

MINUTES OF THE OPEN SESSION
OF THE ERCOT ISO FINANCE & AUDIT COMMITTEE MEETING
Hilton – Austin Airport

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 **December 11, 2007**. The Meeting was called to order by Clifton Karnei, who ascertained that a quorum was present.

Meeting Attendance

Committee members:

| | | | |
|-----------------------------|-----------------------------|-------------------------------|--|
| | Brazos Electric Cooperative | Cooperative | Present |
| Miguel Espinosa, Vice Chair | Unaffiliated Board Member | Unaffiliated Board Member | Not Present; however, Mr. Gent voted as his proxy. |
| Nick Fehrenbach | City of Dallas | Consumer | Present |
| R. Scott Gahn | Just Energy | Ind. Retail Electric Provider | Not Present |
| Michehl Gent | Unaffiliated Board Member | Unaffiliated Board Member | Present |
| Tom Standish | Centerpoint Energy | Investor-Owned Utility | Not Present |
| William Taylor | Calpine Corporation | Independent Generator | Not Present |
| Dan Wilkerson | Bryan Texas Utilities | Municipal | Present |
| Robert Thomas | Green Mountain Energy | Ind. Retail Electric Provider | Present for Scott Gahn |
| Bob Helton | International Power America | Independent Generator | Present for William Taylor |

Other Board Members and Segment Alternates:

| | | | |
|---------------|------------|-----------|---------|
| Steve Bartley | CPS Energy | Municipal | Present |
|---------------|------------|-----------|---------|

ERCOT staff and guests present:

| | |
|---------------------|--------------------------|
| Barry, Sean | PricewaterhouseCoopers |
| Brenton, Jim | ERCOT |
| Byone, Steve | ERCOT |
| Campbell, Cassandra | ERCOT |
| Davies, Morgan | Chair, Credit Work Group |
| Day, Betty | ERCOT |
| Delenela, Ann | ERCOT |
| Doolin, Estrellita | ERCOT |
| Gallo, Andrew | ERCOT |
| Grable, Mike | ERCOT |
| Kahn, Bob | ERCOT |
| Moseley, Cheryl | ERCOT |
| Petterson, Mike | ERCOT |
| Rocap, Nisha | PricewaterhouseCoopers |
| Troxtehl, David | ERCOT |
| Wullenjohn, Bill | ERCOT |
| Yager, Cheryl | ERCOT |

Executive Session

At 8:30 a.m., the Committee went into Executive Session until 9:17 a.m., when the Committee returned to Open Session.

Approval of Previous Minutes

Nick Fehrenbach moved to approve the minutes for the Finance & Audit Committee meetings held on November 9, 2007 and November 13, 2007; Dan Wilkerson seconded the motion. The motion passed unanimously.

Designation of Committee Secretary

Clifton Karnei recognized Susan Vincent for her outstanding service as Committee Secretary and acknowledged Ms. Vincent's decision to transition from the ERCOT ISO Division to the ERCOT TRE Division. Pursuant to the Committee Charter and based upon ERCOT staff recommendation to name an ERCOT ISO Division attorney as secretary, **Michehl Gent moved to name Estrellita Doolin as Committee Secretary; Dan Wilkerson seconded the motion. The motion passed unanimously.**

2008 Audit Committee Meeting Planner

Steve Byone reviewed the 2008 meeting planner including items for each quarter of 2008 as well as recurring items. Mr. Karnei requested that the annual review of the Committee Charter be moved to the third quarter instead of the first quarter since the Charter had been revised recently. In connection with Mr. Gent's question regarding frequency of review for Director & Officer insurance coverage, Mr. Karnei commented that the Committee should review all ERCOT insurance coverage and instructed staff to add an agenda item for an upcoming F&A Committee meeting to inform the Committee of existing requirements for the Board or Committees to review insurance coverage.

2007 SAS 70 Audit Report

Sean Barry and Nisha Rocap of PricewaterhouseCoopers (PwC) presented a summary of the 2007 SAS 70 audit process and final report. Mr. Barry congratulated ERCOT staff on receiving an unqualified SAS 70 audit – the first time that ERCOT has passed the audit with no exceptions. He also cautioned management of the challenge of sustaining the unqualified status. In response to questions, Mr. Barry noted that to his knowledge no previous qualified ERCOT SAS 70 audit had resulted in qualifications for any Market Participant audit since the basis of previous ERCOT qualifications were not material to Market Participant audits. He confirmed that if the previous qualifications had been based on exceptions to objectives in the market settlement process—controls over which are and have been strong—the qualification would have been more likely to be material to Market Participant audits. Mr. Barry informed the Committee that PwC had completed SAS 70 audits for PJM, Cal ISO, and SPP. Mr. Barry confirmed that pre-work completed by the Internal Audit team contributed to the success of the audit.

Credit Work Group (CWG) Report & Semi-Annual Credit Update

Morgan Davies reviewed for the Committee CWG activities completed during the past six months and CWG activities planned for the next six months. He noted that CWG had (1) been involved with Credit Review Project led by vendor Oliver Wyman, (2) researched risk mitigation measures, (3) updated Creditworthiness Standards, (4) updated CWG Charter, and (5) reviewed PRRs and NPRRs for credit implications. Future activities include continued involvement with the Credit Review Project and election of Chair and Vice Chair.

Mr. Davies noted that he did not anticipate running for the Chairman position next year. Mr. Karnei expressed the Committee's appreciation for Mr. Davies' leadership of the CWG for the

past several years. Ms. Yager added that ERCOT Credit staff also appreciated Mr. Davies' leadership during his term.

The Committee instructed staff to schedule a Special Meeting of the Committee so that Oliver Wyman could make a presentation of the final report prior to presenting to the full Board. The tentative date, time and location selected are February 6, 2007 from 1-3 p.m. at the ERCOT office in Austin.

Mr. Karnei requested that staff provide an update on the efforts undertaken to review and update the current domestic and foreign guarantee forms. He specifically asked that outside counsel engaged to review the documents provide written explanation of all proposed substantive changes.

Finance & Audit Committee Self-Assessment

Mr. Karnei summarized the results of the annual self-assessment questionnaire that had been completed in November and facilitated a discussion of the responses. He noted that members are generally pleased with the functioning of the Committee and that the biggest areas for improvement include ongoing education and training for Committee members and making better use of peer information when benchmarking ERCOT.

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)

Michehl Gent requested an explanation for the elevated risk level for "Administration, Settlement & Billing" included in the ERM report. Mr. Byone explained that technology issues were delaying some settlement processes and that the root cause analysis of the problem was ongoing.

Mr. Byone informed the Committee that he anticipated ERCOT would end the year with a surplus of revenues over revenue requirements. In response to a question from Mr. Wilkerson, Mr. Byone indicated that a large driver of the favorable expense variance was due to staff work and support on the Nodal program and the related cost allocations.

Future Agenda Items

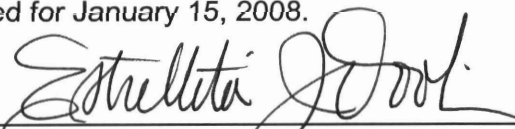
Steve Byone noted the following future agenda items:

1. Standing Internal Audit status report(s)
2. Election of Committee Chair and Vice-Chair
3. Review of preliminary 2007 year-end financial results
4. Review of proposed Texas RE service agreement
5. Update on Met Center disposition
6. Committee Briefs

Adjournment

At 10:16 a.m., the Committee meeting was adjourned.

The next regular Committee meeting is scheduled for January 15, 2008.



Estrellita J. Doolin, Secretary