

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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744
April 20, 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. Committee 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 and reconvened to General Session at **9:07 a.m.**

General Session Attendance

Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility	Not 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:

Packard, Michael	South Texas Electric Cooperative	Cooperative	Present
Prochazka, Scott	CenterPoint Houston Energy	Investor Owned Utility	Present
Walker, Mark	NRG Texas	Independent Generator	Present
Whittle, Brandon	DB Energy Trading	Independent Power Marketer	Present

ERCOT Staff and Guests:

Baker, Randy	ERCOT – Director, Credit Risk Management
Beckham, Rebecca	ERCOT – Senior Financial Analyst
Day, Betty	ERCOT – Director, Commercial Operations
Deskins, Andy	Wachovia
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doggett, Trip	ERCOT – Interim Chief Executive Officer
Gunn, Phil	Ernst & Young
Jones, Brad	Luminant
Lester, Suzanne	ERCOT – Executive Assistant, Finance
Manning, Chuck	ERCOT – Vice President and Chief Compliance Officer
Medina, Eric	ERCOT – Opportune Consultant

Morehead, Juliana	ERCOT – Associate Corporate Counsel
Morgan, Richard	ERCOT – Vice President and Chief Information Officer
Nikazm, Tamila	Austin Energy
Sisson, Taylor	Ernst & Young
Stauffer, Tarra	ERCOT – Legal Assistant
Swanson, Leslie	ERCOT – Treasury Manager (Contractor)
Taylor, William	Calpine
Wolff, Freddy	ERCOT – Manager, Accounting and Financial Reporting
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Announcement of Proxies

Scott Prochazka with Centerpoint Energy introduced himself as the segment alternate for Calvin Crowder. Mike Packard with South Texas Electric Co-op introduced himself as the segment alternate for Clifton Karnei.

Discussion with External Auditor: Ernst & Young

Messrs. Gunn and Sisson of Ernst & Young provided the Committee with comments concerning its governance processes and the oversight responsibilities of ERCOT. The auditors noted that the Committee exceeded the performance of other F&A committees at companies of similar size and structure as ERCOT. Mr. Gunn stated that the Committee's Charter is "comparable or better than many of the public company charters that you see," and the Committee's monitoring of ERCOT internal controls over financial reporting appeared positive due to ERCOT's clear and precise internal audits and reports. The Committee was commended on its involvement with nonfinancial business matters. In response to the Committee's self-assessments, the auditors suggested that to improve its level of education, the Committee should participate in formal training on governance, financial and/or internal audit matters. However, they stated that the Committee was "probably not giving as much credit to [itself] as [it] should be." In concluding, the auditors recommended that as a best practice, the Committee implement an annual presentation to address significant business and/or fraud risks, as well as draft a Charter checklist to ensure that it accomplishes all of its Committee responsibilities for the year.

Approval of Prior Meeting General Session Minutes

Mr. Dreyfus moved to approve the minutes for the General Session of the Committee meeting held on March 23, 2010. Mr. Gent seconded the motion. The motion passed unanimously with no abstentions.

Quarterly Investment Update

Leslie Swanson, ERCOT's interim Treasury Manager, reviewed ERCOT's first quarter investments and noted that overall investments were relatively flat compared to year-end. She informed the Committee that ERCOT's investment strategy remained consistent with the prior quarter, and though the general market was rebounding, ERCOT had not yet seen an improvement in rates. In conclusion, Ms. Swanson reported that ERCOT's net write-off of the remaining balance in The Reserve is approximately \$584,000.00. She also provided the Committee with a revised Attachment C to substitute for the one in the Committee materials.

Cheryl Yager highlighted Footnote 3 of the Committee materials and asked whether the Committee was opposed to eliminating the note in the future since it referred to Reserve Fund receipts, given that all funds expected to be received have been received by ERCOT. Mr. Espinosa commented that it should be removed with the exception that should a noteworthy issue arise related thereto, the footnote would be reinserted in the materials.

Review Procedure for Setting Day Ahead Market (“DAM”) Auction Credit Requirement Parameters

Ms. Yager had a high-level discussion with the Committee concerning new procedures referenced in NPRR 206, which was passed in February 2010. She noted that NPRR 206 made changes to DAM market auction procedures. Concerning bids, NPRR 206 allows bids to be valued somewhere between the bid price and the recent historical price, whereas only bid price was used to formulate bid value before NPRR 206. Concerning energy-only offers, Ms. Yager informed the Committee that the Market Credit Work Group and the Credit Working Group had been meeting to determine whether to grant credit on offers, and if so, how much credit to give, and the procedures for determining whether to grant credit. In trying to balance the normal business need with the risks involved, Ms. Yager told the Committee that the market (with ERCOT's input) arrived at a position that would allow zero credit in a base case scenario. However, the procedure provides an option that would allow ERCOT to grant credit to Market Participants that provided certain information. This option would require more active management on ERCOT's part. She then gave some examples of variables, and an overview on how procedures were established and e-factors.

Tamila Nikazm, Vice Chair of the Credit Work Group, gave the Committee a summary of the Credit Work Group's endorsement of NPRR 206 and the procedure to set the DAM market auction credit requirement. Ms. Nikazm stated that she believed the parameters would adequately collateralize the market and protect it by: (1) giving ERCOT sufficient flexibility to adjust a Market Participant's collateral requirement to the same level as pre-NPRR 206 if necessary; (2) requiring Market Participants seeking favorable treatment under the procedure to give ERCOT advance notice of changes in their DAM market activities; and (3) where necessary, allowing ERCOT to request additional information/disclosure from a Market Participant seeking favorable treatment. Moreover, Ms. Nikazm clarified that the Committee could change these parameters without going through the NPRR process, thereby expediting adjustment of the parameters while trying to keep the market stable.

Mr. Gent asked whether these parameters were designed to reduce collateral requirements. Ms. Nikazm responded that they could reduce the collateral requirement, but could also maintain it at the same level as pre-NPRR 206.

Mr. Espinosa requested a motion to vote to recommend the endorsement of the procedure to set the DAM market auction credit requirement.

Mr. Dreyfus moved to recommend the methodology for the parameters for setting DAM auction credit requirements. Ms. Zlotnik seconded the motion. The motion passed unanimously with no abstentions.

Review and Accept Results of the Annual Financial Statement Audit

Mr. Espinosa reminded the Committee that Ernst & Young's unqualified audit of ERCOT's 2009 financials was very complimentary. Mr. Petterson then stated that Ernst & Young's opinion was clean, there were no audit adjustments, and no cited weaknesses of internal control.

Mr. Espinosa requested a motion to vote to accept Ernst & Young's Unqualified Audit Report of ERCOT's 2009 financial statement.

Mr. Fehrenbach moved to accept the results of the annual Financial Statement Audit. Mr. Gent seconded the motion. The motion passed unanimously with no abstentions.

The Committee then briefly discussed Ernst & Young's opinion. Mr. Gent suggested that the Committee should place more emphasis on the way it asks questions in the annual self-evaluation. Mr. Espinosa noted the importance of the Committee's candor when answering the evaluation's questions, while following up once a year for a reassessment of where it stands. He concluded by reiterating that the overall the audit report was good, though the Committee could use improvement in some areas.

Committee Briefs

Ms. Yager reminded the Committee that Commissioner Smitherman requested interest rate swap information be discussed with/given to the Board. She referenced a slide in the financial reports section of the board materials to which the Committee could refer.

Future Agenda Items

The following items were identified as future agenda items:

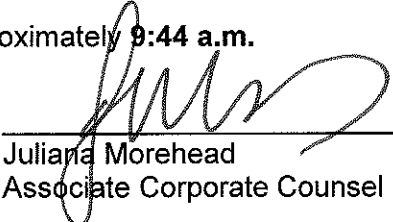
1. Standing Internal Audit
2. Vote to approve Internal Audit Department Charter
3. Review the procedures for handling and reporting violations
4. Review operating plan and budget assumptions
5. Preapproval of non-audit services from ERCOT's independent auditor
6. Conduct annual review of insurance coverage(s)
7. Review ERCOT's dealings with any financial institutions that are also market participants
8. Review ERCOT's Annual Report
9. Committee briefs
10. Future agenda items

Other Business

None.

Adjournment

Mr. Espinosa adjourned the meeting at approximately 9:44 a.m.



Juliana Morehead
Associate Corporate Counsel