

**MINUTES OF THE FINANCE & AUDIT COMMITTEE OF
TEXAS REGIONAL ENTITY, A DIVISION OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
TCC 1 Room 214, 2705 West Lake Drive, Taylor, Texas**

April 15, 2008 at 9:33 a.m.

Meeting Attendance

Committee members:

Miguel Espinosa ¹ , Acting Chair	Unaffiliated Board Member	Unaffiliated Board Member
Brad Cox	Tenaska	Independent Power Marketer
Nick Fehrenbach	City of Dallas	Commercial Consumer
Robert Thomas	Green Mountain Energy	Independent Retail Electric Provider
Dan Wilkerson	Bryan Texas Utilities	Municipal

Other Attendees:

Larry Grimm, Texas Regional Entity Chief Compliance Officer
Susan Vincent, Texas Regional Entity Director, Legal Affairs
Ryan Clay, Texas Regional Entity Senior Paralegal
Todd Brewer, Texas Regional Entity Senior Financial Analyst
Steve Byone, ERCOT VP and CFO
Michael Petterson, ERCOT Comptroller
William Wullenjohn, ERCOT

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 9:33 a.m. on **April 15, 2008**. Acting Chairman Espinosa called the meeting to order and ascertained that a quorum was present.

Approval of Previous Minutes

Dan Wilkerson moved for approval of the minutes of the June 19, 2007 Committee meeting; Robert Thomas seconded the motion. The motion passed by voice vote with one abstention by Brad Cox.

2009 Texas RE Preliminary Budget Overview

Larry Grimm noted that it has been one year since the Federal Energy Regulatory Commission (FERC) issued its Order approving the Texas RE's Delegation Agreement with North American Electric Reliability Corporation (NERC). Mr. Grimm stated that Texas RE has started its second full year of operation and outlined some of Texas RE's accomplishments:

¹ Mr. Michehl Gent designated Mr. Miguel Espinosa as his Alternative Representative for representation in this meeting.

- Texas RE has expanded its staff and filled many positions including Director of Legal Affairs, Director of Compliance, and Sr. Financial Analyst.
- Texas RE staff have developed good working relationships with counterparts at all levels of the other Regional Entities, NERC, and the PUCT.
- Texas RE staff members are continuing to build relationships at FERC, and Larry Grimm and Susan Vincent have a meeting scheduled with Susan Court, Director of Enforcement, and Joe McClelland, Director of Electric Reliability, at FERC for later this month.
- Texas RE has successfully registered nearly 200 entities that will be responsible for complying with NERC Reliability Standards.
- Texas RE successfully implemented the mandatory compliance program last June.
- Texas RE recently received FERC's approval of the amended Delegation Agreement with only a few minor changes and clarifications directed by FERC.
- Texas RE has developed a budget for 2009 that will meet the Board's, PUCT's, NERC's, and FERC's expectations.

Mr. Grimm thanked the Committee for its support and noted that he understood the importance of being responsive to and meeting the expectations of not only the regulatory agencies but also the registered entities and market participants in the ERCOT region. Mr. Grimm highlighted Texas RE's four key goals during the development of the 2009 Texas RE Budget:

- Continue to meet all of the NERC Delegation Agreement requirements;
- Continue to monitor and report Protocol compliance and non-compliance;
- Ensure Texas RE continues to improve its processes by utilizing technology to enhance its operations; and
- Guarantee Texas RE has appropriate cash on hand.

Mr. Grimm overviewed the key areas in the 2009 Texas RE preliminary Budget and informed the Committee that he hoped to see the Board of Directors approve the 2009 Budget by June 17, 2008, allowing Texas RE to timely submit the approved budget to NERC.

In response to a question by Mr. Espinosa about what the Board of Directors should expect to hear from the NERC CFO at the afternoon Board meeting, Mr. Grimm informed the Committee that Bruce Walenczyk would provide a high level overview of NERC activities and budget drivers and had given a copy of his presentation to Texas RE staff after the packets were mailed to the Committee. Mr. Grimm informed the Committee that the presentation was now available on the webpage, and he shared printouts of the presentation with the Committee members.

In response to Mr. Espinosa's request that Mr. Grimm describe the improvements in technology that were discussed in the Budget, Mr. Grimm informed the Committee that the two major areas of technological improvement were (1) a separate Texas RE website and (2) a compliance data management portal and system that would efficiently allow registered entities to submit information and data to Texas RE, and allow Texas RE to compile and share information and data with NERC.

Mr. Espinosa asked Mr. Grimm if Texas RE shared compliance violation information with the other seven regional entities. Mr. Grimm explained that, although Texas RE was permitted to share confidential information with other regional entities, the regional entities tended not to share registered entity-specific information. Mr. Grimm went on to explain that because a number of registered entities operated in more than one region, the regional entities were working toward improving the timing and process for auditing such cross-region registered entities.

As Mr. Grimm highlighted slide 13 of his presentation, which notes the budget surplus from 2007 and 2008, Mr. Espinosa asked if the budget surplus experienced in 2007 was expected to continue to “snowball” and Mr. Wilkerson asked if the \$2 Million surplus was cumulative. Mr. Grimm responded the surplus was unusually high for 2007, because the program start was delayed from January 2007 until June 2007 and it should even out in future years. Mr. Grimm confirmed the \$2 Million surplus shown was the cumulative surplus for 2007 and 2008 and would be applied to offset the fee assigned for 2009. Mr. Espinosa then asked what would happen if Texas RE ever ran into a deficit. Mr. Grimm explained Texas RE would carefully monitor its spending and, in such a circumstance, Texas RE would promptly notify NERC and prepare a filing with FERC. Mr. Grimm noted one of the purposes of the NERC-recommended cash reserves was to provide Texas RE time to get approval for any required additional funds.

Mr. Fehrenbach asked whether Mr. Grimm or the other Committee members thought the costs for non-statutory functions would increase in 2009, due to the Nodal implementation. Mr. Grimm stated that he anticipates Texas RE will have a Nodal Protocol learning curve, but he could not estimate any additional time that would be required for Protocol compliance activities until Protocol metrics were established, and this had not been completed.

Mr. Wilkerson acknowledged the fact that a one year trend to determine the needs of Texas RE for statutory activities was not sufficient to make a long-term prediction, and, since the Nodal Market was not yet implemented, the level of future non-statutory activities was also hard to estimate. Mr. Wilkerson said he believed audits will become very straight forward in the near future, but again did not know how to measure future needs. Mr. Grimm agreed with Mr. Wilkerson’s assessment and reminded the Committee that only half of FY 2007 saw mandatory Compliance assessment.

Mr. Grimm told the Committee that he submitted a conservative budget for 2009, while keeping in mind the needs of the PUCT, NERC, and FERC. Susan Vincent stated Texas RE could, if required, go back to NERC and FERC for a fee increase, but they would like to avoid this. Ms. Vincent noted that NERC had told the regional entities to bring them any required supplemental requests as soon as possible, and that one regional entity (WECC) had submitted a supplemental budget to NERC and FERC for 2008, which was approved.

Mr. Cox said it might be useful to compare the Texas RE budget with other Regional Entities; Mr. Grimm noted the NERC CFO’s presentation contained this information.

Future Agenda Items

Susan Vincent asked the Committee whether, since May 1, 2008 may be too early for a Special F&A Committee Meeting, the Committee would prefer to eliminate this planned meeting and change the scheduled May 21, 2008 open meeting to a Special F&A Committee Meeting to be held on the afternoon of May 19, 2008 (at 1:30 or 2:00). After brief discussion, the Committee members agreed to this modification to the budget schedule, subject to Ms. Vincent’s confirmation with Mr. Karnei.

Mr. Espinosa explained to the Committee that he was concerned about the office space situation for Texas RE, but would like to see a plan that would allow Texas RE to stay in the ERCOT Met Center building (though he knew it would be difficult). Steve Byone, ERCOT VP and CFO, stated that extreme compression would be required in order to accommodate everyone in the Met Center, including further cannibalization of conference rooms for employees, which would require many meetings be held offsite. Mr. Byone committed to develop a space proposal for consideration by Texas RE management and review by the Committee. Mr. Espinosa acknowledged Mr. Byone’s suggestion, and stated that he thought


holding meetings offsite could be an acceptable option and he would not mind seeing future meetings at other locations such as the Airport Hilton.

Mr. Wilkerson suggested instead of hiring an additional attorney, Texas RE should consider outsourcing some of its legal work, since he anticipated the legal work could reduce as the Texas RE processes matured. Ms. Vincent confirmed Texas RE only intended to hire the additional attorney if the required outside counsel fees economically justified the position.

Adjournment

At 10:03 a.m. Mr. Espinosa adjourned the Committee meeting.

The next regular Finance and Audit Committee meeting will be held on the morning of Tuesday, May 20, 2008.



Susan Vincent
Corporate Secretary