

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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744
October 20, 2009

Pursuant to notice duly given, the Finance & Audit Committee (“Committee”) of 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 **7:45 a.m.** The Committee met in Executive Session from **7:45 a.m. to 8:36 a.m.**, at which time it recessed to General Session.

General Session Attendance

Committee members:

Ballard, Don	Office of Public Utility Counsel	Residential Consumer	Not 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:

Barker, Laurie	Office of the Public Utility Counsel (PUC)	Litigation Director & Assistant Public Counsel	Present (Segment Alt for Don Ballard)
Bartley, Steve	CPS Energy	Municipal	Present
Brown, Deryl	Hudson Energy Services	Independent Representative	Present
Ryall, Jean	Constellation Energy	Independent Power Marketer	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT Staff and Guests:

Adler, Amy	ERCOT – Supervisor, Internal Audit
Baker, Randy	ERCOT – Director, Credit Risk Management
Beckham, Rebecca	ERCOT – Financial Analyst (Financial Reporting)
Burke, Tom	Luminant
Cleary, Mike	ERCOT – Senior Vice President and Chief Technology Officer
Day, Betty	ERCOT – Director of Markets
Deskin, Andy	Wells Fargo / Wachovia
Doolin, Estrellita	ERCOT – Assistant General Counsel
Forfia, David	ERCOT – Director IT Infrastructure
Gillmore, Gina	ERCOT – Administrative Assistant

Grable, Mike	ERCOT – Vice President and General Counsel
Kahn, Bob	ERCOT – President and Chief Executive Officer
Kolodzies, Eddie	Customized Energy Solutions
Kleckner, Tom	ERCOT – Nodal Communications Strategist
List, Amanda	Credit Work Group
Leady, Vickie	ERCOT – Corporate Counsel
Lester, Suzanne	ERCOT – Executive Assistant, Finance
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Petterson, Mike	ERCOT – Controller
Stauffer, Tarra	ERCOT – Legal Assistant
Troxtehl, David	EROCT – Director of Program Management Office
Walsh, Meg	ERCOT – Manager of Procurement
Wullenjohn, Bill	ERCOT – Director of Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of Prior Meeting General Session Minutes

Dan Wilkerson moved to approve the minutes for the General Session of the Committee meeting held on September 15, 2009. Mr. Gent 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 whether to recommend Firm X for a Nodal Program Review. **Mr. Gent moved to not support the engagement of Firm X to conduct a Nodal Program Review. Mr. Wilkerson seconded the motion. The motion passed by voice vote. Brad Cox abstained.**

Annual Charter Review and Committee Structure

Bob Thomas provided comments and suggested revisions prior to the meeting via email to Committee members regarding the Charter Review and Committee structure. Mr. Karnei proposed that Mr. Thomas' comments be taken under advisement by the Committee and be brought back at the November 2009 meeting for further review. No vote was taken on this item.

Review of ERCOT's 2008 Form 990 Filing

Mike Petterson directed the Committee to review the draft ERCOT 2008 Form 990 filing. He mentioned that there had been significant changes to the annual IRS Form 990. Mr. Petterson noted that ERCOT would be subject to heightened scrutiny and numerous reviews to become classified as a 501(c)(3) organization. He added that ERCOT's filing deadline had been extended to November 15, 2009, and that the Board would be reviewing the draft Form 990 in Executive Session of the Board meeting. He said there would not be a vote, but the minutes would reflect that the Board had reviewed the Form 990 before filing. Mr. Petterson informed the Committee that ERCOT staff prepared the Form 990, and that PricewaterhouseCoopers and outside counsel had reviewed the document.

Quarterly Investment Update

Cheryl Yager directed the Committee to materials provided to them prior to the meeting. Ms. Yager pointed the Committee to the investment summary slide included with the Committee Briefs as requested by the Committee to give the Committee a monthly snapshot of ERCOT's investments. She asked whether any additional information was desired. The Committee indicated that the slide provided the information needed. The allocation of investable monies among money market funds was discussed, and Ms. Yager noted that she was satisfied that the current diversification of investments adequately protects ERCOT's liquidity. She noted that additional diversification could be pursued; however, an additional ERCOT staff would likely be needed to handle the additional administration needs.

Credit Briefing

Randy Baker provided the Committee with the results of the potential credit loss model for the first quarter of 2009. He stated that although the impact of various model factors have changed, base case residual

credit risk remains comparable to the FYE-2008 level. He added that current case residual credit risk also remains comparable to the previous levels reported. Mr. Karnei asked Mr. Baker about collateral assumptions in the base case and the current case. Mr. Baker responded that by comparing a base case scenario with a current case, you could see two different foundations for determining liability. The base case assumes collateral as required by the Protocols; the current case assumes collateral never goes below a current amount.

Mr. Baker went on to note that almost 70 percent of simulations resulted in minimal losses, somewhat lower than the losses at the 2008 year-end. He also highlighted for the Committee the more extreme levels of potential credit loss that can occur in unusual circumstances. Mr. Espinosa inquired as to whether there were any current areas for credit concern that might not be apparent in the potential credit loss model. Ms. Yager responded that there are always QSEs that are being monitored closely and that ERCOT uses tools such as Credit Risk Monitor and the internet to keep current on QSE's financial condition. Following this discussion, Mr. Karnei stated that the Committee had recommended earlier in 2009 that the Board be given a briefing on the results of the potential credit loss model. The Committee agreed that it would be beneficial to provide a briefing for the Board at its November meeting. Mr. Baker and Ms. Yager agreed to add second quarter data to the information for that briefing.

Semi-Annual Credit Report and Review and Approval of CWG Charter and Membership Requirements

Amanda List of the Credit Work Group ("CWG") joined the meeting by conference call. Ms. List stated that the PCR model has been presented to the CWG, which found nothing outside of its expectations. She also reviewed proposed changes to the CWG Charter and Membership Requirements. **Mr. Espinosa moved for approval of the proposed changes to the charter. Mr. Thomas seconded. The motion passed unanimously.**

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")
5. Investment Update

Michehl Gent commended ERCOT staff for its work on investment risk mitigation.

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. Credit briefing – Potential Future Exposure
6. Financial Statement Audit Plan & Independence Certification
7. 2010 Financing Update
8. SAS 70 Audit Update
9. Standing investment update
10. Committee briefs
11. Future agenda items

Adjournment

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



Juliana Morehead
Associate Corporate Counsel