

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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744
November 17, 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 **7:34 a.m.** The Committee met in Executive Session from **7:34 a.m. to 8:41 a.m.**, at which time it recessed. General Session began at **8:46 a.m.**

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:

Bivens, Danny	Office of Public Utility Counsel (OPUC)	Residential Consumer	Present (attending on behalf of Don Ballard)
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT Staff and Guests:

Anderson, Troy	ERCOT – Manager Program Administration
Baker, Randy	ERCOT – Director, Credit Risk Management
Barry, Sean	PricewaterhouseCoopers
Brenton, Jim	ERCOT – Director, CIP Standards Development
Bowman, Roy	ERCOT – Interim Vice President and Chief Financial Officer
Cochran, Seth	Simple Trading
Day, Betty	ERCOT – Director of Markets
Diehl, Philip	TexasAdmin
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doggett, Trip	ERCOT – Interim President and Chief Executive Officer
Doolin, Estrellita	ERCOT – Assistant General Counsel
Elefa, Matt (unclear on exact spelling)	PricewaterhouseCoopers
Fox, Kip	AEP
Gillmore, Gina	ERCOT – Senior Financial Analyst
Goodman, Dale	ERCOT – Director of Client Services
Hackett, David	Kema

Headrick, Bridget		Public Utility Commission of Texas
Houston, John		CenterPoint Energy
Jones, Randy		Calpine
King, Kelso		King Energy
Kolodzies, Eddie		Customized Energy Solutions
Lester, Suzanne		ERCOT – Executive Assistant, Finance
Manning, Chuck		ERCOT – Chief Compliance Officer
McMurray, Mark		Direct Energy
Morehead, Juliana		ERCOT – Associate Corporate Counsel
Patton, A.D.		Unaffiliated Board Member
Petterson, Mike		ERCOT – Controller
Pieniazek, Adrian		NRG Texas
Rocap, Nisha		PricewaterhouseCoopers
Ryall, Jean		Constellation Energy Commodities Group, Inc.
Smitherman, Barry T.		Public Utility Commission of Texas – Chairman
Stephenson, Randa		Luminant
Troxell, David		ERCOT – PMO Director
Walker, DeAnn		CenterPoint Energy
Whittmeyer, Bob		Longhorn
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 October 20, 2009. Bob Thomas seconded the motion. The motion passed by voice vote with no abstentions.

Annual Charter Review and Committee Structure

Chairman Karnei inquired into the addition of a paragraph that seemed to read that the ERCOT CEO was not a Committee member. To clarify the revision, Mr. Doggett suggested that sentence structure be revised to reflect that the CEO is an employee of the company.

Mr. Wilkerson asked why a section relating to periodic reviews and reports was moved within the Charter. Ms. Yager responded that the movement was purely for aesthetic purposes. Mr. Wilkerson noted that he did not mind the change.

Mr. Gent moved to approve clarifying the reference to the ERCOT CEO, which Mr. Thomas seconded. The motion carried with no opposition or abstentions.

Preview Board Semi-Annual Emerging Risk Management (ERM), Compliance and Internal Control Update

Ms. Yager mentioned that there were not many changes to the Risk Management Event Profile Matrix ("Spotlight Report"), other than updates on language. No directional signals were modified. She further mentioned that an update on compliance and internal controls would be covered at the Board Meeting later that afternoon.

Financing Update – 2010 Needs

Cheryl Yager directed the Committee to materials provided to them prior to the meeting. Ms. Yager noted that her goal was to lay some groundwork regarding ERCOT's financing needs in 2010, as well as to review ERCOT's current debt capacity to ensure that ERCOT's needs and resources would be aligned.

Ms. Yager presented the Committee with the following information concerning ERCOT's 2010 financing needs and position:

- At the end of November 2009, ERCOT had available borrowing capacity of approximately \$152M under its current facilities.
- \$31M was borrowed from TCRs, but Ms. Yager stated, the number has been going down as the TCRs are distributed. Information as to the amount of TCR Revenue received from the annual auction will be available at the December 2009 or January 2010 meeting.
- ERCOT's fixed - floating rate split, as of October 31, 2009, was 70/30 but is expected to be 84/16 by year-end 2009 as a result of forward starting interest rate swaps that began November 1, 2009.
- ERCOT's outstanding debt at the end of 2009 is expected to be around \$365 M. This figure is lower than was discussed with the Committee in spring 2009; mostly due to lower Nodal spend than was originally anticipated.
- Debt levels are expected to increase during 2010, primarily due to spending in the Nodal Program.
- 2011-2013 should show a significant decrease of debt due to pay-downs.

Mr. Karnei then asked Ms. Yager to explain the impact of the sales tax refund on debt levels in 2009 and 2010. Ms. Yager explained that ERCOT's debt level is expected to be approximately \$24M lower in 2009 than originally projected as a result of the sales tax refund resulting from ERCOT's move from a 501(c)(6) to a 501(c)(4) status. She noted that in conjunction with the Board's approval of the 2010 budget, the Board authorized the use of roughly \$13M of the sales tax refund proceeds be used to meet a portion of ERCOT's equity requirement for the Met Center Replacement Project - using an extraordinary receipt for an extraordinary expenditure. Mr. Karnei stated that he understood the reduction to debt of \$24M, but was unsure why debt levels were projected to increase by \$13M in 2010 related to the sales tax refund. Ms. Yager told the Committee that because ERCOT used the \$24M to pay down debt earlier, it had to "re-borrow" the money to use it in 2010 to meet the Met Center needs. Mr. Karnei expressed his understanding of the breakdown. Ms. Yager further stated that if ERCOT current debt facilities at their current capacity levels were to continue to be in place, then ERCOT would have adequate capacity through 2010 to meet financing needs and its liquidity requirement. She noted however, that two revolving credit facilities expire in 2010 and the term loan capacity is permanently reduced as a result of a payment due. She discussed options to address the financing need in 2010.

Mr. Espinosa inquired into the IRS filing. Ms. Yager explained that ERCOT was in the process of finding outside and local counsel to help determine what ERCOT can and cannot finance and that ERCOT has not filed with the IRS yet. Mr. Karnei suggested that ERCOT and the Committee continue looking at such financing options.

Ms. Yager very briefly discussed the fact that ERCOT has \$26.2M of System Administration Fee revenues ear-marked for debt reduction in 2009. A required payment under its Senior Notes for \$13.7M was made from those funds. However, \$12.5M of revenue ear-marked for debt reduction remains for which there is no required debt payment. As revenues are collected, ERCOT is using the funds to avoid borrowing that would otherwise have been necessary. She asked the Committee whether they preferred that ERCOT staff a) continue to use the \$12.5M to reduce debt under revolving credit facilities, which could be re-borrowed (thus preserving debt capacity) or b) make a voluntary payment under the Term Loan, with no pre-payment penalty, (which permanently reduces borrowing capacity). She noted that the rate paid under both facilities was the same. The Committee stated a preference for continuing to use the \$12.5M to reduce debt under revolving credit facilities, since this would preserve debt capacity and did not increase interest costs and determined to confirm this decision with the full Board in December.

Preview Board Credit Briefing – Potential Future Exposure for 2nd Quarter

Randy Baker began the credit briefing by noting that the results of the Potential Credit Risk Model would be explained in further detail in the Board Meeting later that afternoon. Thus, he informed the Committee that he would be providing them with a broad overview of ERCOT's credit risk model in this session. He noted that the next briefing for Q3 would be presented to the Committee in January 2010. Regarding the Q2 period, Mr. Baker told the Committee that there were not significant changes in risk, but that market factors increased it slightly, whereas QSE factors, such as default probabilities, diminished risk levels a little. In any case, he noted that there is an overall rise in risk for ERCOT.

Mr. Baker stated that base case results for Q2 were similar to past results, in that they were slightly up with 70% of simulation showing loss levels of \$1.6M or less. Almost 40% of simulations avoided loss, meaning that defaults had adequate collateral to cover the losses or were nil.

He noted that expected losses, however, were slightly up for Q2 to \$3.1M. Mr. Baker emphasized that the levels of risk were comparable to what ERCOT has seen in the past.

Mr. Cox asked about the outlier that doubled from Q1 to Q2. Mr. Baker explained that it is possible to have a single or multiple events whereby simulations will produce very high losses based on the QSE factors and market prices. Mr. Baker thereafter gave a summary indication of where the credit risk model has calculated over past periods. He indicated that ERCOT's risk levels are relatively stable over time. Mr. Thomas inquired about Q3 numbers, to which Mr. Baker replied that such would be presented at the January 2010 meeting.

Mr. Karnei recapped Mr. Baker's presentation by announcing that the market is willing to sustain about a \$5M credit uplift at a 90% confidence interval, and at 99% somewhere in the range of \$40M. Furthermore, Mr. Karnei surmised that it did not appear to be a good idea to make any changes to ERCOT's credit procedure, to which Mr. Baker responded in the affirmative. Thus, Mr. Karnei stated, if a Director does not want to see ERCOT have a \$40M uplift, even in a 99% confidence interval, then the Committee would need to review ERCOT credit procedures and likely make modifications thereto. Mr. Karnei summed up the presentation by stating that all Committee members appeared to be content with the current state of ERCOT's credit status.

Update on SAS 70 Audit

Mr. Barry informed the Committee that the SAS 70 audit is on time, on budget, and on plan with an unqualified opinion. He noted that the scope of this report was similar to prior years, with some tweaking of control activities. Mr. Barry went on to state that with a few exceptions, the last three years have been a very stable environment for ERCOT, and that ERCOT is on a fairly positive slide with a nice trend, but should be aware that sustaining such a positive trend will be difficult with the upcoming Nodal changes. He noted that a SAS 70 report would be presented to the Board that afternoon. Further, he stated, there were about 100 control activities in ERCOT's report, many of which will change in the new Nodal environment, and many would be added. In the new Nodal environment, Mr. Barry noted that ERCOT's focus should be to adequately capture controls integration by undertaking: (1) thoughtful risk assessment; (2) big picture oversight; (3) clarification of controls; (4) audit trail monitoring; and (5) morphing controls as circumstances arise.

Mr. Karnei applauded PriceWaterhouseCoopers for their work and longstanding relationship with ERCOT.

Review and Approval of Financial & Investment Corporate Standard

The Committee discussed the proposed edits to the Financial Corporate Standard. Following discussion concerning some of the new language in the new Financial Corporate Standard, Mr. Wilkerson recommended some additional language to this section, and Mr. Karnei suggested that Mr. Wilkerson work with Ms. Yager and Mr. Bowman to revise the language for Board review that afternoon.

Ms. Yager then discussed the Investment Corporate Standard, and the allocation of investable funds. Ms. Yager stated that ERCOT currently has established a policy of having at least four different fund families, with no more than 30% investable funds in any fund. She then mentioned that a range was left open for the Committee to discuss potential limits per fund. The Committee decided to establish a limit of no more than \$50M per fund, with the understanding that this number might need to be readjusted in the future.

Mr. Karnei then entertained a motion that, assuming ERCOT staff and Mr. Wilkerson came to agreement on the language change in the Financial Corporate Standard, that the Committee would recommend that the Board approve the revisions to the Financial and Investment Corporate Standards, with the proposed edits.

Mr. Gent moved to recommend that the Board approve the Financial & Investment Corporate Standards. Mr. Espinosa seconded the motion. The motion passed by voice vote with no abstentions.

Perform Finance & Audit Committee Self Assessment

Mr. Karnei informed the Committee that it is required by the F&A Charter to do a self-evaluation every year. He mentioned that the past evaluation form used worked very well, and stated that an email would be sent to Committee members regarding the form.

Committee Briefs

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

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

Update on Pilot Procurement Card Program

Mr. Bowman updated the Committee on the workings of the "P Card" pilot program. He noted that it had been in place since February 2009, and there are ten cards currently in use, with a spend to date at just over \$61,000.00. Mr. Bowman informed the Committee that an audit of the program was completed in June, and action items were completed by October. Furthermore, he stated that there was a daily reconciliation by a P Card administrator of all transactions, as well as a manager sign-off, limited credit line, and a merchant code restriction in place per card. In conclusion, Mr. Bowman told the Committee that he would likely be back in January 2010 to introduce an expansion of the Program, which will include accounts payable and a rebate program. The Committee noted that they would like to understand the controls over the Program in conjunction with the proposed expansion.

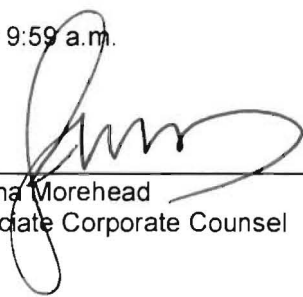
Future Agenda Items

The following items were identified as future agenda items:

1. Standing Internal Audit agenda items
2. Approval of scope of internal auditing plan for 2010
3. Assessment of the adequacy and effectiveness of the Internal Audit staff
4. Results of the F&A Committee self-assessment
5. Review of the updated year-end forecast
6. Review of ERCOT's dealings with financial institutions that are also market participants
7. Review of scope of annual financial audits
8. Review of external auditor quality control procedures and independence
9. Review of ERM Standard
10. Committee briefs
11. Future agenda items

Adjournment

Clifton Karnei adjourned the meeting at approximately 9:59 a.m.



Juliana Morehead
Associate Corporate Counsel