

**ERCOT ISO FINANCE & AUDIT COMMITTEE MEETING
GENERAL SESSION MINUTES
Met Center – Austin, Texas**

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. convened on **January 15, 2008**. **Clifton Karnei** confirmed that a quorum was present and called the meeting to order at **8:00 a.m.** Mr. Karnei then welcomed Brad Cox to the Committee.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present
Miguel Espinosa, Vice Chair	Unaffiliated Board Member	Unaffiliated Board Member	Present
Brad Cox	Tenaska Power Services	Independent Power Marketer	Present
Nick Fehrenbach	City of Dallas	Consumer	Present
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member	Present
Charles Jenkins	Oncor Electric Delivery	Investor Owned Utility	Not Present
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Mark Walker	NRG Texas	Independent Generator	Present
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ERCOT staff and guests present:

Alexander, Sheila	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Coffing, Timothy	Luminant Energy
Doolin, Estrellita	ERCOT
Fleming, Kevin	Oxford Commercial
Grable, Mike	ERCOT
Grendel, Steve	ERCOT
Kahn, Bob	ERCOT
List, Amanda	Strategic Energy
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Troxtehl, David	ERCOT
Vincent, Susan	Texas Regional Entity
Wullenjohn, Bill	ERCOT
Yager, Cheryl	ERCOT

Approval of Previous Minutes

Dan Wilkerson moved to approve the minutes for the Open Session of the Finance & Audit Committee meeting held on December 11, 2007 as amended to reflect that Michehl Gent voted for himself and as Miguel Espinosa's proxy; Robert Thomas seconded the motion. The motion passed unanimously.

Election of Committee Chair and Vice-Chair

Steve Byone explained that the Committee Charter requires the selection of a Committee Chair by majority vote of Committee members. After brief discussion, **Michehl Gent moved to select Clifton Karnei as Chair and Miguel Espinosa as Vice-Chair; Brad Cox seconded the motion. The motion passed unanimously.**

Approval of Credit Work Group Chair and Vice-Chair

Cheryl Yager introduced to the Committee Amanda List of Strategic Energy and Tim Coffing of Luminant Energy then informed the Committee that the Credit Work Group (CWG) had voted in the previous week to name Ms. List as Chair and Mr. Coffing as Vice-Chair. **Miguel Espinosa moved to approve Amanda List as Chair and Tim Coffing as Vice-Chair; Dan Wilkerson seconded the motion. The motion passed unanimously.**

Review of Preliminary 2007 Year-End Financial Results

Mike Petterson reported that ERCOT expects to finish 2007 with a favorable financial variance due to lower-than-budgeted operating expenses (labor, consultants, facilities) and lower-than-budgeted interest expense (allocations to the Nodal Program, FAS 71 transactions, pace of project spending, temporary use of TCR receipts, and interest rates). Steve Byone added that he expected to see deterioration in the favorable variance in the coming weeks and that an update would be provided in February after staff gets closer to finalizing the year's activity. Mr. Byone indicated staff planned to recommend that the Board authorize use of any surplus revenue to reduce debt.

Review of Quarterly Investment Results

Cheryl Yager referred to the Summary of Investment Results (for the fourth quarter 2007) and noted that funds were performing at acceptable levels. She confirmed that fund performance was monitored weekly then answered specific questions from Committee members about the report and ERCOT practices related to investing.

Briefing on Nodal Budget Impacts

Cheryl Yager presented two options (intended to outline the "book-ends" staff considered) to finance the additional costs contemplated in the revised Nodal Project budget and noted that staff recommended the option presented as "Alternative #1". Staff noted they were only seeking a recommendation from the Committee regarding the method of financing the additional costs with the understanding that the full Board would determine whether to approve the requested budget increase. Ms. Yager, Mike Petterson and Steve Byone answered several questions related to (1) potential uses of favorable financial variance, (2) consideration of a third financing option offered by Nick Fehrenbach, and (3) ERCOT practice regarding the determination of useful lives for assets. After a lengthy discussion, **Miguel Espinosa moved to approve a recommendation of Alternative #1 which allows ERCOT to seek an increase in the Nodal surcharge from \$0.127 per MWh to \$0.169 per MWh effective June 1, 2008 (or as soon as practicable) and allow the revised rate to remain in effect until all Nodal Program costs are recovered (projected to be the end of 2012); Dan Wilkerson seconded the motion. The motion passed with six supporting votes (Messrs. Cox, Espinosa, Gent, Karnei, Thomas and Wilkerson) and one opposing vote (Mr. Fehrenbach).**

Update on Proposed Texas RE Service Agreement

Mike Petterson reported that ERCOT personnel (Steve Byone and Mike Petterson) and Texas RE personnel (Larry Grimm and Susan Vincent) were developing a memorandum of understanding to document how the two groups will interact. He noted that the relationship between ERCOT and Texas RE is complex and hoped to have a MOU draft for the Committee to review in February. In response to a question from Robert Thomas, Susan Vincent

responded that the final MOU would likely be used as a supporting document in the budget development process and would be submitted to NERC with the Texas RE budget filing.

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)

Cheryl Yager explained that data in the "Total Unsec Credit Limit/ Security Posted" columns in the ERCOT Market Credit Status report provides information about Market Participants, not ERCOT.

David Troxtell informed the Committee that an update on PR-60055 Enterprise Service Management including a request for a budget change would be provided during the Executive Session of the Board meeting.

Future Agenda Items & Meetings

Steve Byone noted the following future agenda items:

1. Standing Internal Audit status report(s)
2. Preview of Oliver Wyman report
3. Update on 2007 year-end financial results
4. Update on status of Nodal filing
5. Update on 2009 budget schedule
6. Review of external auditor guidelines for engagement and external auditor independence
7. Committee briefs

The next meetings of the Committee are scheduled for **February 6, 2008** (special) and **February 19, 2008** (regular).

Recess to Executive Session

The Committee met in Executive Session from 8:55 a.m. to 9:56 a.m.

Adjournment

At 9:56 a.m., Clifton Karnei adjourned the Committee meeting.



Estrellita J. Doolin, Secretary