

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
 MINUTES OF THE FINANCE & AUDIT COMMITTEE – GENERAL SESSION
 7620 Metro Center Drive – Austin, Texas 78744
 January 20, 2009**

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 7:30 a.m. The Committee met in Executive Session from 7:30 a.m. to 8:15 a.m., at which time it recessed to General Session.

General Session Attendance

Committee members:

Ballard, Don	Office of Public Utility Counsel	Residential Consumer	Present
Cox, Brad	Tenaska Power Services	Independent Power Marketer	Present
Espinosa, Miguel (Vice Chair)	Unaffiliated Board Member	Unaffiliated Board Member	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	Eryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Walker, Mark	NRG Texas	Independent Generator	Present
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ERCOT staff and guests present:

Anderson, Troy	ERCOT – Manager, Program Administration
Brenton, Jim	ERCOT – Director, Security
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Comstock, Read	Direct Energy
Doolin, Estrellita	ERCOT – Assistant General Counsel
Grable, Mike	ERCOT – Vice President and General Counsel
Grendel, Steve	ERCOT – Director, Facilities and Site Development
Greer, Clayton	J Aron
Gresham, Kevin	Reliant Energy
Hancock, Misti	ERCOT – Manager, Budget and Finance
Jones, Don	Reliant Energy
Kahn, Bob	ERCOT – President and Chief Executive Officer
Leady, Vickie	ERCOT – Associate Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant - Finance
List, Amanda	Direct Energy and Credit Work Group Chair
Petterson, Mike	ERCOT – Controller
Seely, Chad	ERCOT – Corporate Counsel
Stauffer, Tarra	ERCOT – Legal Assistant
Troxell, David	ERCOT – Director, Program Management Office
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of Prior Meeting General Session Minutes

Dan Wilkerson moved to approve the minutes for the General Session of the Finance & Audit Committee meeting held on December 9, 2008. Robert Thomas seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Election of Committee Chair and Vice-Chair

Steve Byone explained that the Committee Charter requires that the Committee select its Chair by a majority vote of the Committee members. After brief discussion, **Michehl Gent moved to re-elect Clifton Karnei as Chair and Miguel Espinosa as Vice-Chair. Dan Wilkerson seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Approval of Credit Work Group Chair and Vice-Chair

Cheryl Yager asked the Committee to approve the re-election of Amanda List as Chair and Tim Coffing as Vice Chair of the Credit Work Group (CWG). **Robert Thomas moved to approve Amanda List as CWG Chair and Tim Coffing as CWG Vice-Chair. Miguel Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Review of Finance and Audit Committee Structure

Don Ballard referred to materials that had been distributed prior to the meeting and summarized the advantages of splitting the Finance and Audit Committee into two separate committees—a Finance Committee and an Audit Committee. After a lengthy discussion including the pros and cons of creating two committees, the Committee decided to make no changes to the existing Committee structure. Mr. Karnei encouraged Mr. Ballard to initiate a discussion in the future if he continued to feel strongly about the need to change the existing structure of the Committee.

Review of 2009 Revised Base Operating Budget and 5-Year Financial Plan

Mike Petterson referred to materials that had been distributed to Board members prior to the meeting. After discussion, **Dan Wilkerson moved to recommend that the Board approve and adopt the proposed 2009 Revised Base Operating Budget and 2009 ERCOT Fee Schedule as presented in the board materials. Michehl Gent seconded the motion. The motion passed by voice vote with no abstentions.**

Review of Collateral Management Practices and Alternatives

Cheryl Yager referred to materials that had been distributed prior to the meeting then reviewed background information and several options to manage cash collateral held by ERCOT. Mr. Wilkerson asked if Option 2a was the approach closest to what ERCOT currently uses. Ms. Yager responded that Option 2a or Option 3 probably most closely reflected historical practice and noted that risk of loss had not been addressed in the past. Mr. Karnei reminded the Committee that PUC Chair Barry T. Smitherman favored Option 2b. Mr. Karnei made it clear that the Protocols may require revisions to clarify when a market participant would bear the risk of loss. After a lengthy discussion, Mr. Karnei asked staff to prepare Protocol language that would be consistent with Option 2b for the Committee's review in February. In conjunction with a further discussion about who bears the risk of loss for other market funds (e.g. TCR Revenues, prepaid settlements, etc.), Mr. Karnei asked staff to brief the Committee on factors to be considered with respect to risk of loss. It was suggested that the briefing include information about how ERCOT compares to other ISOs with regard to cash collateral management and risk of loss.

Review of Potential Changes to Investment Practices

Cheryl Yager directed the Committee members to materials distributed prior to the meeting and provided an overview of current investment practices as well as potential changes to investment

practices at ERCOT. After the Committee had discussed pros and cons for each of the investment approaches presented, Mr. Byone noted that staff had received enough feedback from the Committee to propose specific changes to the existing Investment Standard for the Committee's review in February.

Dan Wilkerson moved to instruct staff to begin investing cash holdings only in Treasury and Treasury-backed securities until the Investment Standard is revised to include additional investing instruction. Michehl Gent seconded the motion. The motion passed by voice vote with no abstentions.

Quarterly Review of Investment Results

Steve Byone directed the Committee to materials previously distributed and provided a summary of ERCOT investments for 4th quarter of 2008. Mr. Byone commented that low yields were consistent with downward trends in depository account yields and a move to more conservative investing with greater security. Cheryl Yager noted that funds received since September 15, 2008 were held in money market funds invested in Treasury or Treasury-backed securities.

Credit Update

Cheryl Yager informed the Committee that the CWG had approved the Market Credit Risk Standard draft and that TAC, RMS and WMS would consider the Standard draft in February. Ms. Yager added that the Standard draft would be presented to the Committee in March. Ms. Yager also briefed the Committee on the implications of NPRR 140 on changes to credit calculations.

Review and Recommendation on Updated Standard Form Guarantee Agreements

Cheryl Yager and Chad Seely referred to the list of seven proposed changes to the Standard Form Guarantee Agreement and presented ERCOT's position related to the proposed changes. Amanda List spoke on behalf of the CWG and explained why the seven proposed changes had been rejected. After much discussion, Mr. Karnei instructed staff to prepare a revised draft of the agreement that included proposed change #1 regarding waiver of substantive defenses and proposed change #2 regarding demand and receipt of funds—including a provision providing for two (2) Business Days for a Guarantor to pay following issuance of written demand by ERCOT. He instructed staff to exclude proposed changes #3 through #7. Finally, he instructed staff to continue to monitor issues related to the proposed changes #3 through #7 and to bring those issues to the Committee's attention.

Committee Briefs

Materials for the following areas were distributed prior to the meeting:

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

Steve Byone noted that information about a large Project would be shared during the Board meeting.

Future Agenda Items

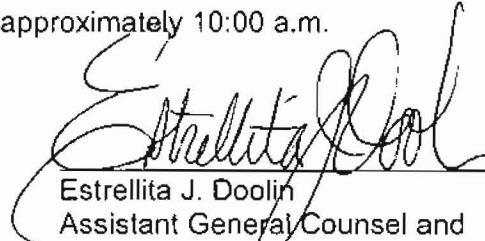
The following list of future agenda items was developed prior to the meeting:

1. Review and approval of updated investment policy
2. Review of ERCOT credit risk standard
3. Update on status of Financial Audit

4. Review and approval of the standard form guarantee agreements
5. Review of credit statistics
6. Committee briefs
7. 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