

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
MINUTES OF THE FINANCE & AUDIT COMMITTEE – GENERAL SESSION
7620 Metro Center Drive – Austin, Texas 78744
March 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. 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 8:21 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	Not Present
Karnei, Clifton (Chair)	Brazos Electric Cooperative	Cooperative	Present
Thomas, Robert	Green Mountain Energy	Independent Retail Electric Provider	Not Present (however, Mr. Cox voted as his proxy)
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Bartley, Steve	CPS Energy	Municipal	Present
Crowder, Calvin	AEP Service Corporation	Investor Owned Utility	Present
Fehrenbach, Nick	City of Dallas	Commercial Consumer	Present
Helton, Bob	International Power America	Independent Generator	Present
Newton, Jan	Unaffiliated Board Member	Unaffiliated Board Member	Present
Patton, A.D.	Unaffiliated Board Member	Unaffiliated Board Member	Present
Smitherman, Barry	Public Utility Commission	PUC Chairman	Present

ERCOT staff and guests present:

Anderson, Troy	ERCOT – Manager, Program Administration & Analysis
Brenton, Jim	ERCOT – Director, Security
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Cleary, Mike	ERCOT – Senior Vice President and Chief Technology Officer
Day, Betty	ERCOT – Director, Markets
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doggett, Trip	ERCOT – Senior Vice President & Chief Operating Officer
Doolin, Estrellita	ERCOT – Assistant General Counsel
Goff, Eric	Reliant
Grable, Mike	ERCOT – Vice President and General Counsel

Headrick, Bridget	PUCT
Kahn, Bob	ERCOT – President and Chief Executive Officer
Leady, Vickie	ERCOT – Associate Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant, Finance
Manning, Chuck	ERCOT – Vice President and Chief Compliance Officer
O'Desky, Amy	ERCOT – Supervisor, Internal Audit
Petterson, Mike	ERCOT – Controller
Roberts, Grady	ERCOT – Director, Contract Administration & Procurement
Stauffer, Tarra	ERCOT – Legal Assistant
Wullenjohn, Bill	ERCOT – Director, Internal Audit

Approval of Prior Meeting General Session Minutes

Don Ballard requested that the February General Session minutes be revised to note that he had moved to recommend that the Board approve Option 3 ("Historical ERCOT Capex Revenue Funding Options - 40%") and that no Committee member had chosen to second his motion.

Michehl Gent moved to approve the minutes for the General Session of the Finance & Audit Committee meeting held on February 17, 2009 with the revision requested by Mr. Ballard. Calvin Crowder seconded the motion. The motion passed by voice vote with no abstentions.

Financial Update

Update on Investment Balances

Steve Byone referred the Committee to materials distributed prior to the meeting and provided an update on ERCOT's investment fund balances as of February 28, 2009. Mr. Byone informed the Committee that some improvements were being seen and that more details would be provided at the Committee's next meeting.

Update on ERCOT, Inc. Tax Status

Steve Byone provided the Committee with an overview of ERCOT activities to date relating to gaining an ability to issue tax-exempt debt. Mr. Byone noted that ERCOT had chosen to pursue a staged approach by first converting from a 501(c)(6) entity to a 501(c)(4) entity. He referred to a timeline showing the steps toward tax-exempt status from 2005 to the present and added that the staged conversion to a 501(c)(4) entity had enabled ERCOT to benefit by over \$40 million in savings and tax refunds. Mr. Byone acknowledged PUC Chair Smitherman's interest in analyzing potential benefits of ERCOT converting to a 501(c)(3) entity. Mr. Byone then reviewed the results of a preliminary analysis of potential interest expense savings of a tax-exempt structure and responded to questions. Mike Grable added that ERCOT had consulted an outside law firm that has assisted other ISOs with similar tax matters. Mr. Karnei commented that an independent consultant had been engaged to assist with previous financial transactions and asked whether it was a good time to do so again. Mr. Byone responded that considering assistance from an outside consultant was an excellent idea. Mr. Smitherman added that there are firms that would provide assistance free of charge and encouraged Messrs. Kahn and Byone to reach out to those firms. Don Ballard asked for clarification on any governance or structural issues that might be related to converting to a 501(c)(3) entity. Mr. Grable responded that all the governance requirements the IRS may impose were unknown at this time and that pending state legislation, if passed, could change the structure of the Board. Mr. Smitherman asked about the description of the Boards of other ISOs that are 501(c)(3) entities. Mike Grable handed out a draft document listing comparative data.

Update on Debt Funding and Financing Plan

Steve Byone provided an update on projected financing needs for 2009. He directed the Committee to previously distributed materials on ERCOT's debt funding and financing plan including projected borrowing, temporary financing and key assumptions around ERCOT's five-year debt profile. Mr. Byone answered questions and emphasized the need to lock down any additional financing by the middle of the summer.

Financial Standard

In response to the PUCT's expressed strong desire for ERCOT to develop a more definitive policy on debt financing, Steve Byone presented staff's proposal to change the ERCOT Financial Corporate Standard to establish a minimum level of equity (revenue) funding when approving proposed Project Budgets. Clifton Karnei noted that the language would take away one of the three tools available for managing the budget, namely (1) increasing the System Admin fee, (2) changing the cut line on the prioritized project list ("PPL"), and (3) adjusting a portion of capital projects funded with debt. Brad Cox noted that the debt-to-equity metric has its limits when applied to ERCOT and cautioned against being too rigid with guidelines based on an application of the debt-to-equity metric to ERCOT. After extensive discussion, **Don Ballard moved to recommend that the Board approve the proposal to revise the ERCOT Financial Corporate Standard as presented in the board materials. Dan Wilkerson seconded the motion. Motion passed by voice vote with no abstentions.**

Reconsideration of Nodal Surcharge Rate

Steve Byone commented that during the PUCT Open Meeting on February 26, 2009, PUC Chair Smitherman had requested that ERCOT develop a plan to address the equity contribution level for the Nodal Program. He then directed the Committee to materials provided prior to the meeting—specifically, the table setting forth several options for funding the Nodal Project. Committee members discussed the pros and cons of the options. **Don Ballard moved to recommend that the Board approve Option 3 ("Historical ERCOT Capex Revenue Funding Options – 40%"). Mr. Karnei clarified that the recommendation would be to approve Option 3a or 3b depending on PUC action. Miguel Espinosa seconded the motion. The motion passed by voice vote with no abstentions.**

Financial Audit Update

Mike Petterson reported on the status of the independent, external audit of ERCOT's 2008 financial statements which PricewaterhouseCoopers (PwC) commenced on March 9, 2009. He mentioned that there were no material issues to report after the first week of audit fieldwork. He also mentioned that the audit included the review of TRE financial statements. Mr. Petterson and Mr. Byone confirmed that the audit report would be complete before the next Committee meeting and that Sean Barry with PwC would attend the meeting to review the report.

Financial Oversight for Nodal Program

Steve Byone referenced the Internal Audit Department's findings from the audit of Nodal Budget to Actual management and Financial Organization and Control. He provided an outline of a plan for the CFO organization to assume direct oversight of Nodal budget control and reporting. Mr. Byone said that he would work with the Nodal team to finalize details of the plan and report to the Committee in April. Mr. Ballard asked that updates on Nodal Program finance be a standing item for the Committee. Mr. Espinosa added that time was of the essence with this issue and that the finalized plan needed to be acted upon as soon as possible.

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)

Clifton Karnei asked for an update on the Market Participant Guarantee Agreements. Chad Seely informed the Committee that ERCOT staff had begun the process of replacing the old agreement forms with the new forms and had not experienced significant pushback from any Market Participant. Mr. Seely added that he expected the new forms to be in place for all Market Participants by the end of April.

David Troxtell pointed out two large Projects scheduled to move into execution: PR80047_01 TCC1 Data Center Expansion and PR80027_01 Advanced Metering Interim Settlement Solution. Mr. Ballard commented that he believed the Advanced Metering Project was the second priority behind the Nodal Project.

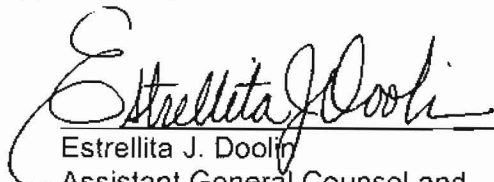
Future Agenda Items

Mr. Byone identified the following future agenda items:

1. Contract Administration briefing
2. Standing Internal Audit agenda items
3. Market Credit Risk Standard
4. Financial audit update
5. Update on Nodal filing
6. Insurance update (May 2009)
7. Financing update
8. Investment update
9. Annual review of the procedures for handling reporting violations
10. Committee briefs
11. Future agenda items

Adjournment

Clifton Karnei adjourned the meeting at approximately 9:27 a.m.



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