



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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744
December 13, 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 **12:33 p.m.** The Committee immediately went into Executive Session, where it remained until it recessed and reconvened in General Session at **1:47 p.m.**

General Session Attendance

Committee Members:

Bermudez, Jorge	Unaffiliated Board Member	Unaffiliated Board Member	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

Other Board Members and Segment Alternates:

Dalton, Andrew	Valero Services, Inc.	Consumer/Industrial	Present
Doggett, Trip	ERCOT	Chief Executive Officer	Present
Doll, Laura	Unaffiliated Board Member	Unaffiliated Board Member	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:

Anderson, Ken	Public Utility Commission of Texas - Commissioner
Beckham, Rebecca	ERCOT – Manager, Financial Reporting
Cleary, Mike	ERCOT – Senior Vice President and Chief Operating Officer
Cobos, Lori	ERCOT – Associate Corporate Counsel
Day, Betty	ERCOT – Director, Commercial Market Operations
Ierullo, Bruno	ERCOT – Director, Human Resources
Lloyd, Brian	Public Utility Commission of Texas – Executive Director
Magness, Bill	ERCOT – Vice President and General Counsel
Manning, Chuck	ERCOT – Vice President and Chief Compliance Officer
Moseley, Cheryl	ERCOT – Manager, ICMP
Morgan, Richard	ERCOT – Vice President and Chief Information Officer
Nikazm, Tamila	Austin Energy – Credit Work Group
Petterson, Mike	ERCOT – Controller
Saathoff, Kent	ERCOT – Vice President, Grid Operations and System Planning
Wullenjohn, Bill	ERCOT – Director, Internal Audit
Yager, Cheryl	ERCOT - Treasurer

Approval of General Session Minutes – November 15, 2010 (Agenda Item 4)

Mr. Karnei entertained a motion to approve the November 15, 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.

Approval of the 2011 Internal Audit Plan (Agenda Item 3a – moved from Executive Session)

Mr. Karnei called for a motion to approve the 2011 Internal Audit Plan.

Nick Fehrenbach made a motion to approve the 2011 Internal Audit Plan. Jorge Bermudez seconded the motion. The motion passed unanimously by voice vote.

Acceptance of the 2010 SAS70 Audit Report (Agenda Item 5)

Mr. Karnei called for a motion to recommend the acceptance of the 2010 SAS70 Audit Report to the ERCOT Board of Directors (“ERCOT Board”).

Jorge Bermudez made a motion to recommend the acceptance of the 2010 SAS70 Report to the ERCOT Board. Marcie Zlotnik seconded the motion. The motion passed unanimously by voice vote.



Approval of Engagement of SAS70 Solutions, Inc. to Perform ERCOT's 2011 and 2012 SAS70 Audit (Agenda Item 6)

Mr. Karnei called for a motion to approve the engagement of SAS70 Solutions, Inc. ("SAS70 Solutions") to perform ERCOT's 2011 and 2012 SAS70 Audit.

Miguel Espinosa made a motion to approve the engagement of SAS70 Solutions to perform ERCOT's 2011 and 2012 SAS70 Audit. Nick Fehrenbach seconded the motion. The motion passed unanimously by voice vote.

ERCOT Credit Status (Agenda Item 7)

Cheryl Yager provided a status update on ERCOT's credit to the Committee, highlighting the smooth soft nodal launch, an increase in the number of counter-parties, a decrease in credit exposure of approximately \$100 million from October 31, 2010 through November 30, 2010, a significant 143% increase in collateral posting from \$391 million to \$949 million, and a substantial increase in the amount of requested unsecured credit in the ERCOT Market. Ms. Yager noted that the substantial increase in unsecured credit was high for the ERCOT market, but not extraordinarily high when compared to the amount of unsecured credit in the Midwest Independent System Operator ("ISO"). Ms. Yager noted that she was reaching out to other ISOs and planned to bring information regarding the amount of unsecured credit extended by other ISOs to the January Committee Meeting.

Credit Working Group (CWG) Status (Agenda Item 8)

Tamila Nikazm provided a Credit Work Group ("CWG") status update to the Committee, noting that no CWG meeting was held in December due to Nodal Go-Live, a smooth nodal market transition, market clearing prices were in line with expectations, the Nodal soft launch provided clarity to stakeholders on credit calculations, and there were no unexpected credit issues. Ms. Nikazm noted that CWG would include the following items at its next meeting on January 5, 2011: (1) a more detailed look at proposed changes to the Standard Guarantee Form; (2) ongoing analysis of credit calculations in the Nodal market; (3) a detailed analysis of unsecured credit in light of some Market Participant concerns with the large amount of unsecured credit being extended by ERCOT; (4) review of investment parameters for collateral held by ERCOT in light of the large amount of collateral being posted in the ERCOT Market; (5) Nodal Protocol Revision Request ("NPRR") 300, which proposes to make Municipal Owned Utilities' ("MOUs") exempt from submitting first priority security interests to ERCOT for netting; and (6) nominations for Chair and Vice-Chair of CWG.

Commissioner Anderson inquired about the frequency in which ERCOT reviews the credit quality of counter-parties given the large dollar volume in unsecured credit being granted in the ERCOT market. Ms. Yager noted that ERCOT reviews financials on a quarterly basis for entities that receive unsecured credit and monitors public information, such as press releases, on a daily basis to identify entities that may need additional attention between regularly scheduled quarterly reviews. Mr. Gent also suggested that CWG review the cap on unsecured credit to determine if any changes are needed. Ms. Yager noted that ERCOT has currently capped unsecured credit at \$75 million pending CWG's review and that it was a good time to review the cap in light of the Federal Energy Regulatory Commission's ("FERC") Notice of Proposed Rulemaking ("NOPR") that recommends a \$50 million limit.



Quarterly Committee Education on Accounting Developments (Agenda Item 9)

Rebecca Beckham provided a quarterly update on accounting developments to the Committee, highlighting two proposed accounting standards that were pushed back by the Financial Accounting Standards Board ("FASB") to 2011; new Internal Revenue Service ("IRS") Form 1099 reporting requirements, the transition of Nodal software assets from "Systems Under Development" to "Property and Equipment" in financial statements so that the assets are placed in service for depreciation purposes as a result of Nodal go-live on December 1, 2010, and current efforts by Finance and Nodal Program Staff to establish groupings of Nodal software assets to facilitate future ERCOT decision making. Ms. Zlotnik confirmed with Ms. Beckham that outside auditors agreed that the proposed Nodal software asset groupings would not impact financial statements and that the finalized Nodal software asset groups would be reviewed by outside auditors.

Results of F&A Committee Self Assessment (Agenda Item 10)

Due to the low response rate from Committee members, Mr. Karnei noted that the Self-Assessment would be re-issued to the Committee members and the results would be discussed at the January Committee meeting.

Committee Briefs (Agenda Item 11)

Ms. Yager reminded the Committee that the investment fund cap per fund had been increased temporarily to \$100 million to provide for volatility around Nodal Go-Live, but noted that as of November 30, 2010, ERCOT was still within \$50 million on all of its investment accounts. Ms. Yager also noted that ERCOT made its November term loan payment, reducing ERCOT's borrowing capacity, and committed to bring a more thorough borrowing capacity analysis to the January Committee meeting.

Mike Petterson presented a proposed year-at-glance outline of Charter Responsibilities as a Planned Future Agenda Item for the Committee's consideration. Mr. Petterson asked the Committee to consider the format of this matrix for tracking re-occurring Committee responsibilities, which could be marked once completed, to assist in agenda planning. In addition, Mr. Petterson mentioned the following items for the Committee's consideration:

- Holding ten instead of twelve Committee meetings each year (excluding June and December);
- Changing the Internal Audit updates, including EthicsPoint updates, from monthly to bi-monthly updates;
- Shifting certain audit review responsibilities, including review of the 401K audit, to the Human Resource and Governance ("HR&G") Committee; and
- Moving the EthicsPoint update to the HR&G Committee, unless financials aspects are included in the update.

Mr. Karnei agreed that Mr. Petterson should bring this item back to the January Committee meeting for further consideration.



Future Agenda Items (Agenda Item 12)

The following items were identified as Future Agenda Items:

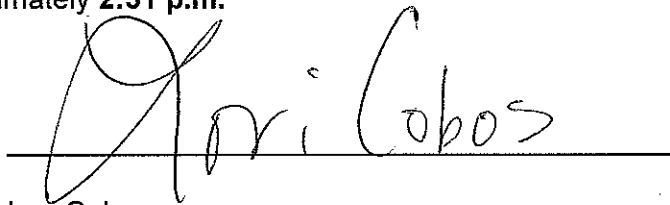
1. Standing approval of prior month's minutes
2. Standing Internal Audit agenda items
3. Standing EthicsPoint update
4. Standing Contracts, Personnel, Litigation, and Security
5. Standing Nodal Credit status
6. Standing Review of Investment Strategy
7. Standing Committee Briefs
8. Standing Future Agenda Items and consideration of proposed new format tied to Charter Responsibilities
9. F&A Committee Survey on Adequacy and Effectiveness of Internal Audit
10. Results of F&A Committee Self Assessment
11. Election of Committee Officers and designation of Committee Secretary
12. Annual review of Committee Charter and Structure

Other Business (Agenda Item 13)

None.

Adjournment

Mr. Karnei adjourned the meeting at approximately **2:31 p.m.**


Lori Cobos
Associate Corporate Counsel