

MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

7:45 A.M.

September 19, 2006

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 7:45 A.M. on **September 19, 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:

Brenton, Jim	ERCOT
Byone, Steve	ERCOT (CFO)
Campbell, Cassandra	ERCOT
Capezzuti, Nancy	ERCOT
Doolin, Estrellita	ERCOT
Hancock, Misti	ERCOT
Jones, Sam	ERCOT (CEO)
Meek, Don	ERCOT
Petterson, Mike	ERCOT
Ruebsahm, Jamille	Deloitte & Touche (D&T)
Troxell, David	ERCOT
Vance, Cathy	ERCOT
Vincent, Susan	ERCOT
Wullenjohn, William	ERCOT
Yager, Cheryl	ERCOT

Executive Session

At 7:47 AM, the Committee meeting was adjourned and the Committee went into Executive Session until approximately 8:45 AM. The Committee returned to Open Session at 8:52 AM.

Approval of Previous Minutes

Bob Manning moved to approve the minutes for the previous meeting held on August 15, 2006; **William Taylor** seconded the motion. The motion passed unanimously.

Approval of Financing Option

Miguel Espinosa moved to recommend approval of the staff financing proposal, which was discussed in detail in Executive Session, to increase the revolving credit facility capacity by \$75 million to a total of \$125 million; Scott Gahn seconded the motion. The motion passed unanimously.

Audit Update

Nancy Capezzuti reported that the annual Benefit plan audits were nearing completion, that no significant issues had been identified, and that the final report was expected by month-end. Steve Byone added that he would bring the audit report to the Committee at the upcoming October 5, 2006 special Committee meeting, for acceptance, so that the Committee could accept these prior to the required filing of the IRS Form 5500's, since these needed to be filed prior to the next regular scheduled meeting of the Committee.

Sean Barry with PwC provided an update on the SAS 70 audit. He explained that the first half of testing had been completed and that Information Technology (IT) security had been identified as the only potential issue. Mr. Barry stated that PwC had not formulated a final conclusion yet, but that, if there was any qualification in this area it would likely be contained within one period. Miguel Espinosa expressed concern about any potential security issues, even if only at one point in time, and stated that he wanted to discuss this matter in detail in the Executive Session of the Board. Sam Jones explained that the real challenge with security was the cumbersome nature of ERCOT systems—including 600 servers. He suggested that the answer was to automate access and that the Security team would be presenting a proposed solution to the full Board at the Board meeting.

2007 Budget Status Report

Michael Petterson confirmed that the 2007 Budget objectives and assumptions that had previously been discussed with the Committee had not changed. He also noted that the primary issues about the 2007 budget were the fact that Finance was still waiting on better information about the Nodal project, the Regional Entity, the Independent Market Monitor, and compensation structure. Mr. Petterson highlighted certain budget items including the following:

- ERCOT system administration fee held at current \$0.4171 per MWH for 2007 (note, this current budget does not meet goal, so management is working to find \$.5 million additional cost reduction)
- Higher costs associated with maintaining grid reliability, providing information technology system support and security, and corporate support such as physical security and legal services
- Offset by higher revenue stemming from electric load growth and lower costs associated with market operations
- Labor and benefit expenses are notable in that higher gross labor and benefit costs (approximately \$13.6 million) are offset by allocation of labor and benefit costs to the market redesign program (approximately \$13.8 million)
- Management implications for managing ERCOT staffing throughout implementation and upon completion of the market redesign effort
- Capital expense at \$30 million

Mr. Petterson also highlighted the following items on the 2007 Budget development schedule:

- September 26, 2006 (3 PM)— Public meeting on ERCOT's draft 2007 Budget
- October 5, 2006 (3 PM – 5 PM) – Special Meeting of the Finance & Audit Committee to discuss ERCOT's draft 2007 Budget

- October 17, 2006 – Finance & Audit Committee recommendation to the Board of Directors regarding ERCOT's 2007 Budget
- November 14, 2006 – Board of Directors approval of ERCOT's 2007 Budget

2007 Project Delivery Checkpoint

David Troxtell presented the 2007 Project Priority List with detailed information for each of the five operating areas (i.e. Corporate Operations, IT Operations, Market Operations, Retail Operations, and System Operations). He explained that all of the following projects (except TCC2 build out) would be reviewed during executive session:

- **PR-50007_01 Enhancements to FasTrak**
 - **Amendment** to original budget amount.
 - Project budget expected to exceed original approved Project Budget.
 - Additional development efforts underway to resolve API and GUI functionality issues
 - Targeting 4Q 2006 for implementation with reduced scope
 - **Approval request** for Budget increase included in BoD Executive Session.
- **PR-50078_01 SBC Network Replacement**
 - **Amendment** to original budget amount.
 - Project budget expected to exceed original approved Project Budget.
 - Additional development efforts underway to resolve connectivity issues.
 - Targeting 4Q 2006 for implementation.
 - **Approval request** for Budget increase included in BoD Executive Session.
- **PR-60075_01 Identity and Access Management**
 - Request approval to move to Execution phase with a not to exceed amount budget.
 - Project Budget Proposed after Planning expected to exceed \$1 Million
 - Remediate SAS70 Audit Findings
 - Increased efficiency & accuracy in user account provisioning
 - Reduce risk from orphaned or unauthorized accounts
 - Currently, in Planning for Phase 1
 - Phase 2 Planning will be conducted upon completion of Phase 1 Project.
 - **Approval request** for Phase 1 Budget and move into Execution included in BoD Executive Session
- **Proposed TCC2 SE/SW Build-out**
 - **For information only** – no approval necessary at this time.
 - Project is expected to exceed \$1M; will return to Board for approval in 1Q 2007
 - At the direction of the Board, ERCOT staff re-evaluated needs
 - Finish TCC2 2nd floor South-East and South-West sections and build a 6000 SF receiving, staging and storage facility

Committee Briefs

Risk Management Event Profile Matrix

Don Meek reviewed the Risk Management Even Profile Matrix and explained that the risk level in Communications had decreased, because of the increased planning efforts and reorganization of the Communications and External Affairs Department. Mr. Meek indicated that staff was reviewing the report format and asked for Committee input.

Committee members indicated that they found the current format informative and easy to use. They did not see a need at this time to change the format.

Future Agenda Items

Steve Byone reviewed with the Committee the following proposed agenda items for October:

- Special 2007 Budget review meeting on October 5th from 3:00 to 5:00
- Regularly scheduled October meeting
 - Credit Insurance Update
 - Review & Approval of 2007 Operating Budget
 - Assessment of Compliance, the Internal Control Environment and Systems of Internal Controls
 - Discussion on Materiality Levels

Adjournment

At approximately 9:30 A.M., the meeting was adjourned. The next regularly scheduled Committee meeting will be held on the morning of October 17, 2006, and a special meeting of the Committee, to discuss the 2007 budget and accept the benefit plan audit, would be held at 3 PM on October 5, 2006.



Estrellita Doolin, Assistant Secretary