

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

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. convened on **February 6, 2008**. **Clifton Karnei** confirmed that a quorum was present and called the meeting to order at approximately **1:00 p.m.**

Special Meeting Attendance

Committee members:

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

Other Board Members and Segment Alternates:

Armentrout, Mark	Unaffiliated Board Member	Unaffiliated Board Member	Present (via phone)
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Alexander, Sheila	ERCOT
Byone, Steve	ERCOT
Coffing, Timothy	Luminant (Vice Chair of CWG)
Davies, Morgan	Calpine (Past Chairman of CWG)
Denton, Michael	Oliver Wyman (via phone)
Doolin, Estrellita	ERCOT
Frederick, Neal	PUCT
Gable, Mike	ERCOT
Kahn, Bob	ERCOT
Kopech, Bob	Oliver Wyman
Lester, Suzanne	ERCOT
List, Amanda	Strategic Energy (Chairman of CWG)
Yager, Cheryl	ERCOT

Steve Byone explained that the purpose of the Special Meeting was to provide the Committee a thorough review of the information prepared for presentation to the full Board and to obtain feedback on the materials and future steps. Cheryl Yager summarized the objectives of the credit evaluation project then introduced Bob Kopech and Michael Denton of OLIVER WYMAN to lead the discussion.

Mr. Kopech and Mr. Denton reported results for the three “workblocks” of the credit evaluation project: (1) Credit Practice Review, (2) Credit Scoring Model, and (3) Credit Loss Model.

Committee members, ERCOT staff and public participants asked several questions to which Mr. Kopech and Mr. Denton responded. A summary of the points presented and discussed follows.

Credit Practice Review

ERCOT's credit worthiness monitoring/reporting and workout/management practices were found to be very solid; however, in the following areas ERCOT fell short of "best practices":

1. Risk appetite
2. Credit scoring
3. Exposure measurement and monitoring
4. Loss reserve and capital

Credit Scoring Model

The credit scoring model blends quantitative factors (e.g. total assets, EBITDA/assets, etc.), qualitative factors (e.g. policies and procedures, management experience, etc.) and potential adjustments (e.g. warning signals, guarantor considerations) to arrive at a probability of default and risk rating. Credit scoring results are used as inputs for credit loss modeling.

Credit Loss Model

The model is designed to answer the following questions:

1. What level of credit losses is "normal"?
2. What is the greatest loss we can expect?
3. How can these numbers be reduced?
4. Do market rule changes impact the expected losses?

Next Steps

Near-term next steps for ERCOT in exploring/managing potential credit losses:


1. Presentation of results to ERCOT Board of Directors on February 19, 2008
2. Examine any specific potential loss scenarios suggested by the F&A Committee and the Board
3. Continue testing the credit loss models (Zonal and Nodal) to develop a more complete understanding of the interaction of these key parameters
4. Conceptualize the means by which ERCOT's current credit controls could fail to provide the necessary collateral to maintain this level of credit loss protection
5. Pursue policy decision on level of acceptable credit exposure

Medium and longer-term steps for ERCOT in exploring/managing potential credit losses:

1. Continue collecting Nodal price data to parameterize the Nodal credit loss model and assessing potential participant behavior in those markets
2. Use credit loss distribution results to foster discussion regarding risk appetite and a more consistent framework for considering loss reserves
3. Development of a formal risk appetite statement
4. Ensure credit policies and procedures are consistent with risk appetite and tolerance

Adjournment

Clifton Karnei adjourned the meeting at 3:15 p.m.



Estrellita J. Doolin, Secretary