

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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744  
June 15, 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 **8:02 a.m.** The Committee immediately went into Executive Session, where it remained until it recessed and reconvened in General Session at **9:10 a.m.**

**Committee members:**

Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility	Present
Dreyfus, Mark	Austin Energy	Municipal	Not 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	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:**

Beckham, Rebecca	ERCOT – Senior Financial Analyst
Brandt, Adrienne	Austin Energy
Burke, Tom	ACES Power Marketing
Cleary, Mike	Chief Operating Officer
Clemenhagen, Barbara	Topaz Power Management
Day, Betty	ERCOT – Director, Commercial Operations
Doggett, Trip	ERCOT – Interim President and Chief Executive Officer
Donohoo, Ken	Oncor
Forfia, David	ERCOT – Director, Informational Technology Infrastructure
Fox, Kip	AEP
Greer, Clayton	Morgan Stanley
Hancock, Misti	ERCOT – Manager, Budget and Financial Analysis
Jones, Brad	Luminant
Kolodziej, Eddie	Customized Energy Solutions
Lester, Suzanne	ERCOT – Executive Assistant, Finance
Manning, Charles	ERCOT – Vice President and Chief Compliance Officer
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Morgan, Richard	ERCOT – Vice President and Chief Information Officer

Petterson, Mike	ERCOT – Controller
Pieniazek, Adrian	NRG Texas
Roberts, Grady	ERCOT – Director, Contract Administration and Procurement
Stephenson, Randa	Luminant
Swanson, Leslie	ERCOT – Manager, Treasury (Contractor)
Teixeira, Jay	ERCOT – Manager, Seasonal Planning
Wagner, Marguerite	PSEG Texas
Ulici, Naomi	ERCOT – Learning Specialist
Wolff, Freddy	ERCOT – Manager, Accounting and Financial Reporting
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT – Treasurer

### **Announcement of Proxies**

Chairman Clifton Karnei confirmed that a quorum was present and that he held the proxy for Mr. Dreyfus.

### **Approval of Prior Meeting General Session Minutes**

Chairman Karnei asked for a motion to approve the May 18, 2010 General Session F&A Committee meeting minutes.

**Miguel Espinosa moved to approve the minutes for the General Session of the Committee meeting held on May 18, 2010. Calvin Crowder seconded the motion. The motion passed unanimously with no abstentions.**

### **Approval of the Debt Financing Proposal**

Mr. Karnei noted that the Committee discussed various proposals and options relating to debt financing during Executive Session. He then entertained a motion for approval of Debt Financing Option 1.

**Miguel Espinosa moved to approve Debt Financing Option 1 as recommended in Executive Session. Calvin Crowder seconded the motion. The motion passed unanimously with no abstentions.**

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

Mike Petterson directed the Committee to materials provided prior to the meeting, and noted highlighted sections of the Committee Charter, which specified the Committee's responsibilities concerning financial statement reporting, accounting, internal controls, and auditing issues. Mr. Karnei noted that according to Charter language the Committee's reporting responsibilities appeared limited to financial-type items, rather than reporting on all types of violations.

### **Preparation of the 2011 Budget**

Mike Petterson noted the informative nature of the 2011 Budget preparation discussion, and reviewed ERCOT's schedule for preparing the budget. He noted the greatest challenges facing the budget preparation were issues relating to the transition from a Zonal market to a Nodal market (i.e., operational and financial challenges). Two key focuses in preparation for the 2011

Budget were efficiency of service and cost control, in addition to looking at options to keep fees at the current level, Mr. Petterson added. Discussion regarding fees followed. Mr. Petterson commented that the estimated need for an additional \$55 million over the 2010 Budget to perform at the same service levels with Nodal was a worst-case scenario, which assumed that all costs in ERCOT at current would roll into base operations. In concluding, he informed the Committee that ERCOT expected to have the assumptions around the 2011 Budget and preliminary numbers ready for Committee presentation in August 2010, aiming for Board approval in November 2010. Mr. Clearly emphasized the need for Committee communication to the Board throughout the planning process, as to allow for the understanding of issues related to figures in the 2011 Budget. Mr. Crowder inquired as to whether the Committee could get a preview of the assumptions at the July 2010 Committee meeting, to which Mr. Petterson responded in the affirmative.

### **Texas Regional Entity Financial Summary**

Misti Hancock presented the Texas Regional Entity ("TRE") Financial Summary to the Committee. She noted July 1, 2010 marks the divestiture date between ERCOT and TRE, upon which time ERCOT would substantially remove all assets and retained earnings related to TRE from ERCOT's financial books. She also informed the Committee upon the divestiture date, ERCOT would begin terminating TRE employees. Moreover, Ernst & Young would be performing a six-month-end financial statement audit as of June 30, 2010, and Ms. Hancock stated that ERCOT expects minimal impact to its financial statements (i.e., less than one (1) percent on each of the three primary balance sheet categories: \$4.8 million in assets; \$4.3 million in liabilities; and approximately \$500,000 in retained earnings). The Committee and Ms. Hancock then discussed the types of assets and liabilities involved. Chad Seely briefed the Committee on the state of contract negotiations with TRE concerning Protocol/Operating Guide services to be provided for the remainder of 2010 (e.g., Protocol/Operating Guide compliance audits, investigation of Protocol/Operating Guide violations, etc.). Mr. Seely informed the Committee that ERCOT would have a contract in place with TRE for these services beginning July 1, 2010 through the end of 2010, during which time the PUC would decide whether TRE would continue to perform such services in 2011.

### **Parent Guarantees for Financial Institutions**

Clayton Greer with Morgan Stanley informed the Committee that ERCOT was operating with a standard form parent guarantee, which some banks could not execute. The Committee, Mr. Greer, and Mr. Seely discussed options for making modifications to the guarantee that could accommodate those banks' concerns. Following a lengthy discussion about the history of the current guarantee, and options for revisions thereto, the Committee recommended that the Credit Working Group perform a preliminary review of Morgan Stanley's proposed changes to the standard form parent guarantee.

Mr. Espinosa excused himself from the room during the Parent Guarantee discussion.

### **Committee Briefs**

#### **Procurement Card (PCard) Update**

Mr. Petterson advised the Committee that the PCard's usage had grown, and its efficiency and compliance had strengthened. Mr. Petterson recommended that ERCOT increase the transactional dollar limits from \$1,000 to \$5,000 to increase efficiency because the increase would reduce the number of purchase orders and checks cut per month by about 50%. He

further noted that ERCOT's risk was minimal and ERCOT planned to periodically audit or spot-check the Program. The Committee expressed no concerns with increasing in the limit from \$1,000 per transaction to \$5,000 per transaction.

### **Future Agenda Items**

The following items were identified as future agenda items:

1. Standing Internal Audit agenda items
2. Discussion of IRS Form 990 filing
3. Update on annual Operating Budget
4. Credit Briefing – Potential Future Risk (YE 2009)
5. Update on assumptions in preparation of the 2011 Budget
6. Review of Investment Strategy
7. Committee Briefs
8. Future Agenda Items

### **Other Business**

None.

### **Adjournment**

Mr. Karnei adjourned the meeting at approximately 9:52 a.m.



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Juliana Morehead  
Associate Corporate Counsel