

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.  
MINUTES OF THE FINANCE & AUDIT COMMITTEE – GENERAL SESSION**

7620 Metro Center Drive (Room 206) – Austin, Texas 78744  
September 15, 2009

Pursuant to notice duly given, the Finance & Audit Committee ("Committee") of the Electric Reliability Council of Texas, Inc. ("ERCOT") convened on the above-referenced date. Clifton Karnei confirmed that a quorum was present and called the meeting to order at approximately **7:32 a.m.** The Committee met in Executive Session from **7:32 a.m. to 8:51 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 Electric Delivery Company	Investor Owned Utility	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:**

Walker, Mark	NRG Texas	Independent Generator	Present
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**ERCOT Staff and Guests:**

Anderson, Troy	ERCOT – Manager Program Administration
Brandt, Adrienne	Austin Energy
Byone, Steve	ERCOT – Vice President and Chief Financial Officer
Day, Betty	ERCOT – Director of Markets
Deskins, Andy	Wachovia / Wells Fargo
Doggett, Trip	ERCOT – Senior Vice President and Chief Operating Officer
Doolin, Estrellita	ERCOT - Assistant General Counsel
Dryfus, Mark	Austin Energy
Forfia, David	ERCOT – Director IT Infrastructure
Fox, Kip	American Electric Power
Garcia, Diana	Maxwell Locke & Ritter
Hancock, Misti	ERCOT – Budget Manager, Finance
Harvey, Ryan	TPPF (Texas Public Policy Foundation)
Kahn, Bob	ERCOT – President and Chief Executive Officer
King, Kelso	King Energy
Kolodzies, Eddie	Customized Energy Solutions
Lowe, Terry	LS Power Group

Manning, Charles	ERCOT – Chief Compliance Officer
Morgan, Richard	ERCOT – Chief Information Officer
Morris, Sandy	Lower Colorado River Authority
Petterson, Mike	ERCOT – Controller
Porter, Lea Anne	ERCOT – Director of Benefits and Compensation
Reid, Walter	Wind Coalition
Stauffer, Tarra	ERCOT – Legal Assistant
Stephenson, Randa	Luminant
Troxell, David	ERCOT – Director of Program Management Office
Wright, Christine	PUCT
Wullenjohn, Bill	ERCOT – Director of Internal Audit
Yager, Cheryl	ERCOT – Treasurer
Zimmerhanel, A.J.	Maxwell, Locke & Ritter

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

**Michehl Gent** moved to approve the minutes for the General Session of the Committee meeting held on August 18, 2009 and the General Session of the Special Meeting held on August 17, 2009. **Dan Wilkerson** seconded the motion. The motion passed by voice vote with no abstentions.

#### **Vote on Items from Executive Session**

Mr. Karnei stated that the Committee met in Executive Session and discussed ERCOT staff's recommendations for external audit firms.

#### **SAS 70 Audit**

**Mr. Wilkerson** moved to recommend that the Board of Directors select "Firm X" (as identified in the Executive Session minutes) as the independent auditor for the SAS 70 audit for a one-year audit period for 2010 with a two-year option for 2011 and 2012. **Brad Cox** seconded the motion. The motion passed, but Messrs. Espinosa and Gent opposed.

#### **Financial Audit**

**Mr. Wilkerson** moved to recommend that the Board of Directors select "Firm Y" (as identified in the Executive Session minutes) as the independent auditor for the financial statements audit and IRS Form 990 review and filing for the years ending 12/31/2009, 12/31/2010 and 12/31/2011. **Robert Thomas** seconded the motion. The motion passed, but Messrs. Espinosa and Gent opposed.

#### **Review Results of 2008 401(k) Audit Report and Vote on Acceptance**

Diana Garcia and A.J. Zimmerhanel of Maxwell, Locke & Ritter provided the Committee with a presentation of the 2008 401(k) Plan audit report. After a discussion of the findings, Chairman Karnei noted that it was a clean audit opinion and **Don Ballard** moved to recommend that the Board of Directors accept the final audited financial statements of the 401(k) Plan, as of December 31, 2008. **Mr. Gent** seconded the motion. The motion passed by voice vote with no abstentions.

#### **Recommend 2010 Base Operating Budget**

Mr. Karnei opened discussion regarding the recommendation for the 2010 base operating budget. Mr. Kahn summarized that since the August 2009 meeting, ERCOT staff had reached a flat fee position primarily by recommending that ERCOT fund some large capital from the extraordinary income of the sales tax refund. Mr. Gent confirmed with Mr. Kahn that questions from the August 2009 meeting had been cleared up, and numbers reconciled.

Steve Byone then highlighted changes made to the proposed 2010 Base Operating Budget as presented in the August 2009 meeting. Mr. Byone clarified that ERCOT had reached a flat fee budget relative to ERCOT's position in the 2009 budget. In reaching the flat fee, he cited further reductions in employee costs, outside services, and Sunset Review costs, and recommended that in out years (i.e. 2011 and beyond), reductions in O&M costs be taken in addition to using future sales tax proceeds to offset future construction costs. Mr. Byone then fielded questions regarding staffing headcount reducing employee costs, and explained that the reduction in Sunset Review projected costs resulted from confirmation from the Sunset Commission that the reimbursement amount by ERCOT would be lower than projected.

Mr. Byone informed the Committee that a slight change had been made to Committee materials after distribution, and as such, the Board would receive updated materials with said changes during the Board meeting later that day. After a lengthy discussion concerning questions from the August 2009 meeting, Mr. Byone noted that there was a decline in the megawatt-hour assumption, which projects the collection of less revenue in 2010 relative to the 2009 budget (i.e., about \$2.7 million that had to be overcome in the budget line items to keep a flat fee).

Finally, Mr. Byone responded to questions regarding the sales tax revenue, construction projects, and employee benefit costs. Following a discussion regarding these issues, **Mr. Gent moved to recommend that the Board of Directors (a) adopt the proposed 2010 Budget which includes \$176.8 million total spending authorization for base operations (including independent market monitoring and PURA functions), capital projects, debt service and a gross staff authorization level of 739 FTEs; (b) approve the current, unchanged rate of ERCOT System Administration Fee of \$0.4171 as outlined in the proposed 2010 Budget; and (c) approve the ERCOT Fee Schedule attached as Exhibit A to the memo dated 9/8/09 from Clifton Karnei to the Board of Directors regarding ERCOT 2010 Base Operating Budget (i.e. Board decision template) as presented in materials for the September 15, 2009 Board meeting. Mr. Wilkerson seconded the motion. The motion passed, but Mr. Ballard opposed.**

#### **Update of 2009 Financial Forecast**

Mike Petterson provided the Committee with an update of the 2009 Financial Forecast. Mr. Petterson stated that ERCOT predicted 2009 to be a tight financial year, but expected to end it with expenses equal to or less than the budget revenue.

#### **Standing Investment Update**

Cheryl Yager directed the Committee to materials provided to them prior to the meeting. Ms. Yager stated that ERCOT's investment goals are to maintain: (a) safety of ERCOT investments; (b) liquidity for ERCOT needs; and (c) return. She then stated that about three-quarters of ERCOT's investable funds were in collateral – the income from which is returned to market participants. Other large sources of funds include TCR auction proceeds and prepayments on settlement activity. Ms. Yager gave a brief overview of said funds and fielded questions from the Committee. She then highlighted the range of investment options and programs in which ERCOT might invest (i.e., money markets, direct investments in treasuries, municipal bonds, commercial paper, CD investment programs).

Following regarding discussion of the investment options, the Committee decided to continue the current investment strategy of investing in money market funds that invest in Treasury or Treasury-backed securities. Ms. Yager agreed to provide the Committee with periodic reviews of ERCOT returns. Mr. Jenkins suggested that the Committee discuss investment options again following the December 2009 annual TCR auction. Thereafter, Mr. Karnei and Ms. Yager agreed to update PUCT Chairman Barry Smitherman of the Committee's decision regarding ERCOT

investment options. Mr. Espinosa expressed a desire to watch these funds closely. Ms. Yager stated that she would add a slide to the standing Committee briefs.

Ms. Yager informed the Committee that ERCOT was considering opening an additional fund with BlackRock. Ms. Yager added that Bank of America has a less than five percent ownership in BlackRock, and based on common definitions of affiliates, ERCOT concluded that BlackRock is not an affiliate of Bank of America. She stated that ERCOT was planning to move forward with an investment fund with BlackRock, to which Mr. Karni replied, "Very good."

### **Committee Briefs**

Materials distributed prior to the Committee meeting focused on the following areas:

1. Market Credit
2. Internal Control Management Program ("ICMP")
3. Enterprise Risk Management ("ERM")
4. Project Management Organization ("PMO")

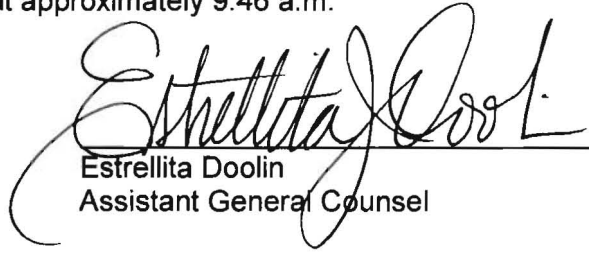
### **Future Agenda Items**

The following items were identified as future agenda items:

1. Standing Internal Audit agenda items
2. Review of the F&A Committee Charter
3. Review and assessment of compliance and internal control systems
4. Review ERM standard
5. Review and approve CWG charter and membership qualifications
6. Credit briefing -- Potential Future Exposure
7. Review ERCOT's 2008 Form 990 filing
8. Standing investment update
9. Committee briefs
10. Future agenda items

### **Adjournment**

Clifton Karnei adjourned the meeting at approximately 9:46 a.m.



Estrellita Doolin  
Assistant General Counsel