

MINUTES OF THE ERCOT ISO FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

7:30 A.M.

November 13, 2007

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 7:32 A.M. on **October 16, 2007**. The Meeting was called to order by Clifton Karnei, who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present
Miguel Espinosa, Vice Chair	Unaffiliated Board Member	Unaffiliated Board Member	Present
Nick Fehrenbach	City of Dallas	Consumer	Present
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Not Present
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member	Present
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Not Present
William Taylor	Calpine Corporation	Ind. Generator	Present
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present for Scott Gahn

Other Board Members and Segment Alternates:

Steve Bartley	CPS Energy	Municipal	Present
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ERCOT staff and guests present:

Barry, Sean	PricewaterhouseCoopers
Bassett, Ryan	PricewaterhouseCoopers
Berry, Ron	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Davies, Morgan	Chair, Credit Work Group
Day, Betty	ERCOT
Delenela, Ann	ERCOT
DiPastena, Philip	ERCOT
Doolin, Estrellita	ERCOT
Giuliani, Ray	ERCOT
Kahn, Bob	ERCOT
McElfresh, Brandon	ERCOT
Moseley, Cheryl	ERCOT
Petterson, Mike	ERCOT
Seely, Chad	ERCOT
Troxell, David	ERCOT
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT

Executive Session

At 7:32 A.M., the Committee meeting was adjourned and the Committee went into Executive Session until 9:05 A.M., when the Committee returned to Open Session.

Approval of Previous Minutes

Dan Wilkerson made a motion to approve the minutes of the Finance & Audit Committee meeting held on October 16, 2007; Robert Thomas seconded the motion. The motion passed unanimously.

Review and Update on Credit Work Group Charter and Other CWG Matters

Cheryl Yager and Morgan Davies reviewed with the Committee the recommended modifications to the Credit Work Group ("CWG") Charter. Mr. Davis confirmed that the CWG had voted in favor of the proposed modifications by a vote of 14 for and 2 against, with 1 abstention. Mr. Davies told the Committee that the 2 votes against the modifications were by Retail Electric Providers ("REPs"), but that 4 REPs voted in favor. In response to Michele Gent's question regarding verification of qualifications, Ms. Yager explained that CWG members provided their information on an application form and this information was accepted without further verification. In response to a question by Robert Thomas about whether "urgent" was defined, Susan Vincent explained that although the Charter did not include a definition, the definition in the bylaws could be used. Mr. Thomas also asked Ms. Yager about the process used to determine when a matter was urgent. Ms. Yager explained that such was determined based primarily on input from the CWG and Board members. Nick Fehrenbach suggested that they consider adding the phrase, "no later than" to allow draft minutes to be distributed prior to the distribution of meeting materials if desired.

Michehl Gent moved to approve the requested modifications to the Credit Work Group Charter, including the clarification proposed by Mr. Fehrenbach, as set forth in Exhibit A hereto; William Taylor seconded the motion. The motion passed unanimously.

Review of Financial and Investment Standards

Cheryl Yager noted that staff did not propose any changes to the Investment Standard. Ms. Yager explained that staff recommended some slight modifications to the Financial Standard, primarily to update references to the Texas Regional Entity division of ERCOT.

The Committee completed its required annual review of the Financial Standard and Investment Standard and discussed the recommended modifications to the Financial Standard. The Committee recommends the Board accept management's recommendation to leave the current Investment Standard as is, with no changes.

Michehl Gent recommended that additional modifications be included in the Financial Standard, including a specific reference that the North American Electric Reliability Corporation (NERC) is the Federal Energy Regulatory Council ("FERC") certified Electric Reliability Organization and an addition of the word "appropriately" to section 4.0 of the Standard, as specifically set forth in Exhibit A, hereto. After further discussion of the proposed changes to the Financial Standard, the Committee recommends the Board approve the modifications as set forth in Exhibit A to these minutes.

William Taylor moved to recommend that the Board approve modifications to the Financial Standard, including the additions proposed by Mr. Gent, as set forth in Exhibit B hereto and to make no modifications to the Investment Standard; Dan Wilkerson seconded the motion. The motion passed unanimously.

2007 Financial Statement Audit Planning

Sean Barry of PricewaterhouseCoopers ("PwC") provided an overview of the audit plan for the annual audit of ERCOT's financial statements. Ryan Bassett of PwC discussed the audit objectives and PwC's risk analysis process, including assessment of key financial and audit risks for the ERCOT audit. Mr. Barry noted that although PwC would test some internal controls during the financial audit, this audit would not include a review of all ERCOT internal controls, but he explained that the development of the audit plan included fraud considerations, as it had in previous years. Mr. Barry informed the Committee that the 2007 financial audit would review the Nodal accounting and, for the first time, the Texas Regional Entity division would be audited as required by NERC and FERC. Mr. Barry stated that he expected to complete the audit and issue a report in April 2008.

In response to a question by Mr. Taylor regarding ERCOT's "tone at the top" regarding internal controls and compliance, Mr. Barry confirmed that, in his personal opinion, ERCOT's tone at the top had always been reasonably solid, but that, for the past three years, the importance placed on internal controls by executive management appeared to have been driven down throughout the ranks of the ERCOT organization.

2007 SAS 70 Audit Status Report

Mr. Barry reported that testing for the SAS 70 audit was essentially complete, and PwC anticipates issuing the SAS 70 report in December. Mr. Barry reported that the results and timing were very positive and PwC expected that the number of exceptions was expected to be even lower than in prior years. He noted that Security, which had been a problem in the past, would be clean for 2007. Mr. Barry did note that one potential area of exception or comment was regarding a process in the TCR Auction area, relating to the application of limits to one Transmission Congestion Rights ("TCR") Auction. Ray Giuliani explained that the Protocols require limiting the TCRs of any one entity to 25% of any zone. In August, after an electronic problem and refresh of systems, the applied constraint was incorrect. The constraint on amount should have been 1,174 TCRs and instead a constraint of 1,123 was imposed – causing a maximum constraint that was slightly too low. Mr. Giuliani noted that it was not known if anyone tried to exercise TCRs above this amount, and discussed with the Committee the level of resources that should be applied to catch such a small error. Mr. Barry confirmed that this isolated TCR Auction circumstance was the only outstanding issue that could affect a clean SAS 70 report and that PwC had not yet determined if this would be an exception.

Follow-up from November 9, 2007 Credit Workshop

Clifton Karnei reported that the F&A Committee held a special open meeting on November 9, 2007 to review the results of Oliver Wyman's review of ERCOT credit practices and to review Oliver Wyman progress on development of the Capital Adequacy Model.

The Committee members acknowledged the concerns of market participants relating to credit, and that staff should continue to take actions to ensure market participants have an opportunity for input into the process. Mr. Davies noted that, in addition to the special Committee meeting, staff held a market participant meeting on November 2, 2007 to gather input on the exposure portion of the model. Ms. Yager noted that Oliver Wyman expects to deliver the model in mid-November, and the ERCOT staff review of the model and associated outputs would occur during the second half of November and through December. She also informed the Committee that market participants will have an additional opportunity for input in January and, following these reviews, she expects that staff will present results to the Board at the February meeting.

Mr. Karnei asked that Ms. Yager and Mr. Davies have the CWG re-look at ERCOT's position on and handling of guarantees, given the heavy reliance on guarantees for credit. He asked them to discuss and make recommendations regarding caps on and the level of "haircuts" that should

be given to parent and third-party guarantees. Mr. Karnei asked that CWG also look at the impact of the pending urgent PRR related to credit policy and the need to require the financials of market participants that have parent and third-party guarantees. Mr. Karnei asked that CWG report back to the Committee in December on these reviews. Mr. Karnei noted that the Committee acknowledges good progress has been made to date regarding credit.

Committee Briefs (Q&A only)

Clifton Karnei, Cheryl Yager and Steve Byone discussed details on the Market Credit Status report and concluded that approximately 64% of the security posted with ERCOT was in the form of a guarantee. Mr. Karnei asked that ERCOT Legal have outside counsel review and make possible recommendations for strengthening the current domestic and foreign guarantee forms.

Steve Byone referred to the Risk Management materials and reported that three items had been moved from "Substantially Compliant" to "In Compliance" and that staff was continuing to work on the six remaining "Substantially Compliant" items.

David Troxtell informed the Committee that four large projects were poised to move to Execution and would be covered during the Executive session of the Board meeting.

Future Agenda Items

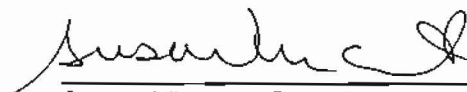
Steve Byone noted the following future agenda items:

- December 2007:
 - Review standing Internal Audit status report
 - Receive final report on 2007 SAS 70 audit
 - Approve audit committee meeting planner for the upcoming year (including confirmation of mutual expectations with management and the auditors)
 - Discuss the adequacy and effectiveness of the Internal Audit Staff
 - Perform F&A Committee self-assessment
 - Review update on the Met Center disposition
 - Receive update on the urgent credit (financial statement) PRR
 - Receive draft of proposed Texas Regional Entity service level agreements
 - Committee briefs

Adjournment

At 9:45 A.M., the Committee meeting was adjourned.

The next regular Committee meeting will be held on the morning of Tuesday, December 11, 2007.



Susan Vincent, Secretary