

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
 MINUTES OF THE ISO FINANCE & AUDIT COMMITTEE – GENERAL SESSION
 7620 Metro Center Drive – Austin, Texas 78744
 August 19, 2008**

Pursuant to notice duly given, the Finance & Audit (F&A) 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 meeting to order at approximately **7:30 a.m.** The Committee met in Executive Session from **7:30 a.m.** to approximately **8:50 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)	Erazos Electric Cooperative	Cooperative	Present
Thomas, Robert	Green Mountain Energy	Independent Retail Electric Provider	Present
Wilkerson, Dan	Eryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Ballard, Don	Public Utility Counsel	OPUC	Present
Bartley, Steve	CPS Energy	Municipal	Present
Smitherman, Barry	FUCT Chairman	PUCT	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Brenton, Jim	ERCOT – Director, Security
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Day, Betty	ERCOT – Director, Commercial Operations
Doolin, Estrellita	ERCOT – Assistant General Counsel
Grable, Mike	ERCOT – Vice President and General Counsel
Leady, Vickie	ERCOT – Associate Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant -- Finance
Nersesian, Carin	OPUC
Petterson, Mike	ERCOT – Controller
Stauffer, Tarra	ERCOT – Legal Assistant
Troxell, David	ERCOT – Director, Program Management Office
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of July 15, 2008 General Session Minutes

Nick Fehrenbach moved to approve the minutes for the General Session of the Finance & Audit Committee meeting held on July 15, 2008. Dan Wilkerson seconded the motion. The motion was passed by unanimous voice vote with no abstentions.

Executive Session Matters

During the Executive Session immediately preceding this General Session, the F&A Committee considered the selection of an auditor for the 2009 SAS 70 Audit, the selection of an auditor for the annual Financial Statement Audit for the Financial Year 2008, and a Financing Plan proposal.

Nick Fehrenbach moved to approve PricewaterhouseCoopers (PwC) as the auditor for ERCOT's 2009 SAS 70 Audit and the Financial Statement Audit for FY 2008. Brad Cox seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Fehrenbach moved to have the Committee recommend to the Board that it approve the Financing Plan proposed by ERCOT staff in the best interest of ERCOT. Robert Thomas seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Application of the 2007 Actual vs. Budget Revenue Requirement Variance

Mr. Karnei reminded the Committee that it was previously recommended that the ERCOT Board of Directors (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 and employ the remaining favorable 2007 variance, if any, to reduce debt funding of other 2008 projects, and that there is a pending recommendation to the Board to reduce debt. He explained that Don Ballard had submitted a decision template that was distributed prior to the meeting; and the decision template addressed the application of the 2007 actual vs. budget revenue requirement variance in which the Public Utility Counsel requested that the Committee recommend to the Board the use of a portion of the favorable budget variance for customers sent to the Provider of Last Resort (POLR) as a result of recent market participant defaults. Mr. Karnei commented that the Committee could either rescind its action in favor of Mr. Ballard's proposal or stay with its current action; and the Committee could have this matter put on the agenda for vote in September 2008.

Mr. Ballard discussed recent positive changes with the wholesale market cap and the retail market guide changes. He mentioned that there was no longer a need for the variance to pay for switching costs. He withdrew the proposed decision template and supported the Committee's current action on this topic.

Mr. Karnei announced that he will inform the Board of Mr. Ballard's withdrawal of the proposal and request the approval of the F&A Committee's previous recommendation.

Quarterly Review of Investment Results

Cheryl Yager referred to the Quarterly Review of Investment Results materials that were distributed prior to the meeting. Ms. Yager provided an overview of the Q2 2008 results. She pointed out that reserve funds are still being used as an investment. She also clarified that Texas Regional Entity (Texas RE) funds are segregated from the other ERCOT funds. Mr. Byone explained that Texas RE wanted separate bank accounts due to NERC compliance factors. Ms. Yager advised that the investments will be monitored to stay within investment range.

Credit Update

Ms. Yager referred to the Credit Update materials that were distributed prior to the meeting. She addressed the market prices from May through July 2008 and pointed out the volatility in the South and Houston zones. She also addressed the impact on collateral requirements by both the volume of purchases from the Balancing Energy Service (BES) and the price of energy purchased. She commented that the May 2008 price events primarily impacted collateral requirements for Qualified Scheduling Entities that were drawing energy from the BES in the South and Houston zones.

With regard to actions taken, Ms. Yager mentioned that the ERCOT market and the Board passed a PRR in June 2008 to address the kind of situation that caused the May 2008 price events. She added that ERCOT credit staff monitored BES pricing through June and July 2008 and have noted significantly less volatility. In addition, she commented that exposure calculations were reduced in late July and early August 2008 and are currently at more traditional levels.

As to the Estimated Aggregate Liability (EAL) requirements, Ms. Yager provided a historical average. Mr. Karnei, Mr. Cox, Mr. Gent and Ms. Yager discussed the way the collateral calculations work. Mr. Gent inquired about prior interest in additional collateral. Mr. Byone and Ms. Yager responded that ERCOT seeks collateral for the current amount owed and the expected amount to be owed. Mr. Thomas inquired about collateral calls. Ms. Yager responded that liquidity is very critical in the market. Mr. Fehrenbach mentioned that he would like to hear more about guarantees in the future.

Committee Briefs

Mr. Byone referred to the Committee Briefs materials that were distributed prior to the meeting. With regard to market risk assessment, Mr. Byone pointed out that ERCOT believes that it can and should be as responsive as possible to Public Utility Commission of Texas (PUCT) information needs regarding grid conditions and reliability actions that may have market impacts. He added that management plans to communicate regularly with the PUCT and the Independent Market Monitor on these topics, including potential scenarios and likely market impacts. As to the Risk Management Event Profile Matrix (as of August 1, 2008), it was noted that the Nodal Implementation Project was coded as full red.

Future Agenda Items

Mr. Byone identified the following future agenda items:

- Met Center
- Engagements of external auditors for other services (pre-approval policy)
- Review year-end forecast
- Credit update
- Review of F&A Committee charter
- Committee briefs
- Future agenda items.

Adjournment

Clifton Karnei adjourned the meeting at approximately 9:40 a.m.

A handwritten signature in cursive script, reading "Estrellita J. Dookin".

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