

ERCOT ISO FINANCE & AUDIT COMMITTEE
General Session 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 **June 17, 2008**. **Miguel Espinosa** confirmed that a quorum was present and called the meeting to order at approximately **8:00 a.m.** The Committee met in Executive Session from **8:00 a.m.** to **8:55 a.m.**

General Session Attendance

Committee members:

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

Other Board Members and Segment Alternates:

Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility	Present
Patton, A.D.	Unaffiliated Board Member	Unaffiliated Board Member	Present
Ryall, Jean	Constellation Energy Commodities Group	Independent Power Marketer	Present
Smitherman, Barry	PUCT	PUCT Chairman	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Anderson, Troy	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Doggett, Trip	ERCOT
Doolin, Estrellita	ERCOT
Greer, Clayton	J. Aron & Company
Gross, Blake	AEP
Lester, Suzanne	ERCOT
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Stauffer, Tarra	ERCOT
Troxtehl, David	ERCOT
Wullenjohn, Bill	ERCOT
Yager, Cheryl	ERCOT

Previous Minutes

Michehl Gent moved to approve the minutes for the General Session of the Finance & Audit Committee meeting held May 20, 2008; Nick Fehrenbach seconded to motion. The motion passed unanimously.

2007 Budget Variance

Michael Petterson presented information related to the favorable revenue requirement variance from 2007 including the following options for its use: 1) Fund 2008 expenditures incurred in connection with the Met Center relocation initiative; 2) Reduce long-term debt or reduce debt-funding of 2008 projects; 3) Increase 2008 project funding; 4) Issue a refund to QSEs; and 5) Temporarily reduce the ERCOT System Administration Fee. Steve Byone described an additional option suggested to him by Board Member Don Ballard. Mr. Ballard had suggested that the funds be used to help retail customers who had recently been transitioned to POLRs. After extension discussion about the options, **Dan Wilkerson moved to recommend that the Board direct ERCOT staff to apply any favorable budget variances from the 2007 budget year to fund up to forty percent of spending on the Met Center replacement initiative (approved by the ERCOT Board of Directors in February 2008) and employ remaining favorable 2007 financial variance if any to reduce debt-funding of other 2008 projects; Michehl Gent seconded the motion. The motion passed unanimously.**

Procedures for Handling Financial Reporting Violations

Mr. Petterson updated the Committee on the procedures in place to handle employee concerns relating to financial reporting. He explained that employees may report their concerns to any Manager or Director; representatives of the Human Resources, Legal and Internal Audit Departments; PUCT staff; and ERCOT Board Members. He added that employees receive training to ensure they are aware of the options annually during the ethics reaffirmation process.

Credit Update

Cheryl Yager provided an update on recent credit issues. She noted that there had been four instances of mass transitions in the market in May and June and that the range of potential losses was expected to be between 4.5 and 6 million dollars. She confirmed that each of the four defaults resulted from a Rep failing to make a margin call versus failing to pay invoices. She also confirmed that margin calls were not required for Reps that did not rely on the balancing market.

Liquidity Management and Debt Capacity

Ms. Yager provided information regarding ERCOT's liquidity and the current market environment for debt issuance. She noted that ERCOT expects to be within the liquidity parameters set forth in the Financial Standard through the third quarter of 2008. She added that staff would likely recommend in August increasing debt capacity to cover known and anticipated Nodal costs as well as budgeted capital expenditures. Barry Smitherman requested an update on efforts related to converting the company from 501(c)(4) status to 501(c)(3) status. Mr. Byone responded that the process would be lengthy and not likely completed before a decision regarding financing to increase liquidity would be made. Mr. Smitherman suggested that any new financing proposal include a review of the feasibility for early pay-off provisions to allow for replacement by tax-free debt should ERCOT attain 501(c)(3) status.

Financial Institutions That Are Also Market Participants

Ms. Yager informed the Committee of efforts by financial institutions that are also market participants to prevent conflicts of interest. Such efforts include entering into confidentiality agreements and maintaining internal "firewalls."

Investments

Ms. Yager provided an update on discussions with the Credit Work Group (CWG) about using a Prime fund rather than a Government fund for security deposits. The CWG did not state a preference and the decision was made to continue to maintain security deposits in a Government fund at this time. She noted that the Government fund currently used had previously fallen below benchmark rates, but was now performing at an acceptable level. Ms. Yager said that staff would continue to monitor the fund's performance and provide updates to the Committee.

Delegation of Authority

Mr. Petterson briefed the Committee on the signature authority granted to employees pursuant to the Delegation of Authority Corporate Standard. He highlighted several key provisions and recent revision to the document including the addition of the Chief Operating Officer position.

Financial Statement Audit Wrap-Up

Mr. Petterson reviewed issues noted in the management letter from PricewaterhouseCoopers (PwC) because Sean Barry was unable to participate in the meeting as planned. In the letter, PwC formalized previously noted items from the audit including one significant deficiency and one control deficiency identified during the audit of financial statements for the year ended December 31, 2007. Committee members requested its July meeting agenda include an opportunity for Mr. Barry to review the PwC findings.

Committee Briefs

Staff provided written reports with information for the following areas:

1. Market Credit Status
2. Internal Control Management Program (ICMP)
3. Enterprise Risk Management (ERM)
4. Project Management Organization (PMO)

Mr. Byone highlighted several changes to the Risk Inventory "Stoplight" Report that had occurred during the previous month including changes for the following categories: Reputation (elevated risk level), Nodal Implementation Project (elevated risk level), Counterparty Credit (elevated risk level), and Bulk System Resources (reduced risk level).

Mr. Smitherman asked about the process to consider risk related to a combination of events. Mr. Byone responded that the Executive Committee—made up of company officers—comprised the Risk Committee that made determinations regarding risks that affect the organization.

Future Agenda Items

Mr. Byone noted the following future agenda items:

1. SAS 70 update
2. Debt level update
3. PwC Management Letter review by Sean Barry
4. Consideration of convening ISO F&A Committee meetings and TRE F&A Committee meetings on separate days
5. Contingent Workforce Management Program update
6. Quarterly review of investment results
7. Report by Credit Work Group Chair on ERCOT credit policy
8. Committee briefs

Adjournment

Miguel Espinosa adjourned the meeting at approximately 9:56 a.m.



Estrellita J. Doolin, Secretary