

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**MINUTES OF THE FINANCE & AUDIT COMMITTEE – GENERAL SESSION**  
**7620 Metro Center Drive – Austin, Texas 78744**  
**July 21, 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 **8:00 a.m.** The Committee met in Executive Session from **8:00 a.m. to 8:30 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 (via telephone)
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 Electric Delivery Company	Investor Owned Utility	Present
Karnei, Clifton (Chair)	Brazos Electric Cooperative	Cooperative	Present
Thomas, Robert	Green Mountain Energy Company	Independent Retail Electric Provider	Present
Wilkerson, Dan	Bryan Texas Utilities	Municipal	Not Present

**Other Board Members and Segment Alternates:**

Bartley, Steve	CPS Energy	Municipal	Present
Walker, Mark	NRG Texas	Independent Generator	Present

**ERCOT Staff and Guests:**

Baker, Randy	ERCOT – Director, Credit Risk Management
Brenton, Jim	ERCOT – Director, Cyber Standards
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Deskins, Andy	Wachovia
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doolin, Estrellita	ERCOT – Assistant General Counsel
Goff, Eric	Reliant Energy
Grable, Mike	ERCOT – Vice President and General Counsel
Kahn, Bob	ERCOT – President and Chief Executive Officer
Karnei, Cassie	Daughter of Clifton Karnei
Lester, Suzanne	ERCOT – Executive Assistant, Finance
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Morgan, Richard	ERCOT – Vice President and Chief Information Officer
Petterson, Mike	ERCOT – Controller
Stauffer, Tarra	ERCOT – Legal Assistant
Walsh, Meg	ERCOT – Manager, Procurement
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT – Treasurer

### **Approval of Prior Meeting General Session Minutes**

**Miguel Espinosa moved to approve the minutes for the General Session of the Finance & Audit Committee (Committee) meeting held on June 16, 2009. Charles Jenkins seconded the motion. The motion passed by voice vote with no abstentions.**

### **Preliminary 2010 Budget**

Mike Petterson provided an overview of the preliminary 2010 Budget, and then directed the Committee to the materials provided to them prior to the meeting. Mr. Petterson outlined funding requirements and reviewed assumptions underlying the preliminary 2010 budget. He discussed staffing issues including headcount growth, market-based compensation, and ERCOT staff time invested in the Nodal Program and base projects. Mr. Petterson also informed the Committee that the project priority list incorporated in the preliminary 2010 budget was developed with market participant input and approval.

Mr. Petterson reminded the Committee that the 2010 Budget would be presented at the Special F&A Meeting/Public Input Meeting scheduled for August 17, 2009, and that the ERCOT Board of Directors would be asked to approve the 2010 Budget at the September 15, 2009 Board meeting.

Bob Kahn added that staffing recommendations for budget reductions would be vetted by the Human Resources & Governance Committee and shared at the August Finance and Audit Committee Meeting. Mr. Gent expressed concern about cuts negatively affecting reliability. Mr. Kahn confirmed that he would not approve any budget cuts that would negatively affect reliability.

With reference to the list of fee increase drivers included in the materials, Mr. Karnei inquired into the variance attributed to zero vacancy savings. Steve Byone explained that while an assumption of 8 percent was used for vacancies for the 2009 budget, an assumption of 3-4 percent might be more appropriate for the 2010 budget. Moreover, Mr. Byone clarified that the reduced percentage for vacancies was due to a lower turnover rate and the ability to fill vacancies quickly. He also noted that some critical positions were back-filled with contract workers.

Mr. Petterson directed the Committee to the budget line item for Special Review (schedule line 12) and explained that the figure is an estimate for funding the Sunset Review in which ERCOT will participate. Mr. Kahn added that management had a call in to the Sunset Commission seeking clarification regarding anticipated expenses for the review.

Mr. Gent asked about the budget line item for NERC Dues (schedule line 19) noting that the amount in the ERCOT budget remained flat from 2009 to 2010 even though NERC had announced that they expect to increase dues by 40percent. Mr. Gent also asked if the budget included an estimate of potential penalties and fines that may be imposed by NERC in connection with their compliance audits of ERCOT. Mr. Kahn explained that he did not believe it was appropriate for the organization to budget for compliance-related penalties and fines.

Mr. Byone highlighted the budget line item Debt Service – Interest (schedule line 22) and mentioned that the debt reduction shown was a result of lower assumed interest rates.

Mr. Gent referred to the budget line item Other Revenue (schedule line 29) and asked about the reduced forecast. Mr. Petterson noted that Other Revenue included amounts received from generation interconnection studies, ERCOT membership dues and wide-area network administration fees among other smaller items.

Mr. Gent asked what benefits make up the payroll benefits calculation, to which Mr. Petterson responded that the payroll benefits calculation included payroll taxes, retirement plan contributions, health insurance benefits, and other similar items. He also noted that the benefit load, used to develop the preliminary 2010 budget was 35 percent.

Mr. Petterson then summarized the Committee's "next steps", as outlined in the Committee materials.

#### **2009 Operating Plan – Updated Forecast**

Mr. Petterson directed the Committee to a schedule that summarized ERCOT's year-to-date financial performance. He reminded the Committee that management took the situation seriously, recognized the need to respond immediately and had developed and started implementing a plan to eliminate substantially unfavorable financial variance by the end of 2009.

#### **Management of Potential Credit Losses under Nodal Market Structure**

Cheryl Yager provided an update on the management of potential credit losses under the Nodal market structure. She summarized relevant Nodal Protocols, noted that the focus issue was credit losses in the Nodal Day Ahead Market, and reviewed proposed solutions being considered by the market. She commented that the Committee was being briefed on the issue because one proposal being discussed required ERCOT, Inc. to provide short-term financing for certain credit losses.

Ms. Yager directed the Committee to their materials and led a discussion on the pros and cons of several alternatives to finance credit losses in the short term, including issues with ERCOT, Inc. providing a facility. Included in the discussion was a review of how other ISOs fund credit losses. Mr. Byone commented that moving forward with an alternative that required ERCOT, Inc. to fund certain credit losses could have an effect on the corporation's credit rating. Ms. Yager added that because of the need to have a payment recovery mechanism, PUCT buy-in on the alternative selected was important.

#### **Treasury Update – Quarterly Investment Update**

Ms. Yager provided the Committee with the Quarterly Investment Update and directed Committee members to the materials provided to them prior to the meeting, including the Summary of Investment Results for Second Quarter 2009. She noted that investments continue to be spread between two fund families and informed the Committee that staff was in the process of opening additional fund accounts. Mr. Espinosa voiced his strong advisement that ERCOT move quickly to open additional fund accounts. Mr. Byone noted that many desirable funds were closed for much of the first part of the year and agreed to push harder towards opening new accounts. Mr. Karnei noted that existing investments were in money market funds that hold Treasury or Treasury-backed securities.

#### **Briefing on Results of Pilot Procurement Card Program**

Mr. Byone introduced Meg Walsh, Procurement Manager, who provided the Committee with details on the pilot Procurement Card (P-Card) Program. Ms. Walsh began by explaining that the first phase of the pilot program is made up of a select number of users who purchase high volume, small dollar items. Ms. Walsh added that Internal Audit completed an audit of the program processes and business controls on June 29, 2009 and that the next roll out would be for travel expenses. She thereafter gave an overview of the benefits of using the P-Card for travel purposes. Ms. Walsh explained that eventually the P-Card would be used in Accounts Payable, whereby payment volumes will go towards a rebate program for ERCOT based on total spends. Ms. Walsh reassured the Committee that finance management continuously

assesses this pilot program, and improvements are correspondingly implemented. Finally, Ms. Walsh provided examples of improvements that have been implemented since the start of the pilot program (e.g., upfront management approval for spends, and simplified paperwork and shorter cycle times).

#### **Discussion of ERCOT 2008 Form 990 Filing**

Mr. Byone informed the Committee that ERCOT was on track with filing the IRS Form 990 and that the full Board would be briefed on the process by outside counsel during Executive Session. Mr. Espinosa inquired into the role of ERCOT's outside counsel regarding the matter. Mike Grable responded that due to the numerous gray areas associated with ERCOT's potential conversion from 501(c)(4) to 501(c)(3) tax-exempt organizational status, outside counsel was necessary to assist

#### **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)

Mr. Byone stated that the PMO materials would be reduced in the future to include only a one-page report as requested by the Committee. Mr. Karnei noted that the Workforce item in the Risk Management Event Profile Matrix showed a reduced risk level.

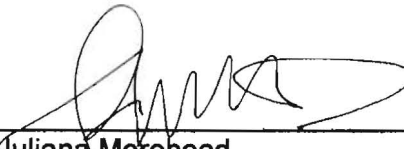
#### **Future Agenda Items**

The following items were identified as future agenda items:

1. Standing Internal Audit agenda items
2. ERM update
3. Credit update
4. Review of external auditors request for proposal
5. Recommend 2010 base operating budget
6. Standing Investment update
7. Committee briefs
8. Future agenda items

#### **Adjournment**

Clifton Karnei adjourned the meeting at approximately 9:45 a.m.

  
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Juliana Morehead  
Associate Corporate Counsel