

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
 MINUTES OF THE FINANCE & AUDIT COMMITTEE MEETING – GENERAL SESSION
 7620 Metro Center Drive – Austin, Texas 78744
 May 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 8:48 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	Not Present (however, Mr. Gent voted as his proxy)
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:

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

ERCOT staff and guests present:

Adib, Parviz	APX
Brandt, Adrienne	Austin Energy
Brenton, Jim	ERCOT – Director, Security
Bruce, Mark	FPL Energy
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Claiborn-Pinto, Shawnee	Public Utility Commission of Texas
Davies, Morgan	Calpine
Day, Betty	ERCOT – Director, Markets
Doolin, Estrellita	ERCOT – Assistant General Counsel
Dreyfus, Mark	Austin Energy
Farley, Karen	ERCOT – Manager, Retail Customer Choice
Grable, Mike	ERCOT – Vice President and General Counsel
Kahn, Bob	ERCOT – President and Chief Executive Officer
Kleckner, Tom	ERCOT – Nodal Communications Strategist
Kolodziej, Eddie	Customized Energy Solutions
Leady, Vickie	ERCOT – Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant, Finance

Ogelman, Kenan	CPS Energy
Petterson, Mike	ERCOT – Controller
Roberts, Grady	ERCOT – Director, Contract Administration & Procurement
Stauffer, Tarra	ERCOT – Legal Assistant
Stephenson, Randa	Luminant
Taylor, William	Calpine
Troxell, David	ERCOT – Director, Project Management
Whittmeyer, Bob	DME
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT - Treasurer

Approval of Prior Meeting General Session Minutes

Robert Thomas moved to approve the minutes for the General Session of the Finance & Audit Committee (Committee) meeting held on April 22, 2009. Don Ballard seconded the motion. The motion passed by voice vote with Brad Cox abstaining.

Vote on Items from Executive Session

Dan Wilkerson moved to recommend that the Board of Directors (Board) approve the ERCOT staff recommendation regarding debt financing and liability risk management as outlined in materials provided to Board members for its Executive Session to be held May 20, 2009. Robert Thomas seconded the motion and the motion passed by voice vote.

Approval of Internal Audit Department Charter

Robert Thomas moved to approve the Internal Audit Department Charter as presented in the materials provided to Committee members for its meetings held April 22, 2009 and May 20, 2009. Dan Wilkerson seconded the motion and the motion passed by voice vote.

2009 Operating Budget Update

Bob Kahn and Mike Petterson updated the Committee on ERCOT's financial performance relative to the approved base operating budget through April 30, 2009. Mr. Kahn and Mr. Petterson explained that the overall negative budget to actual variance primarily resulted from (a) increased labor expense due to less work on the Nodal Project and (b) reduced energy consumption, which negatively impacts revenues. Mr. Kahn commented that staff was striving to have a balanced budget by the end of 2009. He added that steps to reduce expenses had been put in place and that more information on the labor expense issue would be provided by Mike Cleary who was expected to present information about the Nodal Program Equivalent Annual Costs (EACs) in June.

Mike Petterson referred to the table comparing revenue requirements to income sources (provided in advance of the meeting) and expounded on three items. He first discussed the unfavorable variance for "Base Operating Expenses." He noted the variance resulted from (a) internal effort on projects being below budget levels and (b) a reduced allocation credit—which is based on total Nodal Project spend. Secondly, he talked about the \$3.3 million favorable variance for "Revenue-Funded Project Expenditures." Mr. Petterson informed the Committee of staff's expectation that spending would accelerate later in the year. Thirdly, Mr. Petterson discussed the unfavorable variance for "System Administration Fee." He noted that the below budget energy consumption level was the result of weather and economic factors. He also opined that the negative variance was permanent in nature.

Mr. Petterson concluded by outlining cost control initiatives being used by management including limiting non-essential travel, deferring non-critical outside services, re-negotiating support/license agreements and limiting minor capital purchases.

2010 Budget Assumptions and Planning

Mike Petterson directed the Committee to the Budget Development Schedule included in the materials provided prior to the meeting. He highlighted key dates for Committee and Board review and approval of the 2010 Budget including the following:

- | | |
|--------------------|--|
| June 16, 2009 | ERCOT staff solicits input regarding strategic direction and budget assumption from Board members. |
| August 18, 2009 | Finance and Audit Committee provide preliminary budget recommendation to the full Board. |
| September 15, 2009 | ERCOT staff request that the Board approve the 2010 Base operating budget and authorize filing of a fee case with the PUCT (if necessary). |

As part of the discussion about assumptions for the budget, Michehl Gent commented that any change to the Texas RE structure would likely occur in late 2010. He suggested that the preparers of the budget use the status quo with respect to the Texas RE structure.

Mr. Byone pointed out to the Committee that the tentative schedule included a proposed Finance and Audit Committee Special Meeting on August 4, 2009. Mr. Karnei asked that staff email Committee members with some alternate dates for the proposed Special Meeting.

Investment Status Update

Cheryl Yager informed the Committee that ERCOT investments continue to be held in money market funds that hold Treasury or Treasury-backed securities. She noted that investments are split between accounts with JPMorgan and Federated. She added that staff was taking steps to increase the number of funds available for investment dollars by opening new accounts with new funds.

Market Credit Risk Standard

After Clifton Karnei noted that the Committee had previously reviewed and discussed the draft Market Credit Risk Standard during its meeting on April 22, 2009, **Michehl Gent moved to recommend that the Board authorize and approve the Market Credit Risk Standard as presented in materials provided to Board members for its meeting on May 20, 2009. Dan Wilkerson seconded the motion and the motion passed by voice vote.**

Market Credit Work Group Proposal for Market Losses

Morgan Davies distributed to the Committee a seven-page document entitled "ERCOT Market Credit Working Group Presentation to the Finance and Audit Committee - Payment Short Pay/Default and Uplift for Congestion Revenue rights (CRRs) – May 20, 2009" then reviewed each page of the document. The document included the following list of issues: (1) Present nodal protocols for a short pay by an entity in the Congestion Revenue Rights (CRR's) market will result in the Day Ahead Market (DAM) being short paid; (2) Stakeholders have identified the present nodal protocol CRR short pay methodology as problematic; and (3) NPRR147 drafted by stakeholders attempts to remedy the existing issue of short paying in the DAM. The document also set out details about NPRR147 and two proposed alternatives to NPRR147. Mr. Davies and Cheryl Yager responded to comments and questions from Committee members.

Ms. Yager concluded the discussion by noting that there were many mechanics to be worked out with both of the proposed alternatives and that staff would create a list of staff's concerns for the Committee's consideration.

Committee Briefs

Materials were 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)

David Troxtell informed the Committee that information about two large projects (PR80001 Met Center Disposition and PR50088 Data Research and Reporting) would be presented during the Board meeting. Steve Byone informed the Committee staff would (in the next two to three months) present proposed changes to the Enterprise Risk Management (ERM) process.

Future Agenda Items

The following topics were identified as future agenda items:

1. NPRR147 and Proposed Alternatives
2. Standing Internal Audit agenda items
3. Review the Company's dealings with any financial institutions that are also market participants
4. Debt financing and liability risk management update
5. 2010 budget planning update
6. 2009 Operating plan – updated forecast
7. External audit Request for Proposal (RFP)
8. Standing Investment update
9. Committee briefs
10. Future agenda items

Adjournment

Clifton Karnei adjourned the meeting at approximately 9:50 a.m.



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