

MINUTES OF THE ERCOT ISO FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:00 A.M.

October 16, 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 **October 16, 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	Not 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:

Bojorquez, Bill	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
DiPastena, Philip	ERCOT
Doolin, Estrellita	ERCOT
Grendel, Steve	ERCOT
Giuliani, Ray	ERCOT
Hinsley, Ron	ERCOT
Kolodziej, Eddie	Customized Energy Solutions
Grimm, Larry	Texas Regional Entity
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Saathoff, Kent	ERCOT
Spells, Vanessa	ERCOT
Vincent, 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 8:42 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 September 18, 2007, as corrected to remove Bob Helton's name from the attendee list; Nick Fehrenbach seconded the motion. The motion passed unanimously.

Standard Guarantee and Letter of Credit Agreement Modifications

Susan Vincent explained that staff was proposing modifications to the standard market participant guarantee and letter of credit agreements to conform these credit agreements to the new ERCOT Standard Form Agreement. She confirmed that any modification to these standard credit agreements required Board approval and that the modifications proposed were not intended to provide for any substantive credit changes.

Miguel Espinosa moved to recommend that the Board approve the modifications to the Market Participant Guarantee Agreement, Foreign Market Participant Guarantee Agreement, and Irrevocable and Unconditional Standby Letter of Credit, as requested in the decision template and proposed Resolution for Item 11 of the October 16, 2007 ERCOT Board Meeting; William Taylor seconded the motion. The motion passed unanimously.

Update on Enterprise Risk Management Program

Steve Byone noted that the Committee had requested a thorough "drill down" into the Enterprise Risk Management ("ERM") program. Mr. Byone noted that ERCOT officers were present to answer questions and introduced Philip DiPastena, ERCOT's Enterprise Risk Manager, to lead the discussion.

Mr. DiPastena reported on the ERM program efforts to date, including a recent canvassing of officers, directors and managers on the various risk areas for ERCOT. Mr. DiPastena stated that he incorporated the discussions and other input received into the current ERM report. He described in detail the various components of the ERM reports which were provided to the Board on a monthly basis in order to highlight key risk areas. He also reported that an ERM task force—compiled of persons from each officer group—had been formed to improve ERM program methodologies. The Committee discussed the ERM process and reports.

In response to William Taylor's question about the intent of the ERM reporting tool, Mr. Byone and Bill Bojorquez explained that management used the tool to: (1) document and monitor risk at the management level and (2) allow management to communicate to the Board risk issues faced by ERCOT, Inc. (the company) and ERCOT the market. Mr. Byone acknowledged that certain risk factors included in current reports are outside the control of ERCOT management. He noted that the option of creating two reports—one for risks within the company's control, another for risks outside the company's control—had been discussed, but this was not currently contemplated. Mr. Karnei and Mr. Taylor said that the presentation was helpful, and that Committee should continue to periodically review the items on the ERM report for inclusion.

Quarterly Investment Performance Update

Steve Byone referred to the Summary of Investment Results materials (for the third quarter, 2007) and noted that investment activity continues to be within ERCOT standards and he recommended no changes at this time.

Review of PwC Non-Audit Fees

In compliance with the Committee charter, Michael Petterson informed the Committee that ERCOT had renewed for 2008 its subscription to Comperio (a comprehensive, web-based accounting database) provided by PricewaterhouseCoopers (ERCOT's independent audit firm), at a cost of approximately \$2,000.

Texas Regional Entity / ERCOT ISO Independence Discussion

The Committee discussed certain potential procedural issues and questions which could arise as a result of the Texas Regional Entity ("Texas RE") being a division of ERCOT. Mr. Byone noted that it was important to maintain total independence of the Texas RE while still ensuring protection of ERCOT, Inc. The Committee discussed potential issues relating to audits, authority, financial approvals, and escalations for conflicts between Texas RE and ERCOT ISO. Mr. Karnei directed Mr. Byone to work with ERCOT Legal and the Texas RE to consider developing a corporate services agreement between the two divisions to outline how audits, approvals, corporate assistance, and other issues would be handled.

Committee Briefs (Q&A only)

Committee members were provided written reports with information for the following areas:

1. Market Credit
2. Internal Control Management Program (ICMP)
3. Enterprise Risk Management (ERM)
4. Project Management Organization (PMO)

Mr. Byone reported that market credit project with the vendor Oliver Wyman was progressing well and that a workshop for the Committee members to be fully briefed and provide input into the project was planned. After some discussion, Mr. Karnei requested Mr. Byone to schedule the workshop for November 9 at 10 a.m.

In response to Michehl Gent's question about the Control Self-Assessment (CSA) chart, Mr. Byone explained that the individuals completed the CSA for their own conduct, so it was not uncommon for CSA results to be positive. He noted that the reason Internal Audit needed to follow up regarding CSA results was because the Internal Audit verifications occasionally revealed different results than those reported in a CSA.

Future Agenda Items

Steve Byone noted that in November, Sean Barry with PwC would present the 2007 SAS 70 audit status report and information about the 2007 financial statement audit planning. Other future agenda items include: standing Internal Audit status report(s); review of Credit Work Group matters; review/update on financial and investment standards; and Committee briefs. Mr. Byone and Mr. Petterson also informed the Committee that the terms of a contract for contingent workforce management were being discussed by staff with a potential vendor, and

that full details of a proposed contingent workforce management solution would be provided during the November meeting.

Adjournment

At 9:56 A.M. the Committee meeting was adjourned.

The next regular Committee meeting will be held on the morning of Tuesday, November 13, 2007.



Susan Vincent, Secretary