

MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:30 A.M.

March 21, 2007

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 8:30 A.M. on **March 21, 2007**. The Meeting was called to order by **Miguel Espinosa** who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Not Present
Miguel Espinosa, Acting 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) via telephone
Campbell, Cassandra	ERCOT
Day, Betty	ERCOT
Fournier, Marguerite	Competitive Assets
Maslon, Sharon	ERCOT
McElfresh, Brandon	ERCOT
Moon, John	John Moon Consulting
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Simpson, Lori	Constellation
Solari, Mike	ERCOT
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 8:30 AM, the Committee meeting was adjourned and the Committee went into Executive Session until approximately 9:06 AM, when the Committee returned to Open Session.

Approval of Previous Minutes

Nick Fehrenbach moved to approve the minutes for the previous meeting held on February 21, 2006, with the addition of William Wullenjohn as an attendee. Dan Wilkerson seconded the motion. The motion passed unanimously.

The Committee discussed the minutes from the Credit Workshop held on March 5, 2007. Mr. Gahn and other members discussed a portion of the Workshop that they didn't believe was adequately addressed in the draft minutes; so, the Committee members agreed to provide comments to ERCOT staff and approve minutes from the Workshop at the April Committee meeting.

Review Finance and Audit Committee Charter

Susan Vincent briefly reviewed and asked the Committee for their comments and concerns regarding the proposed modifications to the Finance & Audit Committee Charter which were included in the materials. The members extensively discussed the proposed changes, with particular emphasis on (a) the wording of the sections discussing credit risk and (b) the need to ensure that the charter does not incorporate specific goals that may be inconsistent with the Committee's overall responsibility. The Committee agreed that the Committee had oversight responsibility for the financial stability of the ERCOT market, but wanted time to further consider and discuss the amount of specificity that should be included in the Charter language. The Committee agreed to make additional redlined suggestions to ERCOT staff, discuss the Charter again at the April meeting, and vote to recommend proposed changes to the Charter to the Board by the May meeting.

Mr. Fehrenbach then noted that the Charter tasks the Committee with responsibility for resolving differences between ERCOT's management and the independent auditor and questioned whether the Committee has the authority to compel action by ERCOT management. Ms. Vincent noted that this charter requirement is consistent with the mandates of the Sarbanes-Oxley Act. Sean Barry noted that under both Sarbanes-Oxley and GAAP, the Committee would be considered responsible for such resolutions. Mr. Espinosa pointed out that ERCOT's Board of Directors must approve the Committee Charter, and that such approval would be a de facto grant of authority.

Review Credit Workgroup Charter

Cheryl Yager briefly highlighted the Committee's March 5th Credit Workshop. The Committee extensively discussed the issues raised in the workshop and further discussed the independent third party assessment of ERCOT's credit risk that the Committee had directed ERCOT staff to seek. Scott Gahn requested that ERCOT staff work with the Credit Workgroup to build scenarios for catastrophic credit events, so that the ramifications of such events could be analyzed. He emphasized he would like for the third party to specifically include a consideration of the extent to which market forces would mitigate the perceived credit risk. Ms. Yager agreed that staff would obtain input from the Credit Workgroup to assist staff in drafting additional scenarios to be addressed by the third party. The Committee determined that the members needed more time to make comments to and discuss the Credit Workgroup Charter and moved further discussion of the Charter to the April Committee meeting.

Update on Liquidity and Liability Management

Ms. Yager informed the Committee that ERCOT was monitoring interest rates and was preparing financing recommendations for consideration at the April Board meeting. She noted

that the dollar amount of the financing request would depend upon actual expenditures for nodal implementation by early April.

Financial Audit Update

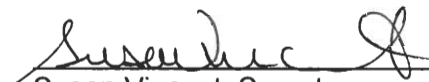
Mike Petterson informed the Committee that the financial audit field work commenced on March 5, 2007, and that PricewaterhouseCoopers ("PwC") staff had not found any significant unusual findings, thus far. However, Mr. Petterson noted that, while working through the year-end accruals and impaired hardware for 2006, they had found possible impaired software for 2006, the amount of which was still being investigated. He also informed the Committee that management had also identified a potential post-retirement healthcare benefit obligation that had not previously been recognized. Mr. Petterson explained that actuarial assessment of potential liability is underway and is expected to be completed by the end of March, so he would update the Committee in April. Mr. Petterson noted that if determined to be material, this obligation could impact finalization of the 2006 audit report, and possible accounting treatment included: (a) financial statement footnote disclosure only; (b) adjusting entries recorded in 2006; or (c) restatement of 2005 financial statements and adjusting entries recorded in 2006. Sean Barry confirmed Mr. Petterson's analysis and noted that the most significant impact would be felt if a restatement of 2005 were required. The Committee requested that it be kept apprised.

Preliminary 2008 Planning Assumptions

Mr. Petterson reviewed several preliminary 2008 planning assumptions with the Committee. He noted that certain developments since late-2006 represented potentially higher effort (and higher cost) within ERCOT, including potentially higher operations and maintenance costs post Nodal go-live, which could translate into upward pressure on the System Administration Fee. The items to consider include (a) staffing adjustments due to transition to a Nodal market and the hiring of a new CEO; (b) facilities considerations, such as possible Austin office/control center issues (including security, reconfiguration and possible relocation) and potential expansion or reconfiguration of Taylor office space; (c) Texas Regional Entity organization and responsibilities; and (d) Independent Market Monitor support. Mr. Gahn asked if this meant that there might be a need to increase the System Administration Fee, and Mr. Petterson confirmed that this could be a consideration, but full details would be developed and discussed over the next few months.

Adjournment

At 10 A.M., the meeting was adjourned. The next Committee meeting will be held on the morning of Wed. April 18, 2007.



Susan Vincent, Secretary