

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
MINUTES OF THE ISO FINANCE & AUDIT COMMITTEE – GENERAL SESSION
Hilton Austin Airport, 9515 Hotel Drive – Austin, Texas 78719
December 9, 2008

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. convened on the above-referenced date. Clifton Karnei confirmed that a quorum was present and called the meeting to order at approximately **8:34 a.m.** The Committee met in General Session from **8:34 a.m. to 10:03 a.m.**, at which time it recessed to Executive 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:

Armentrout, Mark	Unaffiliated Board Member	Unaffiliated Board Member	Present
Ballard, Don	Office of Public Utility Counsel	Residential Consumers Segment	Present
Bartley, Steve	CPS Energy	Municipal	Present
Crowder, Calvin	Electric Transmission Texas	Investor Owned Utility	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Barry, Sean	PricewaterhouseCoopers
Brenton, Jim	ERCOT – Director, Corporate Security
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Capezzuti, Nancy	ERCOT – Vice President of Human Resources and Organizational Development
Day, Betty	ERCOT – Director, Commercial Operations
Doolin, Estrellita	ERCOT – Assistant General Counsel
Foln, Lynda	Tara Energy
Gage, Theresa	ERCOT – Government Relations Manager
Grable, Mike	ERCOT – Vice President and General Counsel
Greer, Clayton	J Aron & Company
Gresham, Kevin	Reliant Energy
Kahn, Bob	ERCOT – President and Chief Executive Officer
Kisic, Ron	Direct Energy (via telephone)
Leady, Vickie	ERCOT – Associate Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant - Finance
Letskeman, Sheila	ERCOT – Client Relations Specialist

List, Amanda J.	Direct Energy <i>(via telephone)</i>
Petterson, Mike	ERCOT – Controller
Rexrode, Carolyn	Customized Energy Solutions
Rocap, Nisha	PricewaterhouseCoopers
Schubert, Eric	BP Energy
Seely, Chad	ERCOT – Corporate Counsel
Stauffer, Tarra	ERCOT – Legal Assistant
Troxtehl, David	ERCOT – Director, Program Management Office
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of Prior Meeting General Session Minutes

Nick Fehrenbach moved to approved the minutes for the General Session of the Finance & Audit Committee meeting held on November 17, 2008. Miguel Espinosa seconded the motion. The motion passed by voice vote with Robert Thomas abstaining.

Guarantee Agreements – CWG feedback

Cheryl Yager directed the Committee to Market Participant comments that she had sent to Committee members via email prior to the meeting. She also welcomed Credit Work Group (CWG) Chair, Amanda List, and attorney Ron Kistic—both of whom joined the meeting via telephone. Clifton Karrei explained that the Committee was most interested in getting a brief explanation of the reasoning behind each of the seven items (initially proposed by ERCOT Legal) that were removed from or changed in the Agreement—in order of most to least significant. Michehl Gent requested that references to other ISO practices included in the Market Participant comments be expanded into a more robust comparison. Brad Cox commented that comparisons to other ISOs are helpful, but should not be the determining factor. Robert Thomas asked about the risks related to the Agreement versions under consideration. Additional discussions occurred about the relationship between guarantee agreements and unsecured creditors. At the conclusion of the discussion, Clifton Karnei asked ERCOT Legal to (1) prioritize the seven proposed changes in order of most to least beneficial, (2) prepare a risk statement for each item and (3) report to the Committee in January. He also asked CWG to rank (from greatest to least) the seven proposed changes based on their concerns.

Claim Audit of ERCOT Health Plan by Sagebrush Solutions

Nancy Capezzuti referred to the Final Report of the Claims Administration Audit and Electronic Claims Testing of Connecticut General Life Insurance Company that had been provided to Committee members prior to the meeting. She informed the Committee that the audit was not required audit, but prudent considering the size of total claims (approximately \$4 million).

2008 SAS 70 Audit

Sean Barry informed the Committee that the 2008 SAS 70 Audit Report had been issued with a clean audit opinion and no exceptions. He then introduced PwC Project Manager, Nisa Rocap, who reviewed the scope, background, and specific results of the audit. Mr. Barry and Ms. Rocap responded to questions regarding their audit testing and the Audit Report. Ms. Rocap reiterated that the audit was completed on time and on budget due to thorough planning, establishment of clear expectations, and support from ERCOT staff. Betty Day informed the Committee that the Audit Report was available to Market Participants and that a market notice with information about how to access the report would be issued.

Review and Approval of January 2009 Operating Budget

Mike Petterson addressed the Committee and brought their attention to Board agenda item 13, "Review & Approval of January 2009 Operating Budget" and a handout entitled, "ERCOT Funding vs. Spending Authorization Requirements". The Committee reviewed management's proposal for a one-month budget covering January 2009 for ERCOT's base operating activity. Mr. Petterson informed the Committee the proposed monthly budget (1) was consistent with recent monthly expenditure trends, (2) was in-line with expenditures in January 2007 and January 2008, and (3) included no extra ordinary or unusual expenditure requests. Mr. Petterson also reminded the Committee that they would receive a revised base operating budget for all of 2009 at their January meeting. He also noted that the Board of Directors was expected to vote to approve the proposed, revised 2009 budget in January 2009.

Mr. Gent moved to recommend that the Board approve the January 2009 budget as presented in the materials prepared for all Board members. Robert Thomas seconded the motion. The motion passed with unanimous voice vote.

Mr. Fehrenbach asked when the full, revised 2009 budget would be available and Mr. Byone reiterated that it would be distributed to Committee members prior to their January meeting. Mr. Gent asked whether the revised 2009 budget would include a proposed change in the System Administrative Fee in effect during 2008, and Mr. Byone responded that it did not.

Review Listing of Dealings with Financial Institutions That Are Also Market Participants

Cheryl Yager explained that every six months ERCOT discloses to the Committee a list of financial institutions providing services to ERCOT that are also Market Participants. Ms. Yager directed the Committee to the information provided in the materials distributed prior to the meeting, discussed each of the entities, and responded to questions.

Investment Update – Accounting For Potential Loss in Primary Fund

Cheryl Yager distributed a document to supplement materials provided prior to the meeting. She noted that the document was prepared to provide background to the Committee as they considered the treatment of potential losses from the Primary Fund. She then reviewed the status of ERCOT investments held at The Reserve as well as the write-offs taken to date.

Ms. Yager noted that about 50% of all funds held at The Reserve had been recovered and that 100% of the investments held in the US Government funds were expected to be returned in early January 2009. She pointed out that there was still \$10 million in the Primary Fund and that The Reserve had established a distribution plan for those funds. She noted that The Reserve had also indicated that they would establish a litigation reserve (amount still to be determined) and would distribute investments from the Primary Fund only to the amount of the litigation reserve. Mike Grable noted that The Reserve had significant discretion in setting the amount of the litigation reserve and that the level of the litigation reserve could significantly influence the distribution timeframe from the Primary Fund. Mr. Grable indicated that it was difficult to predict how the situation would be resolved given the lack of precedent. He noted that the last time a money market fund "broke the buck" was in 1994. Mr. Grable reminded the Committee that while ERCOT had reason to believe the bulk of the investments held at The Reserve would be returned, there was no guarantee that there would not be further losses.

Ms. Yager highlighted that through November 2008, ERCOT had recorded (1) \$0.5 million of estimated losses on investments and (2) \$0.5 million of interest expense for payment of interest on security deposits that it would not have otherwise incurred. Mr. Gent commented that ERCOT was paying Market Participants interest on security deposits regardless of whether ERCOT received interest from The Reserve. Calvin Crowder inquired about the source of the

funds and Ms. Yager clarified that ERCOT had determined in September, with input from the ad hoc group, to pay interest on security deposits from ERCOT operating funds if needed.

Mr. Byone added that since the close of the November books, ERCOT had received additional information from The Reserve that indicated additional losses might need to be recorded. Mr. Espinosa asked how much additional loss might need to be recorded and Mr. Byone responded that based on the information received to date, an additional \$250,000 of loss may be recorded in December for investments in the Primary Fund. Ms. Yager further discussed the guarantees around investments in the US Government Fund. Mr. Byone responded to a question from Mr. Crowder about the Government Fund payout in January 2009, stating that while he was reasonably confident that principal would be returned, he was not sure how much (if any) interest would be paid on the investments in the US Government Fund.

Mr. Fehrenbach asked about the TCR revenue held in the Primary Fund relative to when those funds were or would be paid out. Ms. Yager responded that TCR revenues are paid out monthly and that the investments held at The Reserve were to be paid out in October 2008, November 2008 and December 2008 and January 2009. She added that distributions from the Primary Fund through November 2008 had been adequate to fund TCR revenue distributions.

Ms. Yager then outlined options for treatment of losses including (1) Option 1 – Record loss on books and fund through the System Administration Fee, (2) Option 2 – Pass through loss to entities that would receive the benefit of the funds, and (3) some combination of Option 1 and Option 2. After thorough discussion, the Committee asked ERCOT staff to move forward with Option 1 for 2008 activity. Mr. Karnei noted that he would inform the Board of the decision and that no further action was necessary. Ms. Yager informed the Committee that ERCOT invests in funds that only hold Treasury and Treasury-based securities. She noted that ERCOT had engaged a contractor that was actively researching additional investment options. Mr. Byone confirmed that ERCOT would continue to report to the Committee on the accounting treatment of loss and interest costs including the treatment of interest payments made on security deposits.

Review Results of Finance & Audit Committee Self Assessment

Mr. Karnei referred the Committee to the materials distributed prior to the meeting regarding the results of the Finance & Audit Committee Self Assessment. Committee members agreed to discuss details of the assessment later.

Committee Briefs

Mr. Byone referred to materials distributed prior to the meeting for the following areas:

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

Cheryl Yager mentioned that NPRR 140 was expected to come before the Board in January for approval and would cover certain changes to credit calculations. Mr. Espinosa asked that materials be distributed prior to the meeting to allow for review.

Future Agenda Items

Mr. Byone identified the following future agenda items:

1. Elect Officers and confirm financial qualifications
2. Approval of CWG Chair and Vice-Chair
3. Quarterly review of investment results

4. Review of proposed annual 2009 operating budget and financial plan
5. Review of collateral management recommendation
6. Update on investments and investment policy
7. Update on ERCOT credit risk standard
8. Committee briefs
9. Future agenda items

Executive Session

The Committee went into Executive Session at approximately 10:03 a.m.

A handwritten signature in cursive script, reading "Estrellita J. Doolin", written over a horizontal line.

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