

MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:00 A.M.

July 18, 2006

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at approximately 8:00 A.M. on **July 18, 2006**. The Meeting was called to order by **Clifton Karnei** who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present
Miguel Espinosa, Vice Chair	Independent Board Member	Independent Board Member	Present
Robert Manning	H-E-B Grocery Co.	Consumer	Present
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Present
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Present
William Taylor	Calpine Corporation	Ind. Generator	Present

ERCOT staff and guests present:

Barry, Sean	PricewaterhouseCoopers (PwC)
Berinsky, Carl	ERCOT
Byone, Steve	ERCOT (CFO)
Davies, Morgan	Calpine
Delenela, Ann	ERCOT
Doolin, Estrellita	ERCOT
Dreyfus, Mark	Austin Energy
Fournier, Margarita	Competitive Assets
Gresham, Kevin	Reliant Energy
Hancock, Misti	ERCOT
Helton, Bob	American National Power
Jones, Randy	Calpine
Jones, Liz	TXU
Lozano, Rafael	PSEG Texgen I
Meek, Don	ERCOT
Petterson, Mike	ERCOT
Ruebsahm, Jamille	Deloitte & Touche (D&T)
TroxteLL, David	ERCOT
Vance, Cathy	ERCOT
Vaughn, Les	ERCOT
Vincent, Susan	ERCOT
Wagner, Marguerite	Reliant Energy
Webking, Catherine	TEAM
Wullenjohn, William	ERCOT
Yager, Cheryl	ERCOT

Approval of Previous Minutes

Tom Standish moved to approve the minutes for the previous meeting held on June 20, 2006; Miguel Espinosa seconded the motion. The motion passed unanimously.

Election of Vice-Chair

The Committee discussed its need, with Darrell Hayslip's departure, to elect a new Committee Vice Chair. **Mr. Scott Gahn moved to elect Miguel Espinosa as Vice-Chair of the Committee; Bob Manning seconded the motion. The motion passed unanimously.**

SAS 70 Audit Plan

Sean Barry with PwC provided an overview of the 2006 SAS 70 audit and including the background and purpose of the audit. He explained that the scope would include eighteen (18) control objectives—13 business processes and 5 information systems. Mr. Barry explained that the four areas of emphasis of the SAS 70 are (1) exceptions noted in prior year's SAS 70 Report; (2) higher risk areas for most ISOs/ RTOs; (3) changes to Protocols since the last audit; and (4) changes in key personnel and responsibilities.

Mr. Espinosa asked if there had been any issues with the pre-testing. Mr. Barry responded that ERCOT's results were probably average and that most ISOs with which PwC was involved last year had exceptions similar to ERCOT's.

Credit Work Group Proposals

Morgan Davies reported on CWG's efforts to develop options for dealing with residual credit exposure including methods to reduce credit exposure with and without increasing collateral. Mr. Davies explained that opinions within the CWG varied as to how much residual credit exposure could or should be accepted in the market. Based on the Committee's request, the CWG also discussed various middle ground or compromise solutions concerning additional actions to take to mitigate credit exposure and correspondingly, how much credit exposure to accept in the market. Mr. Davies reported that, while not achieving 100% consensus, the CWG did reach a significant level of agreement concerning a compromise solution that would require additional changes to the Protocols. Mark Dreyfus and Kevin Gresham noted that neither TAC nor PRS had yet reviewed the proposed solution. Both indicated that PRS and TAC would provide input.

Mike Espinosa moved to instruct the CWG to file a PRR to implement the compromise credit position by reducing the time to post collateral from two business days to one business day. Bob Manning seconded the motion. The motion passed unanimously.

Mr. Karnei noted the progress that had already been made in reducing credit risk.

The Committee also discussed critical feedback that Committee members had received from market participants regarding the CWG. Clifton Karnei asked the CWG to review its governance to determine if any changes should be made and report back the Committee with recommendations.

2007 Budget Preview

Mike Petterson provided an update on the 2007 budget process and recommended that, in order to provide time to obtain the revised Texas Nodal Market Implementation Program (TNMIP) and budget (expected in September) and the Delegation Agreement for the Regional Entity among other items, the budget schedule be revised to allow the first budget draft to be presented to the Committee in October and to the full Board in November. Clifton Karnei suggested that staff visit with PUC staff to make sure the revision would be acceptable. Bob Manning cautioned staff about the risks with delaying finalizing the budget too long, but the Committee confirmed acceptance of this proposal, so long as the PUC indicated approval.

Nodal Financing/ Liquidity Planning

Cheryl Yager explained that the temporary funding of ongoing TNMIP costs was being covered through the existing ERCOT debt facility that was not large enough to accommodate spending on the scale of the Nodal project. She noted that because ERCOT would need additional borrowing capacity by October to maintain liquidity requirements, she had begun to review financing alternatives and have conversations with potential lenders. Ms. Yager will present to the Committee in September an analysis of specific proposals.

Internal Control Audit Update

Steve Byone explained that D&T had made some preliminary comments on the ERCOT framework and believed there might be an opportunity to reduce the number of key controls. Accordingly, the timing will be extended to allow for more time to improve the design phase. The final report is expected in September; however, the possibility of a change in schedule following an upcoming status meeting with D&T was discussed.

SAS 70 Update/ 2005 Remediation Status

Ann Delenela reported that the remediation of Control Objection #17 (Logical Security Controls) and #18 (Physical Security Controls) was being coordinated by Information Systems Security. Sean Barry noted that the PwC had been unable to pre-audit the recertification process because the auditors had been unable to promptly get the information they needed. Mr. Barry confirmed that his team had received the needed access after going to senior management. Mike Espinosa and Mr. Karnei instructed Mr. Barry to contact the Committee for assistance if he experienced any delay or other issues with access to information in the future. Committee members stressed the need for ERCOT staff to cooperate with the PwC auditors and their expectation that the auditors be provided access to all information requested in connection with their fieldwork.

Committee Briefs

Credit Update

Cheryl Yager explained that the difference in Total Unsecured Credit Limit/ Security Posted between the May and June reports was due to a change in reporting criteria, not a substantive decrease. The Committee indicated that the new reporting format was acceptable. Ms. Yager also informed the Committee that a recent voluntary exit by a QSE would likely result in a credit exposure of \$150,000 to \$200,000.

Quarterly Investment Results

Cheryl Yager presented a Summary of Investment Results for second quarter of 2006 and informed the Committee that a previous decision to change a fund had been reversed due to improvement of the fund's investment performance relative to ERCOT's approved benchmark.

Project Management Office

David Troxtell reported that PR-60075_1 regarding Identity & Access Management would be presented to the Board for approval and that PR-600004_1 regarding EIS Conformed Data Warehouse Foundations would not be presented to the Board as previously planned because the scope had changed and budget reduced.

Future Agenda Items

Steve Byone reviewed the following as agenda items for August:

1. Approval of 2007 Operating Budget
2. Selection of Independent Auditor for 2006 and approval of fees

Adjournment

At approximately 9:32 A.M., the meeting was adjourned and the Committee went into Executive Session. The next regularly scheduled meeting will be held on the morning of August 15, 2006.



Susan Vincent, Secretary