



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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744  
November 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 **12:03 p.m.** The Committee immediately went into Executive Session, where it remained until it recessed and reconvened in General Session at **1:00 p.m.**

**General Session Attendance**

**Committee Members:**

Bermudez, Jorge	Unaffiliated Board Member	Unaffiliated Board Member	Not Present
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
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative	Present
Zlotnik, Marcie	StarTex Power	Independent REP	Present (left meeting during Agenda Item 11)

**Other Board Members and Segment Alternates:**

Bivens, Danny	Office of Public Utility Counsel	Consumer/Residential	Present
Dalton, Andrew	Valero Services, Inc.	Consumer/Industrial	Present
Doggett, Trip	ERCOT	Chief Executive Officer	Present
Doll, Laura	Unaffiliated Board Member	Unaffiliated Board Member	Present
Gent, Michehl	Unaffiliated, Acting Board Chairman	Unaffiliated, Acting Board Chairman	Present
Givens, Sheri	Office of Public Utility Counsel	Consumer/Residential	Present
Helton, Bob	International Power America Services	Independent Generator	Present
Patton, AD	Unaffiliated Board Member	Unaffiliated Board Member	Present



Ryall, Jean	Constellation Energy	Independent Power Marketer	Present
Walker, Mark	NRG Texas	Independent Generator	Present

**ERCOT Staff and Guests:**

Cleary, Mike	ERCOT – Chief Operating Officer
Cobos, Lori	ERCOT – Associate Corporate Counsel and Committee Secretary
Gunn, Phil	Ernst & Young, LLP
Edmonds, Lauren	SAS 70 Solutions, Inc.
Magness, Bill	ERCOT – Vice President and General Counsel
Manning, Chuck	ERCOT – Vice President and Chief Compliance Officer
Morgan, Richard	ERCOT – Vice President and Chief Information Officer
Moseley, Cheryl	ERCOT – Manager, ICMP
Nelson, Donna	Public Utility Commission of Texas - Commissioner
Nikazm, Tamilla	Austin Energy – Credit Work Group
Petterson, Mike	ERCOT – Controller
Rhoades, Jason	SAS 70 Solutions, Inc.
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT - Treasurer

**Approval of General Session Minutes – October 18, 2010 (Agenda Item 5)**

Chairman Karnei entertained a motion to approve the October 18, 2010 General Session F&A Committee meeting minutes (“Minutes”).

**Nick Fehrenbach made a motion to approve the Minutes. Mark Dreyfus seconded the motion. The motion passed unanimously by voice vote.**

**Update on SAS 70 Audit (Agenda Item 6)**

Ms. Moseley introduced Jason Rhoades (Shareholder) and Lauren Edmonds (Field Manager) with SAS70 Solutions, Inc. to the Committee. Ms. Edmonds provided a brief overview of the 2010 SAS 70 audit results, noted that SAS 70 Solutions would be issuing an unqualified report in December, and provided a brief overview of the 2011 SAS 70 audit. Mr. Karnei noted that the Committee would be voting on the acceptance of the audit report at the December Committee meeting and the Committee and ERCOT Board of Directors (“ERCOT Board”) would be reaffirming SAS70 Solutions, Inc. to conduct the 2011 SAS 70 audit in December.

**Recommendation on Selection of Independent Auditors for 2011 (Agenda Item 7)**

Mr. Karnei noted that the ERCOT Board selected Ernst & Young, LLP (“Ernst & Young”) as the independent auditor last year for a three-year period, but the ERCOT Bylaws require the ERCOT Board to approve the independent auditor on an annual basis.



**Miguel Espinosa made a motion to recommend the selection of Ernst & Young as the independent auditor for 2011 to the ERCOT Board. Calvin Crowder seconded the motion. The motion passed unanimously by voice vote.**

**Approval of Independent Auditor Fees for 2011 (Agenda Item 8)**

Mr. Karnei noted that the Committee discussed the independent auditor fees for 2011 in Executive Session due to confidentiality issues surrounding the fees.

**Miguel Espinosa made a motion to approve the independent auditor fees for 2011. Calvin Crowder seconded the motion. The motion passed unanimously by voice vote.**

**Review of External Auditor Quality Control Procedures and Independence and Review Scope of Annual Financial Audit (Agenda Item 9)**

Phil Gunn, representative from Ernst and Young, provided an overview of the External Auditor Quality Control Procedures and Independence and the 2010 Annual Financial Audit Plan to the Committee, highlighting the deliverables, methodology, and key areas of focus.

**Recommendation of 2011 Base Operating Budget (2011 Budget) (Agenda Item 10)**

Mr. Petterson informed the Committee that the meeting materials only included two changes from the October Committee meeting, including the \$25.2 million in Board Discretionary Funds that the Board authorized ERCOT Management to use for post-go-live nodal charges and revised budgeted amounts for project expenditures for 2012-2016. Mr. Magness provided an update on the pending contested case proceeding at the Public Utility Commission of Texas ("PUCT") in which ERCOT is seeking the PUCT's approval to use Nodal Surcharge revenues to pay for post-go-live charges incurred after December 1, 2010, noting that the procedural schedule in the docket contemplated the case being completed by the end of the year. Mr. Crowder thanked ERCOT Staff for their good work in preparing the budget and keeping the System Administrative Fee ("SAF") flat.

**Miguel Espinosa made a motion to recommend approval of the 2011 Base Operating Budget by the ERCOT Board. Calvin Crowder seconded the motion. The motion passed unanimously by voice vote.**

Following the Committee's approval of the recommendation, Mr. Gent requested that Mr. Magness confirm that there were no issues with the Board resolution not including ERCOT Board approval of the Project Priority List ("PPL") given that Board Agenda Item 9a refers to the 2011 Base Operating Budget and PPL and provide feedback at the ERCOT Board meeting the following day.

Mr. Doggett commended Mr. Petterson and PUCT Staff for their hard work and smooth development of the budget.



## **ERCOT Credit Status and Credit Work Group Status (Agenda Item 11)**

### **ERCOT Credit Status**

Ms. Yager provided a status update on ERCOT Credit to the Committee and answered questions from the Committee members. Ms. Yager highlighted that the ERCOT Board would be voting the following day on: a) Nodal Protocol Revision Request ("NPRR") 286 which allows ERCOT to provide available credit limits ("ACLs") on a daily basis, including non-business days, b) the proposed reduction from the 95<sup>th</sup> to 90<sup>th</sup> percentile of historical Real Time Day-Ahead spreads (as part of NPRR 286) and historical point-to-point ("PTP") obligation bids (as an update to the Day Ahead Market ("DAM") Collateral Parameters Process document) used for DAM credit validation, and c) an update to the Creditworthiness Standards to incorporate the current revision process in Section 16 of the ERCOT Protocols, rather than Section 21 of the ERCOT Protocols. Ms. Yager also noted that a fix to correct a system glitch affecting the collateralization of PTF obligations was put in place on November 5, 2010.

The Committee agreed with the change from the 95<sup>th</sup> to 90<sup>th</sup> percentile. Mr. Karnei asked Ms. Yager and Mr. Magness to determine what process a Market Participant, individually or collectively, must follow if they had concerns with credit requirements and to provide feedback at the ERCOT Board meeting the following day.

**Calvin Crowder made a motion to recommend TAC's proposed changes to the Creditworthiness Standards document to the ERCOT Board. Mark Dreyfus seconded the motion. The motion passed unanimously by voice vote.**

### **Credit Work Group Status**

Ms. Nikazm provided an overview of the discussions at recent Credit Working Group ("CWG") meetings related to congestion revenue rights ("CRR") and transmission congestion rights ("TCR") auctions in December, Nodal soft start, a fix for the system glitch affecting the collateralization of PTP obligations, and ERCOT Legal's review of proposed changes to the Morgan Stanley Standard Guarantee Form to accommodate Market Participant mergers/acquisitions. Ms. Nikazm committed to update the Committee on the status of the proposed changes to the Standard Guarantee Form.

## **Review and Recommendation of Investment and Financial Corporate Standards (Agenda Item 12)**

Ms. Yager noted that ERCOT reviews its Investment and Financial Corporate Standards on an annual basis.

### **Investment Corporate Standard**

Ms. Yager discussed the proposed changes to the ERCOT Investment Corporate Standard, including adding language to include the ERCOT Controller as an Investment Officer to ensure adequate coverage in the absence of an ERCOT Chief Financial Officer ("Officer") and increasing the investment fund cap from \$50 million to \$100 million for the next six months to ensure adequate room in the funds for collateral after Nodal go-live. Ms. Yager committed to report back on the \$100 million investment fund cap at the December Committee meeting.



**Calvin Crowder made a motion to recommend the approval of the proposed changes to the Investment Corporate Standard to the ERCOT Board. Mark Dreyfus seconded the motion. The motion passed by a 4-2 voice vote. Miguel Espinosa and Jorge Bermudez, by proxy, abstained. Marcie Zlotnik excused herself from the Committee meeting during the discussion and was not present for the vote.**

#### Financial Corporate Standard

Ms. Yager discussed proposed changes to the ERCOT Financial Corporate Standard, primarily consisting of cleanup changes removing references to the Texas Regional Entity ("TRE").

**Calvin Crowder made a motion to recommend the approval of the proposed changes to the Financial Corporate Standard to the ERCOT Board. Nick Fehrenbach seconded the motion. The motion passed unanimously by voice vote. Marcie Zlotnik was not present for the vote.**

#### Quarterly Investment Summary (Agenda Item 13)

Ms. Yager provided a summary of ERCOT's quarterly investments to the Committee.

#### Committee Briefs (Agenda Item 14)

Mr. Karnei noted an increase in the number of Market Participants from October to November and requested that Ms. Yager determine whether the increase consisted of potential speculators in the market for CRRs or Market Participants serving load.

#### Future Agenda Items (Agenda Item 15)

Mr. Petterson provided the following list of Future Agenda Items to the Committee:

1. Standing Internal Audit agenda items
2. Perform Finance and Audit Committee Self Assessment (discuss survey results)
3. Review the Company's Dealings with any Financial Institutions that are also Market Participants
4. Approve Audit Committee Meeting Planner for the upcoming year, confirm mutual expectations with management and the auditors
5. ERCOT Credit Status
6. Credit Working Group Status
7. Review Performance of Chief Audit Executive
8. Quarterly Committee Education on Accounting Developments
9. Standing EthicsPoint update
10. Standing Contracts, Personnel, Litigation and Security
11. Update on the 2010 SAS70 Audit
12. Standing Committee briefs
13. Standing Future Agenda Items

Mr. Petterson noted that the acceptance of the SAS 70 audit report and Ms. Yager's report on the \$100 million investment fund cap would also be added to the agenda for the December Committee meeting.



**Other Business (Agenda Item 16)**

None.

**Adjournment**

Mr. Karnei adjourned the meeting at approximately **2:15 p.m.**

A handwritten signature in black ink, appearing to read "Lori Cobos", is written over a horizontal line.

Lori Cobos  
Associate Corporate Counsel