

MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

7:30 A.M.

May 16, 2006

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at approximately 7:30 A.M. on **May 16, 2006**. The Meeting was called to order by **Clifton Karnei** who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, <i>Chair</i>	Brazos Electric Cooperative	Cooperative	Present
Darrell Hayslip, <i>Vice Chair</i>	Calpine Corporation	Ind. Generator	Present
Robert Manning	H-E-B Grocery Co.	Consumer	Not 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)
Davies, Morgan	Calpine (CWG Chair)
Doolin, Estrellita	ERCOT
Dreyfus, Mark	Austin Energy
Greer, Clayton	Constellation
Gresham, Kevin	Reliant Energy (PRS Chair)
Gruber, Rich	ERCOT
McElfresh, Brandon	ERCOT
Meek, Don	ERCOT
Mickey, Joel	ERCOT
Moseley, Cheryl	ERCOT
Mueller, Paula	PUC (Deputy Executive Director)
Petterson, Mike	ERCOT
Saathoff, Kent	ERCOT
Smitherman, Barry T.	PUC (Commissioner)
Troxell, David	ERCOT
Vance, Cathy	ERCOT
Vincent, Susan	ERCOT
Wullenjohn, William	ERCOT
Young, Mark	Deloitte & Touche
Yager, Cheryl	ERCOT

Approval of Previous Minutes

Darrell Hayslip moved to approve the minutes for the previous meetings held April 18, 2006, April 26, 2006 and May 5, 2006; Tom Standish seconded the motion. The motion passed unanimously.

Credit Update

Morgan Davies presented an update to the Committee regarding actions taken by the market to improve the market credit profile, reviewed the current and expected levels of credit exposure, and requested Committee guidance regarding the preferred target level of credit exposure. Mr. Davies explained that plans were underway to implement (in the second Quarter of 2007) a long-term solution which would reduce the days required for the mass transition process from 9-11 business days to 3 business days. He also explained that an interim solution, to reduce the required time period to six days, was expected to be implemented in late May or June 2006.

Mr. Davies presented exit scenarios that demonstrated the reduction in credit exposure due to mass transitions after implementation of the interim and long-term solutions. After some discussion about the sample price used in the scenarios, Scott Gahn requested and Cheryl Yager agreed to provide to the Committee information on pricing trends and approximate figures demonstrating how ERCOT's actual 2004-2005 credit exposure numbers would be different if the interim and long-term solution were in place. Ms. Yager also agreed to show all digits of numbers in future credit reports and slides, instead of using thousands of dollars. Mr. Hayslip confirmed with Mr. Davies that all market segments were supportive of both the interim and long-term mass transition solutions.

After some discussion about the target level of credit exposure and the lack of consensus among market participants regarding how best to address residual credit exposure, Clifton Karnei requested that the Credit Work Group develop proposals for the Committee to review at its July meeting, from the various schools of thought in the market: (1) A proposal to collateralize less than the full exposure (lower barrier to entry, socialize losses to market), (2) A proposal requiring nearly complete collateralization (low risk but higher barriers to entry), and (3) A proposal for a middle (compromise) solution.

Quarterly Investment Results

Cheryl Yager reviewed the Summary of Investment Results for the first Quarter of 2006 and noted that she was looking at other investment funds and would report back to the Committee with more details.

Nodal Surcharge Filing Status

Steve Byone reported that staff had filed the request for a Nodal surcharge of \$0.0663 per MWh on May 5, 2006 and that an update with additional details would be filed two weeks prior to the hearing. Mr. Hayslip requested that the Committee be provided with fee filings, especially ones containing staffing information, for possible comment, before they were filed. Mr. Hayslip confirmed that the Committee did not want to delay any filings, but would like a brief opportunity to provide comments. Mr. Byone agreed to have such fee filings forwarded to the Committee before being filed.

2006 Fee Filing Update

Mike Petterson reported that the Final Order for the 2006 fee case, providing for a fee of \$0.4171 per MWh, had been issued by the Public Utility Commission of Texas on May 15, 2006 and was being distributed to the Committee via email. The fee approved in the Final Order is

less than the \$0.42 per MWh fee approved by the Board of Directors in September, 2005 because the PUCT concluded approximately \$858,000 of certain expenses, including reimbursement of employee relocation costs, intern expenses, leadership development training, and employee events, were not appropriate for ERCOT to incur and should not be recoverable through the ERCOT System Administration Fee.

Mr. Espinosa asked how ERCOT revenues were tracking in 2006, and Mr. Petterson confirmed that revenues were on budget through April.

2006 Forecast

Mike Petterson explained that, due to the PUC's instructions in the Final Order, staff was pursuing cost saving opportunities. It is expected that cost savings efforts will not only enable the organization to satisfy the provisions of the Final Order issued by the PUCT but would also allow payment of expenses relating to numerous unbudgeted initiatives identified after the 2006 budget and fee filing package were completed in late 2005.

2007 Budget Planning Assumptions Review

Mike Petterson presented an overview and general assumptions regarding the 2007 budget planning process. In response to one assumption that ERCOT's mission statement and 2006 goals be carried into 2007, the Committee suggested that the mission and goals should be revisited and possibly revised in recognition of recent events relating to communications and operational issues. After discussion by the Committee regarding budget planning, Mike Espinosa asked how the Committee could involve the PUC in the budget process, and Mr. Hayslip asked if a PUC representative could be assigned to be a continuous part of the budget planning process. Mr. Espinosa asked Commissioner Smitherman if ERCOT could get a designated person from the PUC to be the budget representative. Commissioner Smitherman stated that the budget process should be more collaborative, and it might not need to be a contested case, and suggested that each Commissioner could assign an aide to follow the process, along with PUC staff. Mr. Hayslip stated that he wanted to memorialize the Committee's desire to pursue this. **Mike Espinosa moved to request the PUC to identify one or more representatives to participate in the 2007 budget process; Darrell Hayslip seconded the motion. The motion passed unanimously.** Steve Byone stated that he would send the request letter to the PUC.

Committee Brief – Compliance Update

Don Meek reported that an effort was underway to have each ERCOT officer attest to full compliance to all laws, regulations, policies, protocols, contracts and other requirements. Steve Byone reported that a full compliance report for the Board would be available for the July Board meeting, as part of the commitment to share the information with the Committee twice yearly. Clifton Karnei asked if the report could be made available to the Committee in June, and then shared with the full Board in July. Mr. Byone explained that, due to competing priorities, the full compliance report would likely not be complete in time for the June meeting. Mr. Meek explained that the report was very extensive, including over 100 areas.

Committee Brief – Risk Stop Light Changes

Don Meek presented the updated Risk Management Event Profile Matrix ("Stop Light Report") and answered questions by Committee members. Mr. Meek explained that most changes on the Report were due to the April 17, 2006 EECF event and Communications and Human Resources concerns. Clifton Karnei complimented the Report and requested that changes in future reports be highlighted. Tom Standish suggested that high priority items from the Report

be tied to the budget; Steve Byone confirmed that they were tied to the 2006 re-forecast and that they would be considered in the 2007 budget planning process.

Committee Brief – Large Project Update

David Troxtell informed the Committee that only one project was scheduled for the full board approval: Enhancements to the Areva Study Tools (MOMS) – PR 50003.

Committee Brief – Audit Points

Steve Byone reported that all audit gaps previously identified by Deloitte & Touche had been completed and that training throughout the company was well underway.

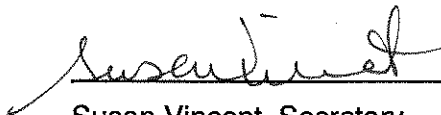
Finance Goal Performance and Staffing Review

Steve Byone presented the Finance Division goals along with the corresponding color-coded status (green, yellow, red). Clifton Karnei suggested that the "ERM" goal be coded green, but Mr. Byone stated that he had further expectations.

Mr. Byone also presented a staffing report showing the number of full-time employees and contractors in place for each department in the Finance Division. He noted that the total number of contractors for the company was increasing due to the difficulty in filling positions with full-time employees. The Committee discussed the communication issues and risk factors involved in the company's difficulty in attracting and maintaining sufficient qualified employees, the number of open positions, the vacancy rate, and the internal turnover rate. Mike Espinosa requested that the Committee continue to be updated monthly with the employee turnover figures and stated that the PUC needed to be made aware of the risk issues related to ERCOT's HR issues.

Adjournment

At approximately 9:07 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 June 20, 2006.



Susan Vincent, Secretary