



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

Electric Reliability Council of Texas Inc.
7620 Metro Center Drive (Room 206) - Austin, Texas 78744
March 21, 2011

Pursuant to notice duly given and after determination by the Committee Chairman that a quorum was present, the meeting of the Finance and Audit (F&A) Committee of the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) convened on the above-referenced date. After meeting earlier in Executive Session, the Committee then met in General Session.

General Session Attendance

Committee Members:

Bermudez, Jorge (Vice Chair)	Unaffiliated Director	Unaffiliated Director
Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility
Dreyfus, Mark	Austin Energy	Municipal
Espinosa, Miguel	Unaffiliated Director	Unaffiliated Director
Fehrenbach, Nick	City of Dallas	Commercial Consumer
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative
Zlotnik, Marcie	StarTex Power	Independent Retail Electric Provider

Other Board Members and Segment Alternates:

Bivens, Danny	Office of Public Utility Counsel (OPUC)	Designated Alternate Representative for Sheri Givens - Consumer/Residential
Brown, Jeff	Shell Energy North America	Segment Alternate – Independent Power Marketer
Doggett, Trip	ERCOT	President and Chief Executive Officer (CEO)
Doll, Laura	Unaffiliated Director	Unaffiliated Director, Board Chairman
Gent, Michehl	Unaffiliated Director	Unaffiliated Director, Board Vice Chairman
Gresham, Kevin	E.ON Climate & Renewable NA LLC	Segment Alternate – Independent Generator



Helton, Bob	IPR-GDF SUEZ North America	Independent Generator
Hendrick, Eric	Stream Energy	Segment Alternate - Independent Retail Electric Provider
Ryall, Jean	Constellation Energy	Independent Power Marketer
Smitherman, Barry T.	Public Utility Commission of Texas (PUCT)	Chairman

ERCOT Staff and Guests:

Anderson, Ken	Public Utility Commission of Texas - Commissioner
Anderson, Troy	ERCOT Manager of Enterprise Project Portfolio
Beckham, Rebecca	ERCOT Manager of Financial Reporting
Cobos, Lori	ERCOT Associate Corporate Counsel
Cleary, Mike	ERCOT Senior Vice President and Chief Operations Officer
Day, Betty	ERCOT Director of Commercial Market Operations
Jones, Brad	Luminant, Technical Advisory Committee (TAC) Chair
Leady, Vickie	ERCOT Assistant General Counsel and Assistant Corporate Secretary
Magness, Bill	ERCOT Vice President, General Counsel and Corporate Secretary
Manning, Chuck	ERCOT Vice President and Chief Compliance Officer
Moseley, Cheryl	ERCOT Manager of Internal Control Management Program (ICMP)
Nelson, Donna	Public Utility Commission of Texas – Commissioner (starting on Agenda Item 11)
Petterson, Mike	ERCOT Vice President of Finance and Treasury
Ruane, Mark	ERCOT Vice President of Credit and Enterprise Risk Management
Saathoff, Kent	ERCOT Vice President of Grid Operations and System Planning
Swanson, Leslie	ERCOT Treasury Manager (contractor)
Wullenjohn, Bill	ERCOT Director of Internal Audit
Yager, Cheryl	ERCOT Treasurer

Chairman Karnei convened the General Session of the F&A Committee meeting at approximately 1:05 p.m. and addressed the following Agenda Items in the order below.

Barry T. Smitherman, Chairman of the Public Utility Commission of Texas (PUCT, Commission), called an Open Meeting of the Commission to order to consider matters which had been duly posted with the Texas Secretary of State for March 21, 2011.

Approval of General Session Minutes – February 14, 2011 (Agenda Item 4)

Chairman Karnei entertained a motion to approve the February 14, 2011 F&A Committee General Session Meeting Minutes (Minutes).

Miguel Espinosa moved to approve the Minutes as presented. Calvin Crowder seconded the motion. The motion passed by unanimous voice vote with no abstentions.



Committee Approval of Internal Audit Department Charter (Agenda Item 5)

Chairman Karnei noted that the Committee members inadvertently voted on the 2011 Internal Audit Department Charter in Executive Session and entertained a motion to re-approve the Charter in General Session.

Jorge Bermudez moved to approve the 2011 Internal Audit Department Charter as presented. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Review and Recommend Board Approval of the F&A Committee Charter (Agenda Item 6)

Chairman Karnei directed the Committee members to the proposed F&A Committee Charter for 2011 in the meeting materials and entertained a motion to recommend Board approval of the F&A Committee Charter as presented.

Nick Fehrenbach moved to recommend Board approval of the 2011 F&A Committee Charter as presented. Mr. Crowder seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Review and Recommend Board Acceptance of the SAS 70, Type 1 Audit Report (Agenda Item 7)

Cheryl Moseley provided background information on the SAS 70, Type 1 Audit Report to the Committee members, noting that it was a qualified opinion due to the limitation of the scope of the audit and that the audit findings concluded that the current controls and design were adequate.

Mr. Espinosa moved to recommend Board acceptance of the SAS 70, Type 1 Audit Report as presented. Mr. Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Annual Review and Recommendation of Board Approval of Investment Corporate Standard and Financial Corporate Standard (Agenda Items 8a and 8b)

Investment Corporate Standard (Agenda Item 8a)

Leslie Swanson presented the Investment Corporate Standard for Committee review, noting that the standard included minor clean-up changes and two substantive changes. First, ERCOT proposed removing the list of individual securities held at the end of the reporting period by money market funds as a required report since there is now a quarterly concentration report and the list of securities is voluminous. Second, ERCOT proposed reducing the cap on the amount that may be held in any one investment fund, which had been temporarily increased to \$100 million for Nodal start up, back to \$50 million.



Due to Committee member concerns about the investment amount held by a particular organization and risks involved with investing in Treasury and Treasury-backed securities, Chairman Karnei asked Bill Magness to review the recent history of bankruptcy cases (*e.g.*, Lehman) to determine the sequence of events related to the failure of the investment funds and provide a legal opinion on the risk of investing in Treasury and Treasury-backed securities in the event of a default of a money market fund or the sponsoring organization at the April 2011 F&A Committee meeting. PUCT Commissioner Ken Anderson encouraged the F&A Committee and Board to conduct periodic spot checks of ERCOT's concentration of investments and the investment fund holdings to address the concerns raised by the Committee members.

Chairman Karnei deferred the Committee's recommendation to the Board on the Investment Corporate Standard until the April 2011 F&A Committee Meeting to allow further review of the proposed changes and delivery of the requested action items.

Financial Corporate Standard (Agenda Item 8b)

Leslie Swanson presented the Financial Corporate Standard for Committee review, noting that the standard consisted of minor clean-up changes. No comments or questions were voiced by the Committee members.

Mr. Bermudez moved to recommend Board approval of the Financial Corporate Standard as presented. Mr. Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Annual Review and Recommendation of Board Approval of Market Credit Risk Corporate Standard (Agenda Item 9)

Cheryl Yager presented the Market Credit Risk Corporate Standard for Committee review, noting that the standard was initially passed in 2009 and updated in 2010 and that the standard primarily consisted of minor clean-up changes to account for the Nodal market implementation.

Mr. Fehrenbach moved to recommend Board approval of the Market Credit Risk Corporate Standard as presented. Mr. Crowder seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Committee Approval of the Credit Work Group Charter (Agenda Item 10)

Cheryl Yager presented the Credit Work Group (CWG) Charter for Committee approval, noting that the Charter consisted of minor clean-up changes to take into account the Nodal market implementation.

Marcie Zlotnik moved to approve the CWG Charter as presented. Mr. Bermudez seconded the motion. The motion passed by unanimous voice vote with no abstentions.



Discuss Credit Management Practices and Judgments (Agenda Items 11a and 11b)

Specifically relating to the Events of 2/02/2011 (Agenda Item 11a)

Cheryl Yager and Mark Ruane discussed the credit management practices and judgments that ERCOT utilized during the February 2, 2011 Events and addressed Committee member concerns about the transparency, discretion, and potential legal precedent associated with the credit calculation adjustments.

PUCT Chairman Smitherman emphasized the importance of sending the right signal to the retail electric provider (REP) community about the use of credit calculation adjustments during a crisis. PUCT Commissioner Anderson clarified that the pricing anomalies resulted from a massive generation failure, not as a result of a weather event, and stressed the importance of hedging fixed rate contracts.

Ms. Zlotnik requested an offline discussion with Ms. Yager to gain more insight into ERCOT's normal course of business use of credit calculation adjustments. Ms. Yager also agreed to consult with ERCOT Legal to determine what non-confidential information about the drawn-on collateral during the February 2, 2011 Events could be provided to the Board members to confirm that the process worked properly.

Mr. Bermudez requested that Mr. Doggett provide more detailed examples of when ERCOT may use its sole discretion (*i.e.*, judgment) to make credit calculation adjustments at the April 2011 F&A Committee Meeting.

Chairman Karnei noted that the F&A Committee had been charged by the Board with evaluating how ERCOT's credit calculation adjustments worked during the February 2, 2011 Events. He stated that he would report that the credit calculation adjustments worked as intended at the Board meeting the following day on March 22, 2011.

Generally (Agenda Item 11b)

Ms. Yager and Mr. Ruane discussed ERCOT's general credit management practices and judgments and provided the Committee members with a few examples of when ERCOT makes credit calculation adjustments.

Periodic Review of Liquidity Report (Agenda Item 12)

Ms. Yager provided the Committee members with a summary of the Liquidity Report.

Mr. Crowder asked Ms. Yager to research the demand for debt more globally to determine whether ERCOT should consider entering into a new revolver earlier and whether there are any changing views in the demand for debt over the next eighteen months that ERCOT should be taking into account.



Review Committee Briefs (Agenda Item 13)

Mike Petterson noted that Board Agenda Item 9F for the Board meeting the following day on March 22, 2011 would address the 2010 IRS Form 990 and questionnaire and set forth deadlines for completion of the questionnaire and form. Mr. Fehrenbach asked Mr. Petterson to provide the Board members, Segment Alternates, and appropriate ERCOT Staff with an electronic Word version of the 2010 IRS Form 990 questionnaire.

Rebecca Beckham provided an overview of recent accounting developments and key risk identified in the financial statement audit by Ernst & Young and answered Committee member questions.

In response to Mr. Crowder's inquiry about the potential impact of the Environmental Protection Agency's (EPA) regulations and Nodal pricing on future reserve margins, Trip Doggett offered to provide a global assessment of the issues to the Committee in the coming months.

Future Agenda Items (Agenda Item 14)

Mr. Petterson noted that Ernst & Young would be providing a recap of the financial statement audit to the Committee members at the April 2011 F&A Committee meeting and that the Investment Corporate Standard, along with the associated action items, would be brought back for Committee consideration at the April 2011 F&A Committee meeting. Chairman Karnei requested that Mr. Petterson add a report to address the detailed examples of when ERCOT can use its sole discretion to adjust collateral to a future F&A Committee meeting.

Other Business (Agenda Item 15)

There was no other business considered at this time.

Adjournment

Chairman Karnei adjourned the meeting at approximately 2:49 p.m.

Committee materials and presentations from the meeting are available on ERCOT's website at: http://www.ercot.com/committees/board/finance_audit/

A handwritten signature in black ink that reads "Lori Cobos". The signature is written in a cursive, flowing style. Below the signature is a solid horizontal line.

Lori Cobos
Committee Secretary