

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
MINUTES OF THE ISO FINANCE & AUDIT COMMITTEE – GENERAL SESSION
7620 Metro Center Drive – Austin, Texas 78744
July 15, 2008**

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. (ERCOT) convened on the above-referenced date. Clifton Karnei confirmed that a quorum was present and called the general session of the meeting to order at approximately 8:00 a.m. The Committee met in Executive Session from 8:00 a.m. to approximately 9:05 a.m., at which time it recessed to General Session.

General Session Attendance

Committee members:

Cox, Brad	Tenaska Power Services	Independent Power Marketer	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	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	Present

Other Board Members and Segment Alternates:

Bartley, Steve	CPS Energy	Municipal	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Anderson, Troy	ERCOT – Manager, Program Administration
Barry, Sean	PricewaterhouseCoopers
Brenton, Jim	ERCOT – Director, Security
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Day, Betty	ERCOT – Director, Commercial Operations
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doolin, Estrellita	ERCOT – Assistant General Counsel
Leady, Vickie	ERCOT – Associate Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant – Finance
Moseley, Cheryl	ERCOT – Manager, ICMP
Petterson, Mike	ERCOT – Controller
Spells, Vanessa	ERCOT – Manager, Credit
Stauffer, Tarra	ERCOT – Legal Assistant
Troxtehl, David	ERCOT – Director, Program Management Office
Wullenjohn, Bill	ERCOT – Director, Internal Audit

Approval of Minutes for Prior General Session Held on June 17, 2008

Dan Wilkerson moved to approve the minutes for the General Session of the Finance & Audit Committee meeting held on June 17, 2008. Miguel Espinosa seconded the motion. The motion passed by a unanimous voice vote with three abstentions (Brad Cox, Charles Jenkins and Clifton Karnei).

External Audit Update

Sean Barry of PricewaterhouseCoopers provided a status update on the 2008 SAS 70 examination and the 2007 financial statement audit wrap up. He referred to the 2008 SAS 70 – Scope and Findings to Date Report that was distributed prior to the meeting. Mr. Barry noted that Phase 1 (i.e. testing of transactions during October 2007 through March 2008) of the 2008 SAS 70 examination was completed on schedule. In addition, he noted there were: no negative findings identified in Phase 1; for the first time there were no exceptions in the testing procedures; and there were no issues with the design of controls. He provided the Phase 2 audit timeline and discussed generally the impact that the Nodal Project will have on controls and the 2008/2009 SAS 70 review. Mr. Karnei asked whether any complaints from Market Participants were expected in light of the timing for the report to be issued (i.e. first week in December). Betty Day responded that most Market Participants were accustomed to the report timing and that she had not received any complaints. Mr. Karnei also asked about the 2007 financial statement audit wrap up. Mr. Barry informed the Committee that the audit had been completed, the management letter had been issued, and that management's response to the management letter had been distributed to Committee members.

Contingent Workforce Management Program Update

Mike Petterson provided a status update on the May 2008 rollout of the Phase I of the contingent workforce program with workers provided by Allegis Group Services. He referred to the status report that was distributed prior to the meeting. Mr. Petterson stated that in November 2007, the ISO Board of Directors authorized ERCOT to outsource administration of many business processes relating to consultant and contractor engagements. He informed the Committee that the program was implemented in early May 2008 following contract negotiations, needs assessments, system configuration and training. He explained that acceptance of the new processes by ERCOT staff and vendors was reported to be good and that early indications suggest the program is delivering expected benefits including enhanced process efficiency, cost savings and control.

Credit Update

Mr. Karnei led a discussion on the credit update and pointed out that a total of 5 QSEs had recently exited the market. Vanessa Spells noted that the potential uplift to the market to date was approximately \$5 million. Pursuant to a question by Mr. Cox regarding collateral requirements by ERCOT and the impact on the market, Mr. Byone explained that collateral requirements were directly tied to the market value of energy. He noted that since energy prices had subsided there had been a substantial reduction in collateral requirements. Mr. Karnei requested that the agenda for the August meeting include an item allowing for further discussion about credit and collateral requirements.

Risk Report

Phil DiPastena referred to the Risk Management Event Profile Matrix ("Stoplight" Report) that was provided prior to the meeting. He noted that there had been no changes to any of the risk ratings since last month. Mr. Karnei asked what had been done to respond to PUCT Chairman Smitherman's comments made last month about reviewing risks that could result from a combined set of events. Steve Byone responded that management had agreed to discuss how ERCOT might take on Chairman Smitherman's request to conduct more robust scenario analyses relating to events that could affect market prices. Mr. Byone agreed to update the Committee on management's response at the August meeting.

Zonal PMO Update

David Troxtell gave an update on the status of non-Nodal projects. He reported that the staff is continuing to adjust to project deliveries to accommodate Nodal efforts. Many projects are

delivering late or deferred, mainly Market and System Operations. He further reported that current projections are to complete 41 projects this year and utilize \$30.5 million of the \$33.7 million (which could be lowered depending on Nodal impacts). He added that some of the improvement occurring in the Program Management Office (PMO) had been recognized in the recent Market Participant survey, such as:

- Project delivery is up. There are no unfunded Market projects. The PMO had utilized nearly 100% of the requested funding in 2006 and 2007; and
- Positive market survey results. All 4 areas improved (notably 3 of 4 areas improved significantly).

Mr. Troxtell commented that staff is currently focused on the following two key areas for further improvement:

- Resource management, specifically the need for better projections and ability to keep commitments; and
- Improvement of the cost benefit analysis (CBA) process, specifically on getting more quality numbers and tracking the realized benefits.

Brad Cox asked whether the non-Nodal Projects scheduled for completion were sufficient to run the Zonal market for the period until the Nodal market is implemented. Mr. Byone suggested further discussion would need to include ERCOT CIO, Ron Hinsley and that it would likely be difficult to fully answer the question until a new Nodal go-live date is determined.

Committee Briefs

Staff provided written reports with information related to the following areas:

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

Mr. Espinosa inquired as to the status of the sales tax matter. Mr. Byone informed the Committee that staff had been working with the Texas Comptroller's office on pursuit of a sales tax refund related to ERCOT's 501(c)(4) nonprofit organizational status. He further informed the Committee that over the second half of the year, staff would be working through a plan for filing and preparing an application for 501(c)(3) status.

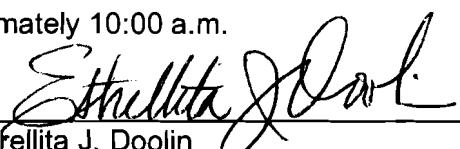
Future Agenda Items

Mr. Byone noted future agenda items for the August 2008 meetings as follows:

1. Quarterly review of investment results;
2. Liquidity update and funding request;
3. Met Center;
4. Selection of independent auditor/approval of fees;
5. Committee briefs; and
6. Future agenda items.

Adjournment

Clifton Karnei adjourned the meeting at approximately 10:00 a.m.



Estrellita J. Doolin
Assistant General Counsel and
Finance & Audit Committee Secretary