

**MINUTES OF THE FINANCE & AUDIT COMMITTEE OF
TEXAS REGIONAL ENTITY, A DIVISION OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**
Met Center Room 168, 7620 Metro Center Drive, Austin, Texas

May 19, 2008

Committee Members

Clifton Karnei	Brazos Electric Power Cooperative	Cooperative
Miguel Espinosa	Unaffiliated Board Member	Unaffiliated Board Member
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member
Brad Cox	Tenaska	Independent Power Marketer
Nick Fehrenbach	City of Dallas	Commercial Consumer
Charles Jenkins	Oncor	Investor Owned Utility
Dan Wilkerson	Bryan Texas Utilities	Municipal

Commissioners, Other Board Members and Segment Alternates

Commissioner Julie Parsley	Public Utility Commission of Texas (PUCT)	Commissioner
Mark Walker	NRG Texas	Independent Generators
Andrew Dalton	Valero	Industrial Consumers
Bob Helton	International Power America	Independent Generators

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, CFO
Michael Petterson, ERCOT Comptroller
Sam Jones
Tim JohnPress, Ascendte Advisors
Danny Bivens, OPC
Molly McDonald, Media Mastery

Call to Order

Pursuant to notice duly given, the special meeting of the Texas Regional Entity Division of Electric Reliability Council of Texas, Inc. (Texas RE) Finance & Audit Committee ("Committee") convened at 1:32 p.m. on **May 19, 2008**. Chairman Karnei called the meeting to order and ascertained that a quorum was present.

2009 Texas RE Draft One Budget Overview

Chairman Karnei welcomed the Committee members and those in attendance, then asked Larry Grimm, Texas RE Chief Compliance Officer, to present the draft version of the 2009 Texas Regional Entity Business Plan and Budget to the Committee.

Mr. Grimm explained to the Committee that the Texas RE Budget is increasing to approximately \$7 million, with \$872,000 of this amount being designated for Protocol ("non-statutory") compliance activities and the remainder being for NERC standards development, compliance, and enforcement activities.

In response to a question by Dan Wilkerson asking how Texas RE accounted for cash and whether it maintained a balance sheet, Todd Brewer, Senior Financial Analyst for Texas RE, explained that Texas RE has separate GL account numbers. Chairman Karnei asked if ERCOT and Texas RE could have separate bank accounts. Steve Byone, ERCOT CFO, stated that ERCOT could obtain a separate bank account for Texas RE if Texas RE would like it to do so, but added that the current status was effective from a cost and audit standpoint. Susan Vincent added that future budget surpluses or any monies accrued from violation penalties should be maintained in a separate bank account. Miguel Espinosa asked Mr. Byone how much it would cost to have a separate account for the Texas RE division; Mr. Byone responded that it would not cost much. Mr. Espinosa strongly urged the ERCOT CFO to add a separate bank account for current and future Texas RE funds. Chairman Karnei noted that as long as Texas RE is a division of ERCOT, then the funds are ultimately ERCOT's, but Ms. Vincent noted that the statutory funds (funds for federal activities) should not be considered ERCOT's funds. Mr. Byone stated that for ease of reporting, ERCOT could establish a separate bank account for Texas RE funds. Chairman Karnei suggested the Committee should exam this topic more thoroughly at the June Committee meeting.

In response to a question by Chairman Karnei regarding the reasons behind the proposed 60-day cash reserve fund, Mr. Grimm stated that NERC requested all regional entities include cash reserve, to protect against delays in payment of the fee and, in the event of unexpected activity requirements (such as a major compliance investigation), this money would allow activities to continue while a higher fee is requested and approved by NERC and FERC. Regional entities have proposed reserve cash on hand in the range of 7 ½ to 25 percent of the 2009 RE budgets; Texas RE selected to set aside a 60-day cash reserve, which falls approximately in the middle of the range.

Mr. Grimm presented an overview and explanation of the Texas RE proposed 2009 Business Plan & Budget (BP&B) and answered questions by the Committee and other meeting attendees. In response to questions, Mr. Grimm explained that, although Situational Awareness was day-to-day awareness, Texas RE relies on ERCOT ISO, as the Reliability Coordinator, Transmission Operator, and Balancing Authority, to supply much of the required data and information. Michehl Gent explained to the Committee that FERC has instructed NERC that both NERC and the regional entities should be increasing their situational awareness.

Mr. Grimm stated that the BP&B reflects plans for Texas RE to move out of the Austin Met Center by 2009. Nick Fehrenbach noted that the relocation of the Texas RE division was due to increased staffing, and the current ERCOT facility in Austin does not have sufficient space for

new personnel. Mr. Espinosa asked Mr. Grimm what Texas RE plans to do once ERCOT moves from the Met Center in Austin to a new location. Mr. Grimm responded that Texas RE intends to move into a new facility with ERCOT once they move to a larger facility. Mr. Espinosa asked Mr. Grimm if that statement was a commitment; Mr. Grimm responded yes, he is committed to reunite Texas RE with ERCOT at a larger facility at the end of the current ERCOT lease – in approximately 2011. Chairman Karnei informed the Committee that Mr. Byone had a Texas RE space analysis to present to the Committee later in the meeting. Mr. Espinosa added that a short-term lease by Texas RE at an alternative location would likely cost more than if Texas RE was able to sign a long-term lease, but that he recognized that the Public Utility Commission of Texas staff was in favor of Texas RE (versus ERCOT staff) moving to a separate location until ERCOT relocated the entire Austin staff. Mr. Espinosa questioned whether there was a possibility that the Independent Market Monitor (IMM) could move out of the Met Center. Chairman Karnei pointed out that the IMM team was composed of only five employees, so the positive impact of them moving out of the Met Center would be minimal. The Chair then asked the Committee if they would like to see Mr. Byone's space analysis presentation while they were on the subject; the Committee agreed to hear Mr. Byone's presentation.

Mr. Byone reviewed the four different space options contained and explained the positives and negatives of each option (including the required additional cost for meeting and conference space if Texas RE remained at Met Center).

The Committee considered and discussed the space options and concluded that moving Texas RE was the least costly and most feasible option and that this move could increase the perception of independence of Texas RE from ERCOT.

Mr. Charles Jenkins joined the Committee at approximately 2:20 p.m.

Mr. Dalton asked Mr. Grimm what the Texas RE "situation room" would be used for. Mr. Grimm explained that a situation room was needed for NERC and/or FERC staff when they visited to assist in, or conduct, an audit or a compliance violation investigation. The room would also be used by Texas RE Staff to conduct "table-top" compliance audits of Registered Entities.

Mr. Wilkerson left the Committee room at 2:29 p.m., returning at 2:32 p.m.

Mr. Grimm explained to the Committee that Texas RE intended to add seven (7) positions to its staff (1 position in 2008 for Critical Infrastructure Protection activities, 5 other statutory and 1 non-statutory positions in 2009) at a cost of approximately \$990,000 (salary and benefits). The positions requested are as follows: Critical Infrastructure Protection (1), Compliance Enforcement & Assessment (3), IT (to oversee data portal and website – 1), Legal/Regulatory (1), and Protocol Compliance (1).

In response to Chairman Karnei's question regarding the difficulty Texas RE was having filling these positions, Mr. Grimm responded that Texas RE is having considerable difficulty in filling the positions to conduct compliance audits. Mr. Grimm went on to report that in some instances, FERC was paying up to 30% higher than market value for their engineers. Mr. Cox asked Mr. Grimm if NERC was comfortable with Texas RE staffing for 2009. Mr. Grimm stated that he had not heard anything back from NERC and he believes Texas RE staffing is appropriate and favorable compared to other regional entities' staffing, because some of the other regional entities are still using contractors to perform statutory duties. Mr. Grimm assured

the Committee that the proposed BP&B is a "tight" budget that has been looked at closely by Texas RE management. Additionally, Mr. Grimm stated that Texas RE will receive feedback from NERC concerning the 2009 BP&B prior to the Board's vote for approval.

Mr. Dalton asked if Texas RE could provide some useful benchmarks for the 2009 BP&B. Mr. Grimm referred the Committee to the benchmarks listed on slide 16, including dollars and staff per registered entity, but he agreed to provide further analysis and benchmarks to the Committee at the regular Finance and Audit Committee meeting the following day.

Chairman Karnei thanked Mr. Grimm and the Texas RE staff for their work and preparation of the 2009 Texas RE Business Plan & Budget.

Adjournment

At 2:54 p.m., Chairman Karnei adjourned the Special Committee meeting.



Susan Vincent, Secretary