

MINUTES OF THE ERCOT ISO FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:00 A.M.

August 21, 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 **August 21, 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

Other Board Members and Segment Alternates:

Steve Bartley	CPS Energy	Municipal	Not Present
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present

ERCOT staff and guests present:

Anderson, Troy	ERCOT
Barry, Sean	PricewaterhouseCoopers
Bassett, Ryan	PricewaterhouseCoopers
Bojorquez, Bill	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Davies, Morgan	Calpine Corporation
Day, Betty	ERCOT
DiPastena, Phil	ERCOT
Doolin, Estrellita	ERCOT
Gallo, Andrew	ERCOT
Hancock, Misti	ERCOT
Kahn, Bob	ERCOT
Petterson, Mike	ERCOT
Rocap, Nisha Rocap	PricewaterhouseCoopers
Seeley, Chad	ERCOT
Spells, Vanessa	ERCOT
TroxteLL, David	ERCOT

Twiggs, Thane	ERCOT
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT
Walker, DeAnn	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 8:55 A.M., when the Committee returned to Open Session.

Approval of Previous Minutes

Dan Wilkerson made a motion to approve the minutes of the Committee meeting held on July 17, 2007, subject to a correction of a typo in his name; R. Scott Gahn seconded the motion. The motion passed by a vote of 7 to 0, with Nick Fehrenbach abstaining.

Nick Fehrenbach moved to approve the minutes of the Special Committee meeting held on August 7, 2007; Michehl Gent seconded the motion. The motion passed by a vote of 7 to 0 with Dan Wilkerson abstaining.

Update on 2007 SAS 70 Audit

Sean Barry introduced two of his colleagues in attendance, Ryan Bassett and Nisha Rocap, and then provided the Committee with an update regarding the on-going 2007 SAS 70 audit. Mr. Barry informed the Committee that the SAS 70 audit was on schedule and that no significant issues had been identified. Mr. Barry noted that the control objectives of this year's SAS 70 were reduced from 18 to 15, by combining 3 of the business processes and reorganizing the IT objectives. Mr. Barry confirmed that the slight change would reduce redundancies and result in a streamlined report, but would not change the scope of the audit. Mr. Barry told the Committee that during Phase 1 testing, ERCOT readiness was improved and the coordination, efficiency, and communication of ERCOT staff was much better than previous years. Mr. Barry confirmed that Phase 2 testing would begin in September, he expected to complete the report by Thanksgiving, and the customary conference call with Market Participants would be scheduled for December.

2008 SAS 70 Auditor

Following discussions during the Executive Session, **Miguel Espinosa moved to recommend approval of PricewaterhouseCoopers as the SAS 70 auditor for 2008; William Taylor seconded the motion. The motion passed unanimously.**

Update on Third-Party Credit Review

Cheryl Yager informed the Committee that the negotiations for the contract for the third-party credit review were nearly complete, and she expected to obtain slightly improved pricing relative to the RFP responses. Ms. Yager told the Committee that she anticipated the contract would be signed and the work begun prior to the September meeting.

Creditworthiness Standards Update

Cheryl Yager explained to the Committee that ERCOT staff, with support of the Credit Work Group (CWG) was recommending changes to the Creditworthiness Standards (as reflected in the attached materials), including changes for setting forth whether and to what amount a

market participant may have unsecured credit. She explained that CWG had approved some "low hanging fruit" suggestions, including: (1) lowering the maximum unsecured credit allowed for market participants from \$125 million to \$100 million, (2) using Fitch ratings (along with Standards & Poor's and Moody's); (3) using Tangible Net Worth rather than straight Shareholder's Equity when setting maximum unsecured credit limits; and (4) establishing modified rules limiting the amount of maximum unsecured credit allowed under foreign guarantees when quarterly financials are not provided. In response to questions by the Committee, Ms. Yager noted that the Creditworthiness Standards had not been updated since 2001.

In response to Clifton Karnei's question regarding the relationship between the Creditworthiness Standards and the Protocols, Ms. Yager and Morgan Davies explained that the Protocols refer to and require compliance with the Creditworthiness Standards, but the Creditworthiness Standards are maintained separately from the Protocols.

In response to William Taylor's question regarding TAC's involvement in reviewing the proposed changes, Morgan Davies noted that the proposed changes to the Standards had been presented to TAC in August for TAC's comments and suggestions. TAC made no suggested changes to the Creditworthiness Standards.

Nick Fehrenbach made a motion to recommend the revised Creditworthiness Standards to the Board; William Taylor seconded the motion. The motion passed unanimously.

Recommendation of 2008 Budget

Steve Byone and Mike Petterson explained that the 2008 Budget process had concluded, and that ERCOT management recommended to the Board the proposed 2008 Budget (as set forth in the Agenda Item 14b of the Board materials). Mr. Byone noted that no substantial changes had been made to the proposed 2008 Budget since the August 7, 2007 Special Committee meeting, and he requested that the members of the Committee endorse the staff's recommendation to the full Board.

Mr. Byone noted that the key elements of the proposed 2008 Budget include the following:

- Holds flat all approved fees:
 - System Administrative Fee - \$0.4171 per MWh
 - Nodal Surcharge - \$0.127 per MWh
 - Texas Regional Entity/ERO Fee (approved by FERC and NERC) - \$0.016 per MWh
- Funds ERCOT's necessary responsibilities
- Delivers priority projects approved by the Technical Advisory Committee
- Provides funding for the independent market monitor
- Incorporates impact of Texas Regional Entity activity
- Anticipates implementation of the nodal market
- Requires no fee filing proceeding at the Public Utility Commission of Texas

Mr. Byone asked that the Committee members request that Board members review the recommended 2008 budget and provide feedback to him and/or Bob Kahn. He noted that the final recommended 2008 Budget package will be sent to the Board on September 11, 2007 for anticipated Board action on September 18, 2007.

Mr. Byone highlighted and discussed several items in the Budget presentation materials, including a new table on page 37, reflecting specific issues that would have upward or downward fee pressure, and the Sensitivity Overview on page 41. In response to questions by the Committee members regarding the attempt to maintain a flat fee, Mr. Byone noted that, in the event of unforeseen and unfavorable financial performance in 2008, ERCOT would first attempt to cover the variance by controlling costs. If cost control efforts were insufficient to offset unfavorable financial variances, ERCOT would make greater use of short term borrowing and, if necessary as a last resort, apply for an interim fee at the Public Utility Commission of Texas (PUCT). Mr. Byone told the Committee that as in the past they would be kept informed of ERCOT's financial results and all management action planned in response to unfavorable financial variances. The Committee indicated that it was satisfied with the proposed 2008 Budget.

R. Scott Gahn made a motion to recommend the 2008 draft Budget included in the Board package (Agenda item 14b) to the Board for approval; Miguel Espinosa seconded the motion. The motion passed unanimously.

Preview Compliance and ERM Update

Steve Byone informed the Committee that he would provide the full Board with the required semi-annual update on ERCOT's audit, compliance and enterprise risk management programs and asked if the members had any questions or specific items to note in advance of that presentation.

Committee Briefs (Q&A only)

William Taylor referred to the document entitled "ERCOT Market Credit Status" (page 103 of the materials) and asked why there had been such a substantial increase in the credit balances for Qualified Scheduling Entities (QSEs) that meet Creditworthiness Standards. Cheryl Yager responded that increases can be caused by higher prices or volumes. She indicated that the higher balances appear to be due to a higher level of selling activity in the market and that it wasn't unusual for the activity of individual QSEs to vary over time. Mr. Karnei agreed that this was probably due to market participants that were selling a lot of power during this period. Ms. Yager stated that she did not have significant concern about the increase.

Mr. Byone briefly discussed recent financial market turmoil resulting from tightening credit markets and the impacts on ERCOT's investments and financing. He noted that, since ERCOT's financing was in place, ERCOT was not substantially affected by tightening liquidity in the market. Mr. Karnei asked about the effect on ERCOT's short-term debt, and Mr. Byone and Ms. Yager provided details on the increased short-term rates which had occurred over the past month.

The Committee discussed the changes detailed on the Risk Management Event Profile Matrix or "Stop Light Report" (page 108 of the materials). After the discussion, Steve Byone suggested that a detailed review of this report be added to the agenda for an upcoming Committee meeting. Clifton Karnei agreed to the suggestion.

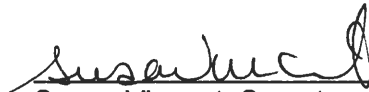
Future Agenda Items

Steve Byone noted that the following future agenda items were scheduled: standing Internal Audit status report(s); appointment of independent financial auditor for 2008; update on third party credit review; update on 2007 forecast; and Committee Briefs. Mr. Byone confirmed that the Enterprise Risk Management Update would be added to the future agenda items.

Adjournment

At 9:35 A.M., the Committee meeting was adjourned.

The next regular Committee meeting will be held on the morning of Tuesday, September 18, 2007.



Susan Vincent, Secretary