

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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744
February 16, 2010

Pursuant to notice duly given, the Finance & Audit Committee ("Committee") of Electric Reliability Council of Texas, Inc. ("ERCOT") convened on the above-referenced date. In the Committee Chairman's absence, Vice Chairman, Miguel Espinosa confirmed that a quorum was present and called the meeting to order at approximately **8:03 a.m.** The Committee immediately went into Executive Session, where it remained until it recessed to General Session at approximately **8:55 a.m.**

General Session Attendance

Committee members:

Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility	Present
Dreyfus, Mark	Austin Energy	Municipal	Present
Espinosa, Miguel (Vice Chair)	Unaffiliated Board Member	Unaffiliated Board Member	Present
Fehrenbach, Nick	City of Dallas	Commercial Consumers	Present
Gent, Michehl	Unaffiliated Board Member	Unaffiliated Board Member	Present
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative	Not Present
Zlotnik, Marcie	StarTex Power	Independent REP	Present

Other Board Members and Segment Alternates:

Walker, Mark	NRG Texas	Independent Generator	Present
Whittle, Brandon	DB Energy Trading, LLC	Independent Power Marketer	Present

ERCOT Staff and Guests:

Adams, Jack	ERCOT – Manager of Retail Client Services & Market Analysis
Baker, Randy	ERCOT – Director, Credit Risk Management
Bohart, Jim	ERCOT – Senior Communications Strategist
Bowman, Roy	ERCOT – Interim VP and Chief Financial Officer (CFO)
Brenton, Jim	ERCOT – Director, CIP Standards Development
Burke, Tom	Luminant
Cleary, Mike	ERCOT – Senior Vice President and Chief Technology Officer
Day, Betty	ERCOT – Director of Markets
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doggett, Trip	ERCOT – Interim Chief Executive Officer
Doolin, Estrellita	ERCOT – Assistant General Counsel
Forfia, David	ERCOT – Director, IT Infrastructure
Gillmore, Gina	ERCOT – Senior Financial Analyst
Goff, Eric	Reliant Energy
Grable, Mike	ERCOT – Vice President and General Counsel

Grendel, Steve	ERCOT – Director of Texas Nodal Integrated Release Strategy
Harrell, Patty	DC Energy
Hobbs, Kristi	ERCOT – Manager, Market Rules & Stakeholder Support
Iacobucci, Jason	ERCOT – EDS Market Trials Project Manager
Ierullo, Bruno	ERCOT – Director of Human Resources
Jefferis, Don	Opportune
Jones, Brad	Luminant
Jones, Randy	Calpine
Kimbrough, Todd	Next Era Energy
Medina, Eric	ERCOT – Opportune Consultant
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Morgan, Richard	ERCOT – Chief Information Officer
Morris, Sandy	LCRA
Nikazm, Tamila	Austin Energy
Oldham, Phillip	Andrews Kurth LLP
Petterson, Mike	ERCOT – Controller
Schwertner, Ray	Garland Power & Light
Stauffer, Tarra	ERCOT – Legal Assistant
Swanson, Leslie	Treasury Manager (ERCOT Contractor)
Walker, DeAnn	CenterPoint Energy
Wullenjohn, Bill	ERCOT – Director of Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of Prior Meeting General Session Minutes

Mr. Gent moved to approve the minutes for the General Session of the Committee meeting held on January 19, 2010. Mr. Crowder seconded the motion. The motion passed unanimously with no abstentions.

Confirmation of Credit Work Group (CWG) Chair and Vice-Chair

Randy Baker, ERCOT Director of Credit Risk Management, informed the Committee that the Credit Working Group nominated Arlene Spangler as Chair, and Tamila Nikazm as Vice Chair.

Mr. Dreyfus moved to confirm Arlene Spangler as Chair of the Credit Work Group and Mr. Crowder seconded the motion. The motion passed unanimously with no abstentions.

Mr. Dreyfus moved to confirm Tamila Nikazm as Vice-Chair of the Credit Work Group and Mr. Crowder seconded the motion. The motion passed unanimously with no abstentions.

Discussion of NPRR 206 (Background – Day Ahead Market)

Cheryl Yager provided the Committee with background information concerning NPRR 206 (206), which was to be voted on later that afternoon in the Board meeting. Ms. Yager noted that 206 involved the clearing mechanism in the day ahead market (DAM), and thus, did not notably impact base level collateral calculation. She discussed the two major components for clearing in the DAM under current Nodal protocols: bids and offers. Further, she stated that existing protocols collateralize at a very high level, which could lower market participation in the DAM, potentially causing a lack of market liquidity.

Mr. Crowder asked Ms. Yager: (a) whether ERCOT supported 206; and (b) how ERCOT's current requirements compared to those of other Regional Transmission Organizations (RTOs).

Ms. Yager noted that ERCOT supported 206 as being beneficial to the market. Ms. Yager also noted that she believed ERCOT's current requirements to be consistent with some, but generally more conservative than other RTOs and Independent System Operators (ISOs).

Ms. Yager then discussed how ERCOT would monitor an entity engaged in arbitrage between the DAM and Real-Time (RT) markets (by selling in the DAM and buying in the RT). She then gave the Committee an overview of 206 and its effect on bids, offers, and e-factors.

Ms. Yager pointed out that although current protocols attempt to reach a near zero loss level, losses cannot always be precluded.

In summary, Ms. Yager reiterated the following:

1. With 206, ERCOT will move from a near zero loss level approach to a more moderate approach to clearing transactions, that does increase, to some extent, risk of loss;
2. 206 addresses one to four days of exposure in the DAM;
3. Variables, and processes around e-factors are to be determined;
4. As far as DAM energy bids and in-the-money DAM energy-only offers are concerned, 206 provides for flexibility to ease or tighten credit (e.g. if risky behavior is identified or mitigated);
5. ERCOT identified three options to address the concern involving exposure reduction for out-of-the-money DAM energy-only offers and three-part offers: (a) leave 206 as is and monitor activity; (b) develop a mechanism to address specific risks; and (c) expand the E3 factor [offer risk in excess of bid risk] currently used for in-the-money DAM energy-only offers and apply it to out-of-the-money offers as well in the event of risky behavior. Ms. Yager stated that, of these three options, the last option was the most easily implementable, because it is ERCOT's belief that the "e3" mechanism could be expanded without material increase in cost, and within existing timeframes.

Tamila Nikazm, with Austin Energy and Vice Chair of Credit Work Group (CWG), informed the Committee that CWG reviewed and discussed 206 on two occasions in February 2010. She commented that 206 had a credit impact that cannot be fully quantified at that time, but that it established the framework for ERCOT credit staff to determine appropriate day ahead market collateral requirements for market participants. The Committee then discussed the roles of the Credit Work Group and the Market Credit Working Group in relation to the 206 processes. Messrs. Crowder and Gent inquired about the late email notifications and appearance of urgency regarding the implementation of 206. Ms. Yager responded that ERCOT had a small window of opportunity to move forward with 206 and address the system changes that drove the opportunity timeline. Phillip Oldham, on behalf of Texas Industrial Energy Consumers (TIEC), noted the importance of Board understanding of the critical nature of the issue for ERCOT credit, market participants, and load reliability. Further, Mr. Cleary expressed the urgency in making a timely decision on 206 to ensure that system changes could be made to meet the December 2010 Nodal go-live date. Following a brief discussion of these issues, Mr. Espinosa suggested that the Committee continue discussion thereof at the Board meeting later that afternoon.

Review of the Enterprise Risk Management (ERM) Standard

Ms. Yager provided the Committee with an overview of the updated ERM Standard. She noted the following changes to the Standard:

1. Revised purpose statement for conformity with the body of the document;
2. Expanded definition section to clarify and expand certain terms;
3. Added details regarding responsibilities and provided for annual self-evaluation of the Risk Management Committee; and

4. Updated the oversight chart.

No comments or questions were made by the Committee.

Committee Briefs

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

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

Ms. Yager reminded the Committee of Commissioner Smitherman's question at the January 2010 Committee meeting: What would be the impact if ERCOT had a quadrupling escalation of natural gas prices? (The question as presented was made in reference to a stress case scenario presented at the previous Committee meeting). Mr. Baker thereafter stated that rerunning the stress case model with an increase in gas prices yielded higher potential exposure, as expected and pointed the Committee to the results noted in Committee Briefs.

In summation, Ms. Yager reminded the Committee that ERCOT had a risk management update for the Board that would be presented later that afternoon.

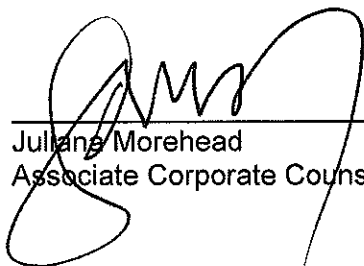
Future Agenda Items

The following items were identified as future agenda items:

1. Standing Internal Audit agenda item
2. Committee briefs
3. Future agenda items

Adjournment

Mr. Crowder moved to adjourn the meeting. Mr. Gent seconded the motion. The motion passed unanimously with no abstentions. Miguel Espinosa adjourned the meeting at approximately **9:51 a.m.**



Julianna Morehead
Associate Corporate Counsel