

**DRAFT MINUTES OF THE FINANCE & AUDIT COMMITTEE
OF THE TEXAS REGIONAL ENTITY DIVISION OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

Room 168, 7620 Metro Center Drive, Austin Texas 78744

May 20, 2008

Committee Members

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| Clifton Karnei, Chair | Brazos Electric Coop | Cooperatives |
| Miguel Espinosa, Vice Chair | Unaffiliated Board Member | Unaffiliated |
| Brad Cox | Tenaska Power Services | Independent Power Marketer |
| Andrew Dalton | Valero | Industrial Consumer |
| Nick Fehrenbach | City of Dallas | Large Commercial Consumer |
| Michehl R. Gent | Unaffiliated Board Member | Unaffiliated |
| Charles W. Jenkins, III | Oncor Electric Delivery Company | Investor Owned Utility |
| Robert Thomas | Green Mountain Energy | Ind. Retail Electric Provider |
| Dan Wilkerson | Bryan Texas Utilities | Municipal |

Commissioners, Other Board Members and Segment Alternates

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| Bob Helton | International Power America | Independent Generator |
| Mark Walker | NRG Texas | Independent Generator |

Other Attendees

Larry Grimm, Texas Regional Entity Chief Compliance Officer
Susan Vincent, Texas Regional Entity Director, Legal Affairs
Todd Brewer, Texas Regional Entity Senior Financial Analyst
Ryan Clay, Texas Regional Entity Senior Paralegal
Steve Byone, ERCOT VP and CFO
Mike Petterson, ERCOT Comptroller
Steve Grendel, ERCOT Director, Facilities
Sean Barry, PriceWaterhouseCoopers (via conference call)
Ryan Bassett, PriceWaterhouseCoopers (via conference call)
Ananda List, Schweitzer Engineering Labs, Inc.

Call to Order

Pursuant to notice duly given, the meeting of the Texas Regional Entity Division of Electric Reliability Council of Texas, Inc. (Texas RE) Finance & Audit Committee ("Committee") convened at **7:30 a.m.** on **May 20, 2008**. Chairman Karnei called the meeting to order and ascertained that a quorum was present.

Approval of Previous Minutes

Nick Fehrenbach moved for approval of the minutes of the April 15, 2008 Committee meeting; Miguel Espinosa seconded the motion. The motion passed by unanimous voice vote.

Review of 2009 Texas RE Business Plan & Budget

Clifton Karnei reported that the Committee had a special Committee meeting on the afternoon of Monday May 19, 2008, to review the proposed 2009 Texas RE Business Plan & Budget (BP&B) for the second time and allow stakeholder input.

Larry Grimm, Texas RE Chief Compliance Officer, reviewed with the Committee the changes made to the 2009 BP&B based upon the comments made during the May 19th special Committee meeting.

Mr. Fehrenbach asked Mr. Grimm to explain the basis for the projected increase in 2009 travel expenses. Mr. Grimm stated that the three primary factors were (1) the cost of travel was expected to increase by approximately 10% in 2009, (2) Texas RE staff expected to be required to attend more meetings with the other Regions' and NERC staff and at the Federal Energy Regulatory Commission (FERC) during 2009, and (3) the Regional Managers expected to have increased meetings in 2009.

Mr. Fehrenbach asked Mr. Grimm for the driving factors of the increased 2009 IT costs. Mr. Grimm explained that maintenance for the IT Portal and the document management system were the primary factors for this increase. Mr. Fehrenbach said that it might be useful if the Administration personnel section was broken-out into separate FTE categories as opposed to one single category (noting that he understood that the salaries would be maintained in an aggregated manner to help protect confidentiality). Mr. Grimm stated that he agreed with the Committee that this would be more comprehensive and said he would review the BP&B to determine what changes could be made and still be consistent with NERC's direction. Dan Wilkerson said the Administration section surprised him, because it comprised of 5% of the total Texas RE budget. Mr. Grimm explained that the proportion of administrative staff compared to total staff is larger than some organizations because (1) the administrative category required by NERC was fairly broad and included IT, Finance & Legal, and (2) the Texas RE workforce was a relatively small size.

PricewaterhouseCoopers Agreed Upon Procedures

Chairman Karnei had a discussion with the Committee about the PricewaterhouseCoopers (PwC) Agreed Upon Procedures (AUP) Report. PwC performed the AUP review of Texas RE's 2007 financials filed with NERC and ultimately filed with FERC for the April 1, 2008 compliance filing. The report found no material differences in the reporting made to NERC and the AUP review conducted. Sean Barry and Ryan Bassett of PwC joined the Committee via conference call to discuss the AUP review and answer questions by the Committee. Todd Brewer, Texas RE Senior Financial Analyst, provided the Committee with an analysis of the procedures reviewed. Mr. Grimm and Mr. Brewer confirmed that NERC agreed to accept an AUP review of Texas RE for 2007, instead of completing a full financial statement audit required by the Delegation Agreement. Mr. Grimm noted, however, that Texas RE would have a full financial statement audit for 2008. In response to a question by Michehl Gent, the PwC auditors stated that they were not aware of whether or not any of the other regional entities had PwC perform a procedures review.

Miguel Espinosa moved for approval of the Texas Regional Entity Agreed Upon Procedures related to the 2007 Treasurer's Report dated December 31, 2007; Dan Wilkerson seconded the motion. The motion passed by unanimous voice vote.

Memorandum of Understanding

Susan Vincent provided an overview of the Memorandum of Understanding (MOU) between Texas RE and ERCOT, explaining that ERCOT will perform certain administrative services (IT, finance, facilities, security, human resources, etc.) for Texas RE and Texas RE will reimburse ERCOT at an agreed fair rate for the services provided. Brad Cox asked if the MOU was to be approved by NERC or FERC in addition to the Texas RE Board of Directors. Ms. Vincent informed the Committee that the MOU would be an attachment to the 2009 Texas RE Business Plan & Budget submitted to NERC; so, NERC will have an opportunity to provide comments and feedback on the MOU in the coming weeks and FERC will have an opportunity to review the MOU during the Texas RE 2009 Business Plan & Budget approval process. In response to a question by Mr. Espinosa regarding the amount of compensation paid to ERCOT by Texas RE for the Board of Directors cost, Ms. Vincent explained that Texas RE pays for ¼ of the Board annual retainer and expenses and for all Board and Committee meeting costs attributable to Texas RE meetings (splitting the meeting costs with ERCOT if Board or Committee meetings are held on the same day).

In response to a question by Brad Cox regarding the elements of the Risk Management expense, Mr. Brewer explained that the Risk Management expense was a portion of the ERCOT Risk Management staff time dedicated to supporting Texas RE, either directly or indirectly.

Steve Byone, ERCOT VP and CFO, agreed that the numerical values of the MOU were acceptable to ERCOT. Mr. Cox said he would like for NERC to review the MOU before the Committee and Board voted on the matter. Also, Ms. Vincent informed the Committee there would not be last minute material changes to the MOU from ERCOT Legal. After a brief discussion, Chairman Karnei asked Ms. Vincent to revise the voting template to read "Larry Grimm is authorized to sign this Memorandum of Understanding (with no material changes) with Electric Reliability Council of Texas, Inc. and to include a copy of the Memorandum of Understanding in its filing(s) with North American Electric Reliability Corporation and Federal Energy Regulatory Commission." This way, unless material changes to the MOU were required, ERCOT and Texas RE could sign the MOU and Texas RE could include the document in its budget filing with FERC.

Charles Jenkins noted the perceived inconsistency between the MOU and Texas RE's plans to move out of the Met Center. Chairman Karnei asked if Texas RE were to move out of the Met center in October 2008 would the MOU have to be revised. Ms. Vincent confirmed that the MOU would need to be revised if Texas RE moved from Met Center, beginning on the date of such move, but she noted that Texas RE needed to have documentation of the costs paid to ERCOT from January 1, 2008 until any such move.

Miguel Espinosa moved for approval of the Memorandum of Understanding between Texas Regional Entity and the Electric Reliability Council of Texas, Inc. with the agreed upon revision stating "Larry Grimm is authorized to sign this Memorandum of Understanding (with no material changes) with Electric Reliability Council of Texas, Inc. and to include a copy of the Memorandum of Understanding in its filing(s) with North

American Electric Reliability Corporation and Federal Energy Regulatory Commission;” Robert Thomas seconded the motion. The motion passed by unanimous voice vote.

Future Agenda Items

The Committee had a brief discussion about future agenda items. The Committee discussed whether it should meet to discuss and accept the quarterly compliance filings (which Mr. Brewer indicated were sent to NERC on a quarterly basis as a routine standardized statement of activity). The Committee determined that it would like to receive these quarterly filings, but it did not need to approve or discuss these unless Texas RE has something unusual or noteworthy to discuss, and Chairman Karnei announced the Committee would not need a September meeting to discuss the 3rd Quarter compliance filling.

The Committee adjourned to Executive Session at 8:08 a.m. and re-convened to Open Session at 8:16 a.m., noting that the Committee had no votes from items discussed in Executive Session.

Adjournment

At 8:16 a.m. Chairman Karnei adjourned the Committee meeting.

The next regular Finance and Audit Committee meeting will be held on the morning of Tuesday, June 17, 2008.

Susan Vincent, Secretary