for the Finance & Audit Committee Charter at the previous meeting, which had been the only outstanding issue in the Charter. However, presently the Committee was to take a final look at the Charter and make a formal recommendation to the Board for its vote at today's meeting. Mr. Karnei informed the Committee that he and Steve Byone had discussed one additional item in the Charter, relating to the Committee's responsibility for legal compliance and ethics programs. To clarify that the Committee's responsibility was oversight for compliance and not for approving the ethics program or Ethics Agreement (since this was done by the Human Resources & Governance Committee), Mr. Karnei suggested that the clause, "and to ensure management maintains suitable evidence of compliance" be added at the end of the last sentence of the 5th paragraph. The Committee discussed the Charter provisions briefly.

Michehl Gent made a motion to recommend the modified Finance & Audit Committee Charter to the Board, as set forth in Exhibit A; Nick Fehrenbach seconded the motion. The motion passed by a vote of four to three, with Clifton Karnei, Miguel Espinosa and Dan Wilkerson opposed.

Mr. Karnei explained that, because of his personal concern about deletion from the Charter of language referencing prudent industry standards, maintaining the financial stability of and minimizing risk to the market as benchmarks for the Committee's decisions regarding credit, he would need to vote against the revised Charter at the Board meeting. He noted that he didn't feel he could make the motion to approve the charter at the Board since he would vote against it and asked the Committee members to decide who should make the motion on behalf of the Committee before the Board meeting.

2007 Year-End Financial Projections

Michael Petterson informed the Committee that as of May 31, 2007, both revenue requirements and revenues are slightly lower than budgeted and the latest budget forecast indicates an ability to conduct base operations within the approved fee of \$0.4171 per MWh.

Mr. Petterson noted that the Nodal Program expenditures and Nodal Surcharge amounts are trending as expected and, to date, Nodal Program expenditures exceed Nodal Surcharge collections by approximately \$92 million with the difference covered by borrowed funds. Mr. Petterson also noted that the Texas Regional Entity (TRE) fee income currently exceeds TRE expenditures by approximately \$0.8 million and that the favorable financial result will be considered when establishing the 2008 TRE budget and fee.

Capital Project Portfolio Status

David Troxtell reported that the projected number of Project Pipeline ("PPL") projects completed is likely to be fewer than originally planned, because 48 projects were behind schedule, not started or still in planning. Mr. Troxtell explained that the project cancellations, delays and deferrals were the result of (1) the decision to accelerate certain elements of the Nodal implementation effort, (2) resource constraints such as staffing shortages and competing demands for data center capacity, and (3) waiting on market approvals (such as MarketTrak Enhancements).

Mr. Troxtell stated he anticipates that total capital expenditures for 2007 will be \$34 million to \$40 million, rather than the \$44 million budgeted. The shortfall is attributable, in part, to the elimination of \$1.4 million for TRE projects that had been duplicated in the TRE budget. Scott Gahn asked if Mr. Troxtell knew the value of the projects that had been deferred or cancelled, which Mr. Troxtell did not have with him. Mr. Gahn asked how ERCOT measured the funds that had been budgeted for deferred or cancelled projects, and Mr. Byone assured him that these funds are fully accounted for and would be reflected in financial statements.

Briefing on Preliminary 2008 Budget Schedule and Assumptions

In response to Mr. Armentrout's request at the April, 2007 meeting of the Board of Directors, Mike Petterson provided the Committee with a list of assumptions that will be used in the process of preparing the 2008 budget. Mr. Karnei noted that staff will use the same budget-building process used for 2007, but will document the steps more thoroughly for transparency purposes.

Mr. Petterson noted that preliminary budget reviews will start the week of June 25, 2007, with the preliminary budget to be presented to the Committee at its July 17, 2007 meeting which would also be used to solicit public input. The current schedule includes a special meeting of the Committee on August 2, 2007, presentation of the Committee's recommendations to the Board of Directors on August 21, 2007, with a vote by the Board on September 18.

Several members reported scheduling conflicts with the special Committee meeting set for August 2nd, so the members agreed to hold this special meeting on August 7, 2007, at 9 A.M., CST.

Update on Debt Financing

Cheryl Yager reminded the Committee that ERCOT received a Moody's upgrade from A1 to Aa3, largely as a result of ERCOT's success in obtaining Public Utility Commission of Texas ("PUCT") authorization for its Nodal Surcharge, coupled with Ergot's established practice of funding a large portion of required expenditures on a current year basis. In response to questions by the Committee, Ms. Yager indicated that she estimated the value of this upgrade in ERCOT's debt financing to be four or five basis points.

Ms. Yager reported that ERCOT executed \$130 million of interest rate swaps (some with forward effective dates) on June 12, 2007 to fix a portion of its floating rate debt. These transactions are expected to allow ERCOT to maintain floating rate debt within the 40% cap set in the Financial Standard until 2010. Ms. Yager told the Committee that the weighted average interest rate for these transactions is 5.54%,

Ms. Yager also informed the Committee that, on June 15, ERCOT executed the \$225 million Term Loan and \$75 million Revolving Credit Facility. She noted that at closing, ERCOT drew \$85 million on the new Term Loan and \$10 million under the new Revolving Credit Facility. The draws under the new Term Loan and Revolver were used to pay-off existing debt under the prior term loan and revolver.

Report of External Auditor Pre-Approval Status and Limits

Mr. Petterson confirmed that all external audit engagements for 2007 had been reviewed and approved by the Finance and Audit Committee. The engagements approved are the financial statement audit by PricewaterhouseCoopers; the SAS 70 Type II audit by PricewaterhouseCoopers; and the benefit plan financial statement audit by Maxwell, Locke & Ritter, LLP. In addition, the Committee approved a subscription to the Comperio accounting reference library maintained by PricewaterhouseCoopers.

Mr. Petterson indicated that he planned to issue a request for proposal for the 2008 financial statements audit in the fall of 2007.

Review the Procedures for Handling Reporting Violations

Mr. Petterson noted that, as required by Finance and Audit Committee charter and consistent with corporate governance best practice, ERCOT management has established procedures for handling reporting violations. Mr. Petterson noted that procedures are described in ERCOT Corporate Standard CS5.38, Fraud Prevention and Whistleblower Corporate Standard, which had previously been reviewed by the Committee. Mr. Petterson confirmed that ERCOT employees are provided with a copy of this Corporate Standard with the Human Resources ("HR") Manual, and employees are required to sign a Receipt and Acknowledgement form when they are given the HR Manual, to evidence their awareness and understanding. Mr. Petterson explained that these procedures are also reinforced during the annual Ethics Reaffirmation process required of all employees.

Committee briefs (Q&A only)

A. Risk Management Event Profile Matrix.

Dan Wilkerson asked Mr. Byone to explain the purpose of the Risk Management Event Profile Matrix. In response, Mr. Byone explained that this matrix differs from the risk matrices used by most businesses, because ERCOT is unique in its obligation to ensure the reliability of the electric market. Because of this, in addition to the risks to the corporation, ERCOT's matrix reflects certain risks to the market, including service reliability. Mr. Byone explained that the reporting of monthly changes in risks are accentuated with the arrows pointing up (an increase in assumed risk) or down (a decrease in assumed risk). The risks listed in the matrix are evaluated monthly by ERCOT management. Mr. Byone noted that the only increased risk noted in the current report pertains to a workforce risk increase in May.

In response to a question from Mr. Espinosa, Mr. Byone indicated that ERCOT's staffing shortages are, in part, the result of the high market demand for specialized technical skills needed for the Nodal project. Mr. Gent asked if increasing salaries would help to attract the needed personnel. Mr. Byone explained that ERCOT was allowed to pay market salaries. The members then discussed factors that may be contributing to the staffing shortage, including compensation levels and uncertainty about employment once the Nodal market implementation is complete. Mr. Byone noted that the HR & Governance Committee was discussing staff retention at its June meeting.

Adjournment

At 9:34 A.M., the Committee meeting was adjourned.

The next regular Committee meeting will be held on the morning of Tuesday, July 17, 2007.



Susan Vincent, Secretary



**THE ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
FINANCE & AUDIT COMMITTEE CHARTER**

Purpose

The Finance and Audit Committee (the "Committee") of the Board of Directors of ERCOT (the "Company") shall:

1. Oversee the Company's budget process and adherence to budget;
2. Provide recommendations to the Board of Directors for establishing levels of financing and in setting the Company's fees, including its administrative fee;
3. Review and make recommendations to the Board of Directors regarding investment and financial standards for the Company;
4. Review and make recommendations to the Board of Directors regarding credit standards, procedures, governance, ERCOT Protocols and other market rules which impact credit risk;
5. Ensure that the Company's financial statements are timely audited by qualified accountants who are independent;
6. Assist the Board of Directors in fulfilling its oversight responsibility with respect to the Company's maintenance of an effective internal audit function;
7. Establish and maintain procedures for the receipt (including anonymous submission), retention and treatment of complaints regarding accounting, internal controls, and auditing;
8. Perform such other duties and responsibilities enumerated in and consistent with this Charter.

The Committee's function is one of oversight, recognizing that the Company's management is responsible for preparing the Company's financial statements, and the independent auditor is responsible for auditing those statements. In adopting this Charter, the Board of Directors acknowledges that the Committee members are not employees of the Company and are not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the external auditor's work or auditing standards. Each member of the Committee shall be entitled to rely on the integrity of staff and external auditors to provide accurate, complete financial and other information to the Committee, absent actual knowledge to the contrary.

While the Committee has the responsibilities, duties and powers set forth in this Charter, it shall be the responsibility and duty of the Company's management and independent auditor, and not the responsibility or duty of the Committee, to plan or conduct audits, to make any determination that the Company's financial statements are complete, accurate and in accordance with generally accepted accounting principles, and to assure compliance with laws, regulations and the Company's ethics policies. It is the responsibility of the Committee to conduct investigations and resolve disagreements regarding financial reporting, if any, between management and the independent auditor.

The Committee shall provide assistance to the Board in fulfilling its oversight responsibility relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company's financial statements and the legal compliance and ethics programs as established by management and the Board. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee and the Company's independent auditors, internal accounting personnel and management and to ensure management maintains suitable evidence of compliance.

Membership

The Committee shall be comprised of at least five Board members, at least three of which are from market Segments and two or more of which must be Independent Board members of the Company. Each Member must be able to read and understand fundamental financial statements, including the balance sheet, income statement and cash flow statement. At least one Member must have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which ensures the individual's financial sophistication, including a past or current position as a Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") or other senior officer with financial oversight responsibilities.

The board members shall decide from among themselves who shall participate in the Committee. The term shall be for one year.

The Chair of the Committee shall be selected through a majority vote of the Committee members. The Committee Chair shall not be the CEO of the Company and shall have accounting or related financial management expertise.

The Committee may request that any officers or employees of the Company, or any other person, whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

Board members (other than Committee members) including Board member alternates may attend and participate in all Committee meetings but may not participate in Committee voting.

Non-Committee members may attend Committee meetings at the discretion of the Committee. The Committee may exclude any persons who are not Directors, the Segment Alternate or the Director's Designated Representative from any meeting or portion of any Committee meeting that the Committee determines, in its discretion, needs to be held in closed session to discuss personnel issues, confidential legal matters, negotiations or other business of the Committee involving confidential information.

Qualifications

Each member of the Committee shall also meet any experience requirements as may be established from time to time by the Board of Directors. The Board of Directors shall endeavor to appoint at least one member to the committee who is a financial expert as such term may be defined from time to time by the Board of Directors, the accounting industry or other regulatory authorities.

Authority

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain outside counsel or other experts for this purpose. All employees are directed to cooperate as requested by the Committee or any of its Members for Committee purposes. The Committee may request any officer or employee of the Company, the Company's outside

counsel or the Company's independent auditor to attend a meeting of the Committee or to meet with any Member or any consultants to the Committee.

The Director of Internal Audit is the Chief Audit Executive at the Company. The Company's Chief Audit Executive shall report directly to the Committee. For administrative purposes, the Chief Audit Executive shall report to the CEO. The Committee shall approve an Annual Internal Audit Plan prepared by the Chief Audit Executive. The Chief Audit Executive shall (1) manage the execution of the Annual Internal Audit Plan, (2) conduct investigations at the direction of the Chair and the Committee, and (3) make periodic reports to the Committee at regularly scheduled Committee meetings and as otherwise directed by the Chair and the Committee.

The Committee may appoint workgroups or task forces to investigate issues defined by the Committee. Members of such workgroups or task forces need not be Directors. Such workgroups or task forces shall have no authority to bind the Committee or the Company.

Structure

The presence of at least half of the members of the Committee shall constitute a quorum. At any meeting at which a quorum exists, the act of a majority of the members present at a meeting shall be the act of the Committee. For the purposes of voting, members who recuse themselves from voting on an issue shall not be counted as present for that vote.

The Chair, in consultation with the CFO, shall develop the agenda, the frequency, and length of meetings and shall have unlimited access to management and information for purposes of carrying out functions of the Committee. The Chair shall establish such other rules, as may from time to time be necessary and proper for the conduct of the Committee.

Duties and Responsibilities

The following shall be the prominent recurring duties and responsibilities of the Committee in carrying out its oversight functions. The duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, and by the Company's Articles of Incorporation and Bylaws:

With respect to budget oversight and financing:

1. Annually, on a schedule to be established by the Board of Directors, the Committee shall review staff's proposed budget for the following year, including proposed staffing levels, proposed capital expenditures, and other proposed expenditures.
2. The Committee shall review the staff's estimate of revenues to support all proposed expenditures, including staff's recommendations for fee levels for the following year.
3. The Committee shall review the staff's recommendation of the amount and type of financing that may be needed to support the proposed budget, including the staff's proposed financial performance measures (e.g. ratios).
4. Following the Committee's review of the above items, the Committee shall recommend to the Board of Directors a staffing level, a proposed budget, proposed fees, and proposed financial performance measures for the following year.

With respect to maintaining investment and financial guidelines for the Company, the Committee shall:

1. Establish standards by which the Company will invest funds and maintain its financial health/strength and review these standards at least annually, recommending updates to the Board of Directors as needed.

With respect to the Company's credit policies and standards:

1. The Committee shall review the Company's credit policies to consider:
 - a. Appropriateness of credit practices and creditworthiness standards established for market participants;
 - b. Compliance with existing creditworthiness standards by market participants;
 - c. Compliance with credit-related Protocols and market rules; and
 - d. Development of appropriate methods to evaluate and mitigate credit risk;
2. The Committee's review shall consider the recommendations of staff and the Credit Work Group and the decisions of the appropriate stakeholder groups, including the Technical Advisory Committee.
3. Following each such review, the Committee may, in its discretion, recommend to the Board of Directors any proposed changes to the previously approved credit policies.

With respect to the independent auditors:

1. Annually, the Committee shall recommend to the Board of Directors the selection and engagement of the Company's independent auditor. The Committee shall fulfill the oversight responsibility of the Board of Directors with respect to the independent auditors' audit of the books and accounts of the Company and for the fiscal year for which it is appointed.
2. The Committee shall approve the provision of all auditing and non-audit services (in excess of \$5,000) by the independent auditor to the Company in advance of the provision of those services and shall also approve the fees for all non-audit services provided by the independent auditor.
3. Provision of non-audit services of less than or equal to \$5,000 by the independent auditor to the Company do not require pre-approval from the Committee, but shall be communicated in writing to the members of the Committee at the first meeting following the engagement for the non-audit services at issue.
4. In connection with the Committee's approval of non-audit services, the Committee shall consider whether the independent auditor's performance of any non-audit services is compatible with the external auditor's independence.
5. At least annually, the Committee shall obtain and review a report by the independent auditor describing:
 - a. the independent auditor's internal quality control procedures;
 - b. all relationships between the independent auditor and the Company, in order to assess the auditor's independence.
6. The Committee shall also review any report by the independent auditor describing:
 - a. significant accounting policies and practices used by the Company;
 - b. alternative treatments of financial information as required to be discussed by the independent auditors with the Committee; and
 - c. any other material written communication between the independent auditors firm and the Company's management.
7. Establish the Company's hiring policies for employees who are former employees of the Company's independent auditors.

With respect to the Company's financial statements:

1. The Committee shall discuss the annual audited financial statements with management and the independent auditor, including the Company's disclosures.
2. The Committee shall review disclosures made to the Committee by the Company's CEO and CFO about any significant deficiencies in the design or operation of the internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
3. In connection with its review of the Company's financial statements, the Committee shall review and discuss with the independent auditor the matters relating to the conduct of the audit as they may be modified or supplemented, including, but not limited to, significant judgments, significant estimates, critical accounting policies, and unadjusted differences.
4. Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
5. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.
6. Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
7. Review any and all press stories that relate to the Company's accounting and disclosure, require that management or the auditor explain any negative comments and determine whether these comments necessitate a change in the accounting structure of the Company.
8. Based on its review and discussions with management, the Chief Audit Executive and the independent auditor, the Committee shall provide a recommendation to the Board of Directors whether the Company's financial statements should be accepted.

With respect to periodic reviews and reports:

1. Periodically, the committee shall meet separately with senior management, the Chief Audit Executive and the independent auditors.
2. The Committee shall review with the independent auditor any audit problems or difficulties and management's response to them.
3. The Committee shall review the Company's policies with respect to risk assessment and risk management.
4. The Committee shall review a summary of the Company's dealings with any financial institutions that are also market participants.
5. The Committee shall communicate to the Board of Directors the matters discussed at each meeting of the Committee, including any issues with respect to the quality or integrity of the Company's financial statements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.
6. The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors.

With respect to Internal Audit:

1. The Committee shall review with management and the Chief Audit Executive the charter, activities, staffing, and organizational structure of the internal audit function.
2. The Committee shall have final authority to review and approve the Annual Internal Audit Plan and all major changes to the Plan.
3. The Committee shall review, considering the recommendations of the independent auditors and the CFO, the scope of the Internal Audit Plan and the plan of work to be done by the Company's Internal Audit Department, and the results of such work.

4. The Committee shall review the significant reports to management prepared by the Internal Audit Department and management's responses.
5. The Committee shall ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive.
6. The Committee shall, at least once per year, review the performance of the Chief Audit Executive and concur with the annual compensation and salary adjustment.
7. The Committee shall review the adequacy and effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
8. The Committee shall, on a regular basis, meet separately with the Chief Audit Executive in executive session to discuss any matters that the committee or Internal Audit believes should be discussed privately.

With respect to the other matters:

1. The Committee shall inquire of management and the independent auditors about significant risks or exposures to the Company and the Company's market and assess the steps management has taken to minimize such risks.
2. The Committee shall establish procedures for:
 - a. The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - b. The confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.
3. The Committee shall establish the Company's hiring policies for employees who are former employees of the Company's independent auditor's.
4. The Committee shall meet at least biannually with the independent auditor and the CFO in separate executive sessions.

Meetings

The Committee shall meet at least once during each fiscal quarter, and as many additional times as the Committee shall deem necessary or appropriate.

Minutes

The Committee shall designate a secretary, who may be a Committee Member or employee of ERCOT, who shall prepare or cause to be prepared the minutes of each meeting and file such minutes with the corporate records of the Company. The secretary shall send, or cause to be sent, copies of such minutes to each of the Members.

Evaluation

The Committee shall undertake an annual evaluation assessing its performance and, in light of this, consider changes in its membership, charter or procedures. The Committee shall report to the Board the results of its evaluation, including recommended charter, membership and other changes, if any.