

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
MINUTES OF THE FINANCE & AUDIT COMMITTEE – GENERAL SESSION
7620 Metro Center Drive – Austin, Texas 78744
February 17, 2009

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. convened on the above-referenced date. Miguel Espinosa 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 8:05 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 | Cncor | Investor Owned Utility | Present |
| Karnei, Clifton (Chair) | Brazos Electric Cooperative | Cooperative | Not Present; however, Mr. Wilkerson voted as his Proxy |
| Thomas, Robert | Green Mountain Energy | Independent Retail Electric Provider | Present |
| Wilkerson, Dan | Bryan Texas Utilities | Municipal | Present |

Other Board Members and Segment Alternates:

| | | | |
|-------------------|---------------------------|-----------------------|---------|
| Smitherman, Barry | Public Utility Commission | PUC Chairman | Present |
| Walker, Mark | NRG Texas | Independent Generator | Present |

ERCOT staff and guests present:

| | |
|--------------------|--|
| Byone, Steve | ERCOT – Vice President and Chief Financial Officer |
| Deskins, Andy | Wachovia Bank |
| DiPastena, Phil | ERCOT – Enterprise Risk Manager |
| Doolin, Estrellita | ERCOT – Assistant General Counsel |
| Grable, Mike | ERCOT – Vice President and General Counsel |
| Kahn, Bob | ERCOT – President and Chief Executive Officer |
| Leady, Vickie | ERCOT – Associate Corporate Counsel |
| Lester, Suzanne | ERCOT – Executive Assistant - Finance |
| O'Desky, Amy | ERCOT – Supervisor, Internal Audit |
| Petterson, Mike | ERCOT – Controller |
| Prall, Kyle | ERCOT – Financial Analyst III, Credit |
| Spells, Vanessa | ERCOT – Manager, Credit |
| 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

Michehl Gent moved to approved the minutes for the General Session of the Finance & Audit Committee meeting held on January 20, 2009. Robert Thomas seconded the motion. The motion passed by voice vote with no abstentions.

Review of Significant Accounting Policies

Treatment of Investment Losses

Mike Petterson addressed the Committee and referred the Committee to the materials previously distributed covering the review of significant accounting policies, specifically treatment of potential investment losses on investment funds held at The Reserve. He added that this topic would be covered at the Board of Directors meeting following the F&A meeting and that the decision template (including background information) identified as Board agenda item 11(d), could be found in the Board meeting materials. Mr. Petterson summarized the information in the decision template and, along with Steve Byone and Cheryl Yager, responded to questions about losses recorded to date, possible future losses, the recommendation to pay interest to Market Participants and the Texas RE even though no interest had been received from the Reserve, and other related issues. At the conclusion of the discussion, **Charles Jenkins moved to recommend that the ERCOT Board confirm its direction that (1) ERCOT bear losses recorded on investment in funds offered by The Reserve rather than uplift or otherwise share the losses with Market Participants and Texas RE, and (2) ERCOT pay Market Participants and Texas RE a reasonable, market-based rate of interest for the time that funds are held by ERCOT on their behalf. Michehl Gent seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Sales Tax Gain Contingency

Mike Petterson directed the Committee's attention to the Interoffice Memorandum entitled "Accounting Treatment for Sales Tax Refund Requests" distributed prior to the meeting. He noted the analysis and conclusion set out in the memo in support of the decision to exclude recognition of sales tax refund that had been requested by ERCOT in the 2008 financial statements. Miguel Espinosa asked the Committee if further discussion was needed and members agreed none was needed.

Review of Nodal Surcharge Options and Debt Financing

After directing the Committee to materials distributed prior to the meeting, Ms. Yager led a discussion of Nodal surcharge options and debt financing. Ms. Yager pointed out that the Nodal program cost that would be financed through the Nodal Surcharge (\$526.4M) did not include financing costs or interdependent projects costs. Ms. Yager and the Committee discussed at length Nodal Program cost recovery options described in the materials as Options 1 through Option 5. She noted that staff did not consider Option 1 ("No Change") to be consistent with previously stated financing goals, but included it for comparison purposes. She noted further that ERCOT believes the scenarios shown in Options 2 through Option 5 could be financed with the following caveats: (1) The plan is approved by the PUCT, (2) credit markets do not deteriorate, and (3) no significant unexpected borrowing needs arise. Ms. Yager asked the Committee to consider which option they preferred for recommendation to the Board. Robert Thomas asked how much the Nodal project debt would add to the total ERCOT debt and Mr. Byone and Ms. Yager concurred that it would be an additional \$150M. In response to an observation by Mr. Jenkins, Ms. Yager confirmed that the peak debt did not change much among the options. Mr. Byone added that the options with a quicker pay down would likely be

easier to finance. After a lengthy discussion, Don Ballard moved to recommend that the Board approve Option 3 ("Historical ERCOT Capex Revenue Funding Options – 40%"). No Committee member chose to second Mr. Ballard's motion. **Charles Jenkins moved to recommend that the Board approve Option 2 ("Flat Fee Option"). Michehl Gent seconded the motion. The motion passed by voice vote.**

Miguel Espinosa informed the Committee that he had requested Bob Kahn and Bob Helton to prepare a plan for integrating Steve Byone and the ERCOT Finance group into the Nodal process.

Review and Approval of Updated Investment Standard

Cheryl Yager directed the Committee to information in their materials covering the review and approval of revisions to the Investment Standard. Ms. Yager led a discussion on key changes to the Investment Standard proposed for the purpose of improving credit quality of investment; protecting liquidity; and defining who bears risk of loss on investment for market funds and fielded questions and comments.

On improving credit quality of investment, Ms. Yager recommended ERCOT limit investment options to ones that are "obligations of or guaranteed by the US Government" (Treasuries); establish an internal monthly review of instruments in money market funds and provide the Board with a list of securities held in funds. On protecting liquidity, Ms. Yager suggested that ERCOT require diversification in at least two fund families and move toward limiting amounts held per fund. Ms. Yager then discussed considerations for determining who should bear the risk of loss. Mike Grable referred the Committee to his Memorandum on "Assigning Investment Losses to Market Participants" in the materials. Committee members commented that ERCOT appeared to be in the forefront of this issue compared to other ISOs.

Committee members discussed the options included on the redlined version of the Investment Standard for investment losses. **Charles Jenkins moved to recommend that the Board approve the changes to the Investment Standard presented in the Board materials and identified as Board Agenda Item 11(b) including Option B for Investment Losses and excluding the final sentence from the Option B description and Option A in its entirety. Dan Wilkerson seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Credit Update

Review of ERCOT Market Credit Risk Standard Draft

Cheryl Yager referred the Committee to the draft ERCOT Market Credit Risk Corporate Standard included in their materials. Steve Byone commented that the Corporate Standard has been in draft form for over a year. Robert Thomas asked if the Credit Model had been vetted by Market Participants and Ms. Yager said that it had been presented to Market Participants, but ERCOT had not been asked to provide further background material. Mr. Byone said this item would be brought back to F&A Committee for consideration in the future.

Review of Credit Statistics

Cheryl Yager directed Committee members to the Credit Statistics report in their materials covering credit data as of December 31, 2008 and as of January 31, 2009. She noted that not much had changed since the previous month and that there were a large number of Guarantee Agreements in place. Steve Byone commented that less than 10% of Market Participants meet credit criteria and are accordingly required to post collateral. Mr. Byone informed the Committee that ERCOT monitors exposure on a daily basis. Ms. Yager added that staff

monitors all information available including market press releases and anecdotal information. Cheryl Yager noted that ISOs play catch up on collateral and sometimes must operate in a reactive mode when exposure changes.

Review of Unsecured Credit Process

Cheryl Yager referred the Committee to the Unsecured Credit Process Overview in their materials that included a process summary, key statistics and a review of key ISO credit policies and proposed changes. Ms. Yager highlighted the proposed ISO credit changes versus those already in place at ERCOT. Ms. Yager also directed the Committee to the data on unsecured credit key statistics and invited questions and comments. She also provided an overview on minimum credit rating for unsecured credit, minimum bank letter of credit rating, and bank letter of credit concentration limit per Market Participant.

Update on Financial Statement Requirement Enforcement

Cheryl Yager told the Committee that ERCOT was in the process of preparing a filing with the Public Utility Commission to notify them of entities that do not comply with the Financial Statement requirement in the Protocols. Ms. Yager further said that with the Committee's permission, ERCOT intends to waive prior non-compliance in 2008. She added that ERCOT intended to make a similar filing with the PUCT every quarter going forward within 30 days of the due date for financial statements.

Update on Uplifts in Process

Ms. Yager informed the Committee that in June/July 2008, the market experienced short payments when five Market Participants defaulted on their agreements with ERCOT. She added that ERCOT was in the process of uplifting the amounts of unpaid invoices to QSE's on a Load Ratio Share basis.

Review and approval of the Standard Form Guarantee Agreements

Mike Grable referred the Committee to the standard form guarantee agreements and other materials distributed prior to the meeting relating to the Board Agenda Item 11(c). Mr. Grable noted that, as previously instructed by the Committee, the Market Participant Guarantee Agreement and Foreign Market Participant Guarantee Agreement forms had been revised to incorporate a waiver of substantive defenses and provisions on demand and receipt of funds. Charles Jenkins asked that ERCOT Legal review the ADR language to confirm that Market Participants' ADR rights were preserved. Mr. Jenkins referred to the decision template in the Board materials and commented that the sentence including the phrase "equal footing" was not accurate. Mr. Byone agreed to remove the sentence. **Dan Wilkerson moved to recommend that the Board approve the Market Participant Guarantee Agreement and Foreign Market Participant Guarantee Agreement forms presented in the Board materials. Robert Thomas seconded the motion. The motion passed by voice vote with no abstentions.**

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)

Future Agenda Items

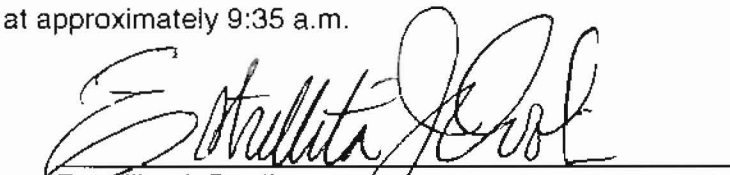
The following list of agenda items was proposed for the meeting scheduled for March 2009:

1. Standing Internal Audit agenda items
2. Market Credit Risk Standard
3. Financial audit update
4. Update on Nodal filing
5. Third party audit planning
6. Committee briefs
7. Future agenda items

Steve Byone added that review of the Market Credit Risk Standard would be added to the agenda for the meeting scheduled for April 2009.

Adjournment

Miguel Espinosa adjourned the meeting at approximately 9:35 a.m.



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