

MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:00 A.M.

March 21, 2006

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 8:05 AM. The Meeting was called to order by Darrell Hayslip, who ascertained that a quorum was present.

Meeting Attendance

Committee members:

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

ERCOT staff and guests present:

Brenton, Jim	ERCOT
Byone, Steve	ERCOT (CFO)
Connell, Robert	ERCOT
Davies, Morgan	Calpine
Doolin, Estrellita	ERCOT
Fourmer, Margarita	Competitive Assets
Gresham, Kevin	Reliant Energy, PRS Chair
Gruber, Richard	ERCOT
Kolodries, Eddie	Customized Energy Solutions
Meek, Don	ERCOT
Moseley, Cheryl	ERCOT
Mueller, Geoff	ERCOT
Nilcazm, Tamila	Austin Energy
Petterson, Mike	ERCOT
Ruebsahm, Jamille	Deloitte & Touche
Ryan, Jean	Constellation
Spells, Vanessa	ERCOT
Troxteel, David	ERCOT
Vance, Cathy	ERCOT
Vincent, Susan	ERCOT
Walker, Mark	NRG Texas
Yager, Cheryl	ERCOT

Approval of Previous Minutes

Bob Manning moved to approve the Minutes for the previous regular meeting held February 21, 2006; Clifton Karnei seconded the motion. The motion passed unanimously.

Nodal Financing Scenarios

Cheryl Yager presented five options for financing the Nodal market redesign. Darrell Hayslip noted that Options #1 and #3 had the most viability, and Bob Manning stated that ERCOT should file all options with the PUC. Mike Espinosa and Clifton Karnei stated that they agreed that all options should be submitted to the PUC. Mike Espinoza noted that Option #2 provided the lowest total cost to ERCOT. Steve Byone told the Committee that it would be helpful to put a recommendation before the PUC, but ERCOT would file as the Board directed, and Mr. Espinosa asked if Mr. Byone had an indication from the PUC regarding its preference. Mr. Byone informed the Committee that the PUC had indicated that it would prefer to not have large rate adjustments and would like to spread the cost of Nodal over the useful life, or even longer, if possible. Tom Standish mentioned that ERCOT had historically spread debt over longer than useful life and they should consider spreading this debt over approximately seven and one half years, which would be the useful life plus the development period. Mr. Standish also stated that they should provide the PUC with the pros and cons of all options that they filed with the PUC. The Committee discussed the options in detail. Scott Gahn asked about the amounts being funded first, and Mr. Byone informed the Committee that the next phase funding request would be for additional amounts over the \$5.1 Million that the Board and the PUC had already authorized.

Clifton Karnei moved to recommend Option #1 but to also submit all options to the PUC; Scott Gahn seconded the motion. The motion passed unanimously.

Mr. Manning stated that the filing should provide the PUC with all options, and the strengths and weaknesses of all options, in summary form, and Mr. Espinosa stated that it should also specifically note that since ERCOT was a non-taxable entity it received no tax benefit from paying interest.

Corporate Policy Framework

Cheryl Moseley presented an overview of the ERCOT Policy framework to the Committee. She explained that it included policies, standards, and operating procedures, and also informed the Committee where the Investment and Financial policies resided within the framework. Committee members confirmed they were satisfied with the framework.

Large Projects Briefing

Rob Connell updated the Committee about capital Projects, noting that 4 were completed in February and 7 had been completed year to date. Mr. Connell informed the Committee that 1 large project (TCC Data Center Optimization) was moving into planning and 3 large projects would be presented to the Board for approval: (a) Austin Test Environment – moving to execution; (b) ERCOT Dark Fiber Network Replacement – budget change; and (c) Taylor Facilities Buildout for Nodal. Mr. Espinosa stated that he wanted a forecast of employees, including what each of the 150 new employees would do and when and where they would do it. Mr. Standish added that if the Regional Entity needed space at ERCOT, he wanted to know about this right away. Mr. Byone informed the Committee that the Board would receive a detailed presentation in Executive Session, and Mr. Connell stated that he would get further details for the Committee regarding the projected Nodal headcount.

Committee Evaluation/Self Assessment Results

Mr. Byone informed the Committee that he had only received approximately a 50% response, so he would wait until receiving more results before providing an analysis. Committee members agreed to complete the surveys as requested.

Credit Working Group ("CWG") Administration

1. CWG Charter

Ms. Yager reminded the Committee that it was time for the annual review and ratification of the Credit Work Group Charter, and she noted that the Credit Work Group (CWG) had reviewed the document and did not propose any revisions at this time. Darrell Hayslip informed the Committee that he had received questions from TAC members about participation in CWG and that TAC had expressed concern that communication between CWG and TAC wasn't as robust as it should be. Morgan Davies noted that the CWG and TAC leadership had met to discuss how to strengthen their working relationship and CWG committed to working more closely with TAC on credit issues and to improving communications. Scott Gahn recommended that the Charter specifically require that if the CWG recommended something that would change credit policy, CWG would be required to go to TAC to get input. Mr. Gahn stated that he recommended this because credit is a stakeholder issue and CWG doesn't have voting requirements like TAC. Mr. Hayslip asked if Mr. Gahn was seeking to copy TAC or seek approval from TAC, because he was not in favor of requiring TAC approval, but he would like to have TAC input. Mr. Gahn stated that he wanted to require TAC comments and to have all TAC comments reported to the Committee. Clifton Karnei stated that he was worried that requiring this additional procedure could inhibit the CWG's ability to assist the Committee and the Board in making decisions. Mr. Hayslip stated that he also wanted full disclosure but no requirement that TAC approve the CWG's proposals, because the Board would not always agree with TAC on credit decisions. Mr. Gahn stated that he wanted to require a formal procedure only when CWG made a motion to change ERCOT credit policy.

Darrell Hayslip made a motion to propose additional language at the end of the first sentence in the second Paragraph, that requires CWG to copy the Chair and Vice Chair of TAC on any recommendations the CWG provides to the F&A Committee ("with a copy to the Chair and Vice Chair of TAC"); Mike Espinosa seconded the motion. The motion passed by a vote of 4 to 2.

Mr. Gahn stated that he still wanted to require CWG to notify TAC and provide TAC input to the Committee. Mr. Hayslip stated that CWG was required to post a complete and detailed agenda for each meeting and to have all meetings in accordance with its agenda. Cheryl Yager noted that CWG could not change credit policy without going through the normal Protocol revision process.

Darrell Hayslip noted that, because TAC and other committee chairs changed in January, the Committee might want to have the CWG vote on its Chairman earlier than March of each year. Mr. Hayslip suggested that the phrase "in March of each year" be removed from the end of the first sentence in the first paragraph under section IV. The Committee members discussed and agreed with this.

Bob Manning made a motion to approve the CWG Charter, as amended by the previous vote and by removing the last clause of the first sentence under Paragraph IV of the CWG Charter; Mike Espinosa seconded the motion. The motion passed unanimously.

2. Credit Work Group Chairman Confirmation

Cheryl Yager informed the Committee that the CWG had selected Morgan Davies, by an email vote, to be its Chair, and asked the Committee to confirm the selection as required by the Charter. Mr. Manning stated that the Committee wanted more detail included in the Committee packet so that there would be time to review the information.

Clifton Karnei moved to approve Morgan Davies as CWG Chair; Scott Gahn seconded the motion. The motion passed unanimously.

Managing Credit Risks – Next Steps

Morgan Davies reviewed some of the beneficial credit changes that had been adopted over the past year. Mr. Davies noted, however, that there was still a substantial amount of unmitigated credit exposure and that CWG was meeting to address this ongoing level of exposure. He provided the Committee with the CWG "wish list" of additional alternative means of addressing the outstanding credit risk. In reviewing the list, Mr. Davies noted that CWG's preferred solution is to reduce credit exposure by reducing the amount of time it takes to do a Mass Transition. Mr. Davies stated, however, that the CWG was also considering alternate solutions, including increased collateral requirements and credit insurance as a means to mitigate credit exposure. Mr. Karnei suggested that the full Board should be shown the slide of the wish list, and Mr. Hayslip agreed to present this to the Board. Mr. Hayslip informed Mr. Davies that the Committee needed more detailed costs for each of the requested alternatives. The Committee discussed the alternatives. Mr. Manning suggested that it should be a goal to have a shorter Mass Transition timeframe and he requested that the CWG consider revolutionary or fundamental change rather than incremental change to resolve this issue. Mr. Hayslip requested that Mr. Davies return to report to the Committee when the CWG had some concrete suggestions to report. Mr. Hayslip then noted that credit exposure could also be reduced by further reducing settlement cycle time. Richard Gruber noted that the lack of real time metering was one of the biggest hindrances to a shorter settlement cycle. Cheryl Yager noted that the most significant credit exposure currently facing the market was still due to the Mass Transition process. She indicated that once the Mass Transition issues were addressed, the CWG and the market could look at the cost/benefit to reducing the settlement cycle beyond what it is currently.

Guidelines for Engagement of External Auditors for Other Services

Mike Petterson noted that the current Finance & Audit Committee Charter requires, among other things, the Committee to approve the provision of all auditing and non-audit services by the independent auditor to the Company in advance of the provision of those services and to approve the fees for all non-audit services provided by the independent auditor. Unlike the Sarbanes Oxley Act the current Finance & Audit Committee Charter does not include a de minimus exception waiving the preapproval requirement for certain non-audit services.

To address the issue, Mr. Petterson recommended the F&A Committee adopt requirements similar to those in the Sarbanes Oxley Act by modifying the current F&A Committee Charter to require engagements for non-audit services provided by the independent audit firm totaling less than \$5,000 to be communicated in writing to the members of the Finance and Audit Committee at the first meeting following the engagement for the non-audit services at issue. Mr. Petterson noted that the recommended threshold is well below the de minimus exceptions provided for in the Sarbanes Oxley Act.

After receiving unanimous concurrence from Committee membership, Mr. Petterson committed to propose an amended Charter of the Finance and Audit Committee at the Committee's April 2006 meeting which will allow for the de minimus exception approved by the Committee.

Future Finance & Audit Committee Meeting Agenda Items

Mr. Byone informed the Committee that PriceWaterhouseCoopers would be reporting to the Committee in April regarding the financial audit and that he would report on the Committee self assessment and provide an internal control update.

Adjournment

At approximately 9:35 A.M., the meeting was adjourned and the Committee went into Executive Session. The next meeting will be held on the morning of April 18, 2006.



Susan Vincent, Secretary