

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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744  
May 18, 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 Chairman Clifton Karnei confirmed that a quorum was present and called the meeting to order at approximately **7:35 a.m.** The Committee immediately went into Executive Session, where it remained until it recessed and reconvened to General Session at **9:09 a.m.**

**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	Absent
Gent, Michehl	Unaffiliated Board Member	Unaffiliated Board Member	Present
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative	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	Independent Power Market Representative	Present

**ERCOT Staff and Guests:**

Baker, Randy	ERCOT – Director, Credit Risk Management
Beckham, Rebecca	ERCOT – Senior Financial Analyst
Bruce, Mark	MJB Consulting
Day, Betty	ERCOT – Director, Commercial Operations
Deskins, Andy	Wachovia
DiPastena, Phil	ERCOT – Manager, Enterprise Risk
Doggett, Trip	ERCOT – Interim President and Chief Executive Officer
Forfia, David	ERCOT – Director, IT Infrastructure
Jefferis, Don	Opportune
Lester, Suzanne	ERCOT – Executive Assistant, Finance
Manning, Chuck	ERCOT – Vice President and Chief Compliance Officer
Medina, Eric	ERCOT – Opportune Consultant
Morais, Matt	ERCOT – Assistant General Counsel
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Morgan, Richard	ERCOT – Vice President and Chief Information Officer
Petterson, Mike	ERCOT – Controller
Seely, Chad	ERCOT – Senior Corporate Counsel
Swanson, Leslie	ERCOT – Manager, Treasury (Contractor)

Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT – Treasurer

**Announcement of Proxies**

Chairman Clifton Karnei confirmed that a quorum was present and no proxies had been submitted.

**Approval of Prior Meeting General Session Minutes**

Michehl Gent asked that the April 20, 2010 General Session F&A Committee meeting minutes be revised to reflect that Miguel Espinosa called the meeting to order confirmed a quorum was present.

**Mr. Gent moved to approve the minutes for the General Session of the Committee meeting held on April 20, 2010 as revised. Calvin Crowder seconded the motion. The motion passed unanimously with no abstentions.**

**Approval of the Internal Audit Department Charter**

Bill Wullenjohn presented the Internal Audit Department Charter for approval and reminded the Committee that it reviewed and discussed the proposed Internal Audit Department Charter ("Charter") at the Committee meeting in April 2010. The proposed Charter included recommended changes to conform to new Institute of Internal Auditors ("IIA") guidelines. Mr. Wullenjohn added that Trip Doggett, Interim Chief Executive Officer, had also reviewed the proposed Charter.

**Mr. Crowder moved to approve the Internal Audit Department Charter. Marcie Zlotnik seconded the motion. The motion passed unanimously with no abstentions.**

**Approval of a Debt Financing Proposal**

Mr. Karnei commented that the Committee had reviewed various debt financing proposals during Executive Session. He stated that there would be no action taken at the Board of Directors meeting later that day, but the Committee would be reviewing the proposals in more depth and planned to recommend action to the Board at the June 2010 meeting.

**Approval Review of Market Credit Risk Corporate Standard**

Randy Baker directed the Committee to materials provided prior to the meeting, which outlined the Market Credit Risk Corporate Standard ("Standard"). Mr. Baker gave the Committee an overview of the annual review of the Standard, and fielded Committee questions. He added that the Standard was originally approved by the Board of Directors in May 2009, and was being presented for renewal with minor revisions and clarifications.

Mr. Baker discussed potential future risk exposure and requested an exemption from running the current zonal model for second and third quarters of 2010, given the impending Nodal go-live. He noted the following clarification changes to language in the Standard: (a) additional language to address the request for a review of the model after one year following Nodal go-live; and (b) revised language concerning the running of stress scenarios by the Board, TAC, or Credit Work Group.

Mr. Crowder asked about the approach taken in developing the additional risk factors for the nodal market. Mr. Baker replied that he attempted to capture the high-level aspects of the nodal market for which ERCOT did not have coverage under the zonal market model. Mr. Baker further stated that ERCOT was planning to work on the model through summer 2010, and anticipate completion of the model in fall 2010.

Mr. Karnei entertained a motion for approval of the revised Standard.

**Calvin Crowder moved to approve the Market Credit Risk Corporate Standard with noted revisions. Marcie Zlotnik seconded the motion. The motion passed unanimously with no abstentions.**

Mr. Karnei noted that the Standard was approved, with changes noted.

### **Review Company Dealing with Financial Institutions Who Are Market Participants**

Leslie Swanson provided the Committee with a brief update on Market Participant financial institutions doing business with ERCOT (i.e., JP Morgan and Bank of America). She informed the Committee that there had been no change to the entities previously disclosed, but that this agenda item was a disclosure item, required each six months.

### **Pre-Approval of Non-Audit Services from Independent Auditor**

Mike Peterson directed the Committee to the Board Decision Template in the materials concerning non-audit services from ERCOT's independent auditor, Ernst & Young. Mr. Petterson stated that the Committee was required to pre-approve engagement of independent auditors for non-audit services (e.g., financial statement audit and review services related to the 2009 IRS Form 990 ("Form 990")). He further explained that Ernst & Young had the expertise and ability to offer cost effective services relative to outside legal firms, and others less familiar with ERCOT. Mr. Petterson noted that ERCOT staff was seeking preapproval to engage Ernst & Young in non-audit tax advisory services related to the preparation of the 2009 IRS Form 990. He added that although the Form 990 was complex, ERCOT did not expect to use the full budget requested, but preferred to have it available in the event of need.

Mr. Crowder inquired about the due date for filing the Form 990. Mr. Petterson explained that a request for an extension until August 15, 2010 was granted. He added that Staff planned to bring the completed Form 990 back to the Committee and Board in July 2010 to ensure that the August 2010 deadline was met, but a second extension to October 15, 2010 was an option, albeit not guaranteed.

Mr. Gent asked how the Form 990 had changed from previous years. Mr. Petterson explained that it had only been slightly modified from 2008 to 2009, and the major change in complexity was from 2007 to 2008. Mr. Petterson added that he believed ERCOT filed the 2008 Form 990 on time, in complete compliance with the requirements, and noted that the objective was to do the same for the 2009 Form 990 filing. Mr. Karnei expressed that he thought it prudent to have another set of eyes review the Form 990 for ERCOT.

Mr. Karnei entertained a motion for approval of engaging Ernst & Young to perform non-audit services, as discussed in the Committee meeting.

**Miguel Espinosa moved to approve the Non-Audit Services from Independent Auditor related to the 2009 IRS Form 990. Mr. Gent seconded the motion. The motion passed unanimously with no abstentions.**

### **Review of Procedures for Handling Reporting Violations**

Mike Petterson referred to Committee materials concerning the annual Committee review of procedures for handling reporting violations. He began by reminding the Committee that the F&A Committee Charter states that this was an annual check to ensure the Committee had satisfied the requirement to establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls and auditing matters. Mr. Petterson added that ERCOT management established processes that allowed employees, contractors and other individuals to lodge complaints or issues concerning financial reporting practices.

Mr. Crowder asked about proactive inquiries opposed to the reaffirmation of ethics agreements each year. Messrs. Wullenjohn and Petterson provided examples of different means for gathering information. Mr. Petterson explained that there had been few, if any, reporting violations over the last couple of years.

Mr. Espinosa asked about tracking violations, and the presence of a repository for documenting violations. Mr. Petterson said the any violations that he was aware of would be tracked using a Management Action Plan ("MAP") with verification and confirmation that the MAP was implemented.

Following discussion on various types of reporting, Mr. Karnei summarized that Mr. Petterson would extract the Charter language relating to the Committee's responsibility under the Charter as it pertained to financial reporting items, for review and discussion at the June 2010 meeting .

### **Committee Briefs**

Mr. Crowder then inquired about the Risk Management Event Profile Matrix (i.e., the yellow designation for Nodal implementation). Phil DiPastena responded that the designation had been yellow for a while, and though things were going well, the designation had not been changed to yellow/green, but could be if the Committee and executive management so desired. Mr. Karnei asked Mr. DiPastena to give the Committee a brief explanation of the color designations. Mr. DiPastena explained that the Risk Management Committee had a meeting once a month with ERCOT's executive team to review the Matrix and discuss whether any of the risks contained therein should be rated differently.

Mr. Crowder inquired about the items on counterparty credit, and when the Committee could review risk factors associated therewith. Ms. Yager replied that they would be provided to the Committee once the model was developed (i.e., likely in the fall 2010).

Mr. Crowder asked Mr. Doggett about bulk system resources, to which Mr. Doggett stated that ERCOT had a change in the magnitude of peak demand downward, and several resources added on the positive side to balance out resources.

Mr. Crowder noted the importance of making clear to the Board that it had until the following Monday to fill out a questionnaire contained in the Board materials.

Ms. Yager informed the Committee that ERCOT Credit was working with Market Trials 5 to start incorporating credit constraints, and that those early stages would likely be bumpy, but that was to be expected as data and system issues were worked out.

### **Future Agenda Items**

The following items were identified as future agenda items:

1. Standing Internal Audit agenda items
2. Review operating plan and budget assumptions
3. Discussion of P-card limits and possibilities of increasing these limits for better throughput & efficiencies
4. Assessment of compliance, the internal control environment and system of internal controls
5. Reporting Violations – Summary of Charter Language
6. Revisit of debt issue
7. Financial Summary of TRE Status (accounting and financial statement impact)
8. Preparation for the 2011 Budget
9. Review information concerning Joint Board/IRC meeting
10. Review Market Credit Risk Model
11. Committee Briefs
12. Future Agenda Items

### **Other Business**

None.

### **Adjournment**

Mr. Karnei adjourned the meeting at approximately **9:54 a.m.**



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Juliana Morehead  
Associate Corporate Counsel