

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
MINUTES OF THE FINANCE & AUDIT COMMITTEE – GENERAL SESSION
7620 Metro Center Drive (Room 168) – Austin, Texas 78744
April 22, 2009

Pursuant to notice duly given, the Finance & Audit Committee of the Electric Reliability Council of Texas, Inc. convened on the above-referenced date. Chair Clifton Karnei confirmed that a quorum was present and called the meeting to order at approximately 7:31 a.m. The Committee met in Executive Session from 7:31 a.m. to 8:40 a.m., at which time it recessed to General Session. The Committee met again in Executive Session for a few minutes after the General Session and immediately before adjournment.

General Session Attendance

Committee members:

Ballard, Don	Office of Public Utility Counsel	Residential Consumer	Present
Cox, Brad	Tenaska Power Services	Independent Power Marketer	Not Present
Espinosa, Miguel (Vice Chair)	Unaffiliated Board Member	Unaffiliated Board Member	Present
Gent, Michehl	Unaffiliated Board Member	Unaffiliated Board Member	Present
Jenkins, Charles	Oncor Electric Delivery Company	Investor Owned Utility	Not Present
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative	Present
Thomas, Robert	Green Mountain Energy Company	Independent Retail Electric Provider	Present
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Bartley, Steve	CPS Energy	Municipal	Present
Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility	Present
Patton, A.D.	Unaffiliated Board Member	Unaffiliated Board Member	Present
Ryall, Jean	Constellation Energy	Independent Power Marketer	Present
Smitherman, Barry	Public Utility Commission of Texas	PUC Chairman	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT staff and guests present:

Barry, Sean	PricewaterhouseCoopers
Bassett, Ryan	PricewaterhouseCoopers
Brenton, Jim	ERCOT – Director, Security
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Cleary, Mike	ERCOT – Senior VP and Chief Technology Officer
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doolin, Estrellita	ERCOT – Assistant General Counsel
Grable, Mike	ERCOT – Vice President and General Counsel
Jefferis, Don	Opportune, LLC
Kahn, Bob	ERCOT – President and Chief Executive Officer
Leady, Vickie	ERCOT – Corporate Counsel

Lester, Suzanne	ERCOT – Executive Assistant, Finance
Petterson, Mike	ERCOT – Controller
Roberts, Grady	ERCOT – Director, Contract Administration & Procurement
Stauffer, Tarra	ERCOT – Legal Assistant
Troxell, David	ERCOT – Director, PMO
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT - Treasurer

Approval of Prior Meeting General Session Minutes

Clifton Karnei referred Finance & Audit Committee (Committee) members to a document that set forth revisions (as proposed by Brad Cox) to the draft minutes for the General Session of the Committee meeting held March 17, 2009. **Miguel Espinosa moved to approve the minutes for the General Session of the Finance & Audit Committee meeting held on March 17, 2009 with the revisions submitted by Brad Cox. Michehl Gent seconded the motion. The motion passed by voice vote with no abstentions.**

Vote on Items from Executive Session

Mr. Espinosa moved to approve staff's recommendation to extend the maturity of an existing short-term credit facility. Mr. Gent seconded the motion. The motion passed by voice vote with no abstentions.

Briefing on ERCOT Contract Administration

Grady Roberts referred to the materials previously provided to the Committee and described the process by which business users request, approve and execute contracts per ERCOT operating procedures. He noted that the Contract Administration Department at ERCOT operated as the facilitator for vendor contract activity. Don Ballard inquired where the contract administration function resided in the ERCOT structure and how such placement compared to other companies. Mr. Roberts replied that the Contract Administration Department was part of the ERCOT Finance organization and that the usual place for the contract administration function, based on his experience, was in the Operations or Finance organization. Mr. Roberts noted that business users and project managers manage day-to-day vendor performance under contracts by establishing controls over cost, risk, schedule, change and quality. Mr. Espinosa inquired about possible improvements to the contract administration process. Mr. Roberts replied that areas for development include upgrading skill sets to manage complex procurements and negotiations; broadening the ability to focus on vendor issues/concerns after contract execution; moving from a contract-centric thinking to life-cycle governance thinking; and augmenting internal skill sets with external expertise as warranted.

Mr. Roberts explained how outside experts are used when necessary and noted the use of the third-party contract negotiator for the Nodal Program. Bob Kahn assured the Committee members that ERCOT was where it needs to be with respect to managing vendors and contracts and that ERCOT has a realistic and achievable road map for future vendor activities. Mr. Espinosa expressed concern about the potential for risk if ERCOT focuses only on meeting deliverables at the cost of cutting procedural corners. Mr. Kahn replied that there are ample checks and balances and adequate oversight on the Nodal Program. Robert Thomas and Dan Wilkerson asked what the process would be if Contract Administration had a disagreement with the business user or project manager about a contract issue. Steve Byone responded that the matter would be escalated through the Legal Department, Bob Kahn and himself. Don Ballard expressed a desire to have a periodic update on Contract Administration, and Steve Byone replied that this topic would be added as a future agenda item.

Market Credit Risk Standard

Cheryl Yager led a brief discussion of the draft Market Credit Risk Standard, provided in the Committee materials. She advised that this proposed Standard would be brought for Committee approval and Board approval at the May 2009 Committee and Board of Directors meetings. Ms. Yager stated the proposed Standard's objective was financial stability and integrity in the market place. She added that the proposed Standard would define how risk is measured. Mr. Karnei confirmed with Ms. Yager that the proposed Standard could be refined in the future if needed. Mr. Karnei asked for any comments on the draft, but received no recommendations for revisions.

Update on Annual Financial Audit

Sean Barry and Ryan Bassett of PricewaterhouseCoopers (PwC) presented highlights from the 2008 annual financial statement audit. Mr. Barry advised the Committee that PwC had completed the audit of ERCOT Inc.'s 2008 financial statements and was prepared to issue an unqualified opinion following acceptance of the audited financial statement by the Finance & Audit Committee. Mr. Barry noted two changes to the previously provided draft 2008 ERCOT financial statements. Mr. Karnei confirmed that PwC would provide revised audited financial statements to all Board members that day. Miguel Espinosa inquired if PwC had any major areas of concerns with the Nodal program capitalized costs. Mr. Barry responded that after extensive testing, no major concerns were identified. Mr. Barry advised that the Texas Regional Entity (TRE) audit was embedded in the ERCOT audit and was comprised of separate financial reporting. During a more detailed discussion of audit fieldwork, Ryan Bassett added that asset balances and transactions were thoroughly tested and reviewed and concluded that PwC (1) discovered no account reconciliation issues, (2) proposed no entries to adjust the financial statements, and (3) observed substantial improvement in accounting and financial reporting practices. Mr. Thomas asked if audit testing included allocations to the Nodal Program and Mr. Barry responded affirmatively. Mike Petterson discussed treatment of a single true-up adjustment made by management in mid-2008 and related to the estimation and allocation of interest expense to the Nodal Program. Mr. Petterson also discussed management judgments relating to the allocation of payroll taxes and other employee benefits associated with ERCOT staff time invested in the implementation of the Nodal Program. **Miguel Espinosa moved to recommend that the Board accept the PricewaterhouseCoopers, LLP Report on Audit of Financial Statements for the Years Ended December 31, 2008 and 2007. Michehl Gent seconded the motion. The motion passed by voice vote with no abstentions.**

Update on Nodal Filing

Steve Byone reported that staff had filed the updated Nodal rate case on March 31, 2009. He noted that the rate requested would achieve 40 percent equity / 60 percent debt split by Nodal go-live in December 2010.

Investment Update and Quarterly Review of Investment Results

Cheryl Yager directed the Committee to materials previously distributed and provided a summary of ERCOT Investments for First Quarter 2009. Ms. Yager noted the steps taken by ERCOT staff when considering -new investment funds including reviewing the Prospectus and other relevant information to ensure the prospective fund (a) meets all requirements of the revised Investment Corporate Standard, (b) provides controls that meet ERCOT requirements, and (c) meets ERCOT liquidity requirements. Ms. Yager concluded by directing the Committee to the list of funds under consideration.

Annual Review of Procedures for Handling Reporting Violations

Mike Petterson updated the Committee on the procedures in place to handle employee concerns relating to financial reporting. He explained that employees might report their

concerns to (a) any Manager or Director; (b) any representative of the Human Resources, Legal or Internal Audit Departments; (c) any member of the PUCT staff; (d) any ERCOT Board member; and (e) the EthicsPoint tool for anonymous reporting. He added that employees receive training to ensure they are aware of the options annually during the ethics reaffirmation process.

2009 Financial Forecast Update

Mike Petterson informed the Committee that the total reforecast of 2009 had been delayed primarily as a result of preplanning the Nodal Program and comprehensive new load forecast due to be completed in May. He noted that although revenues were not sufficient to cover expenses, a net favorable budget variance was expected for 2009 due to receipt of prior year sales tax refunds. Don Ballard inquired about alternative options to make up the revenue shortfall and Mr. Byone commented that alternative options included cutting costs, increasing the system administration fee, and incurring more debt.

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 items were identified as future agenda items:

1. Standing Internal Audit agenda items
2. Standing Investment update
3. 2010 Budget assumptions and planning
4. Insurance update
5. Update on financing plan
6. External audit draft request for proposal
7. Committee briefs
8. Future agenda items

Adjournment

Clifton Karnei adjourned the meeting at approximately 10:03 a.m.



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