



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

7620 Metro Center Drive, Room 206
Austin, Texas 78744
February 9, 2015

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

Meeting Attendance:

Committee Members:

| Director | Affiliation | Segment |
|---------------------------------|--|---|
| Ashley, Kristy | Exelon Corporation | Independent Generator Segment Alternate |
| Comstock, Read | Direct Energy | Independent Retail Electric Provider |
| Fehrenbach, Nick | City of Dallas | Consumer – Commercial |
| Gent, Michehl | Unaffiliated | Unaffiliated Director (<i>Proxy for Jorge Bermudez</i>) |
| Karnei, Clifton (Vice Chairman) | Brazos Electric Power Cooperative Inc. | Cooperative |
| Walsh, Judy | Unaffiliated | Unaffiliated Director |

Guest Board Members and Segment Alternates:

| Director/ Segment Alternate | Affiliation | Segment |
|--|--|---|
| Carpenter, Mark | Oncor Electric Delivery Company | Investor-Owned Utility |
| Crowell, Craven | Unaffiliated | Unaffiliated Director (<i>Not Present for Agenda Items 2 – 3</i>) |
| Doggett, H.B. “Trip” | ERCOT | President and Chief Executive Officer (CEO) |
| Durland, Jack | Valero Services, Inc. | Industrial Consumer (<i>Not Present for Agenda Items 2 – 2.4</i>) |
| Emery, Keith | Tenaska Power Services | Independent Power Marketer |
| Kezar, Mike | South Texas Electric Cooperative, Inc. | Cooperative Segment Alternate |

Officers and Guests:

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| Brandt, Adrienne | Austin Energy, 2015 Technical Advisory Committee (TAC) Vice Chair |
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| Day, Betty | ERCOT Vice President of Business Planning & Integration |
| Dreyer, Jerry | ERCOT Sr. Vice President and Chief Information Officer |
| Hobbs, Kristi | ERCOT Director of Enterprise Risk Management and Strategic Analysis |
| Jones, Brad | ERCOT Sr. Vice President of Commercial Operations |
| Leady, Vickie | ERCOT Assistant General Counsel |
| Levine, Jonathan | ERCOT Corporate Counsel |
| Magness, Bill | ERCOT General Counsel, Sr. Vice President – Governance, Risk and Compliance & Corporate Secretary |
| Martin, Loretto | Lower Colorado River Authority, 2015 Credit Work Group (CWG) Vice Chair |
| Mathews, Michael | Bryan Texas Utilities, 2014 CWG Chair |
| McIntyre, Kenneth | ERCOT Vice President of Grid Planning and Operations |
| Meek, Donald | Austin Energy, 2015 CWG Chair |
| Petterson, Michael | ERCOT Vice President and Chief Financial Officer |
| Ruane, Mark | ERCOT Director of Market Credit |
| Stephenson, Randa | Lower Colorado River Authority, 2014-15 TAC Chair |
| Taylor, Sean | ERCOT Controller |
| Wiley, Leslie | ERCOT Treasurer |
| Wullenjohn, Bill | ERCOT Director Internal Audit |

Call General Session to Order, Announce Proxies and Segment Alternates (Agenda Item 1)

Judy Walsh, Board Vice Chair, called the F&A Committee meeting to order at approximately 9:04 a.m. Ms. Walsh announced that Unaffiliated Director Jorge Bermudez provided his proxy to Unaffiliated Director Michehl Gent and that Kristy Ashley, Independent Generator Segment Alternate, was attending in Kevin Gresham’s absence.

Confirm Committee Membership and Leadership; Election of Committee Chair; Election of Vice Chair (Agenda Items 2, 2.2 and 2.3)

Ms. Walsh entertained a nomination for Committee Chair and Vice Chair.

Nick Fehrenbach nominated Jorge Bermudez as Committee Chairman and Clifton Karnei as Committee Vice Chairman. Mr. Gent seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Vice Chairman Karnei thanked the Committee for his reelection as Vice Chairman and for the reelection of Mr. Bermudez as Chairman. Vice Chairman Karnei addressed the following Agenda Items in the order below.

Confirm Committee Membership (Agenda Item 2.1)

Vice Chairman Karnei reported that the Committee Membership list was provided with the meeting materials. There were no requested changes to the Committee membership.

Designation of Committee Secretary (Agenda Item 2.4)

Vice Chairman Karnei entertained a motion for Committee Secretary.



Ms. Walsh moved to designate Bill Magness, ERCOT General Counsel, Sr. Vice President – Governance, Risk and Compliance & Corporate Secretary, or his designee as Committee Secretary. Mr. Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Committee Education on Market Credit (Agenda Item 3)

Mark Ruane presented the Committee Education on Market Credit and responded to questions and comments from Committee members. Mr. Karnei requested that at a future meeting ERCOT staff provide a breakdown showing the numerical difference between the Total Potential Exposure (TPE) and each of the following four categories: cash, letters of credit, surety bonds, and guarantees. Ms. Walsh requested that ERCOT staff also elaborate on which Counter-Parties are carrying unrequired collateral and how much would be applicable to those Counter-Parties at a greater risk of defaulting. In regards to the scenarios included in ERCOT’s stress-testing to estimate the impact of high-priced intervals on TPE, Read Comstock requested that ERCOT staff investigate whether the scenario of ten high-price intervals with 10% imbalance volume escalation has ever occurred. Mr. Ruane agreed to look into these matters and report back to the Committee.

December 8, 2014 General Session Meeting Minutes (Agenda Item 4)

Vice Chairman Karnei entertained a motion to approve the December 8, 2014 General Session Meeting Minutes (Minutes).

Mr. Gent moved to approve the Minutes as presented. Mr. Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Charter Review and Approval; Recommendation regarding Committee Charter; Review and Approval of Internal Audit Department Charter; Review and Ratification of Credit Work Group Charter; Policy Review and Approval; Recommendation regarding Market Credit Risk Corporate Standard; Recommendation regarding Financial Corporate Standard; Recommendation regarding Investment Corporate Standard (Agenda Items 5, 5.1, 5.2, 5.3, 6, 6.1, 6.2 and 6.3)

Vice Chairman Karnei proposed making one motion for Agenda Items 5.1 – 5.3 and 6.1 – 6.3, and solicited feedback from Committee members. There was no objection.

Kristy Ashley moved to approve the Internal Audit Department Charter and Credit Work Group Charter, and to recommend for Board approval the Committee Charter, Market Credit Risk Corporate Standard, Financial Corporate Standard and Investment Corporate Standard, each as presented. Mr. Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Handling of Complaints Regarding Financial Matters (Agenda Item 6.4)

Sean Taylor provided a presentation on the Handling of Complaints Regarding Financial Matters. There were no questions or comments from Committee members.

Policy on Hiring Former Employees of the Independent Auditor (Agenda Item 6.5)

Mr. Taylor presented the Policy on Hiring Former Employees of the Independent Auditor and responded to questions and comments from Committee members.



Policy on Independent Auditor Selection (Agenda Item 6.6)

Mr. Taylor presented the Policy on Independent Auditor Selection. There were no questions or comments from Committee members.

Preapproval of Non-Audit Services (Agenda Item 7)

Mr. Taylor presented the preapproval of non-audit services. He explained that ERCOT staff was requesting preapproval to engage Ernst & Young, LLP (EY) to provide up to \$10,000 of advisory services in connection with the 2014 IRS Form 990, if necessary. Mr. Taylor responded to questions and comments from Committee members. Vice Chairman Karnei entertained a motion for the preapproval of non-audit services.

Mr. Gent moved to preapprove ERCOT to engage EY to provide up to \$10,000 of advisory services in connection with the 2014 IRS Form 990, if necessary. Mr. Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Confirmation of Credit Work Group Chair and Vice Chair (Agenda Item 8)

Mr. Ruane presented the CWG Chair and Vice Chair for confirmation. Mr. Ruane introduced Loretto Martin of LCRA as 2015 CWG Vice Chair-elect and noted that the 2015 CWG Chair-elect, Donald Meek of Austin Energy, was expected to arrive later in the meeting.

Read Comstock moved to confirm Mr. Meek and Ms. Martin as the CWG Chair and Vice Chair, respectively. Ms. Walsh seconded the motion.

Mr. Fehrenbach reported that while he had no concern regarding the qualifications of Mr. Meek and Ms. Martin, he noted that the Chairs and Vice Chairs for the two stakeholder groups which directly report to the Board – TAC and CWG – are from the same Market Participants, Austin Energy and LCRA. Mr. Gent and Ms. Ashley agreed with this concern regarding a lack of diversity in these stakeholder groups' leadership. After further discussion, **the motion passed by unanimous voice vote with no abstentions.**

Recommendation regarding Revisions to ERCOT Counter-Party Credit Application (Agenda Item 11)

Mr. Ruane presented the recommendation regarding revisions to the ERCOT Counter-Party Credit Application (Application) and responded to questions and comments from Committee members. Vice Chairman Karnei questioned whether F&A Committee and Board approval should be required for changes to the Application and proposed revisions to eliminate the approval requirements.

Mr. Gent moved to recommend for Board approval the ERCOT Counter-Party Credit Application as presented to and revised by the Committee. Mr. Comstock seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Committee Education Plan for 2015 (Agenda Item 12)

Michael Petterson presented the Committee Education Plan for 2015 and responded to questions and comments from Committee members.



Committee Briefs (Agenda Item 13)

Mr. Petterson invited Mr. Taylor and Leslie Wiley to present the Committee Briefs.

Review 2014 Financial Summary (Agenda Item 13.1)

Mr. Taylor presented the 2014 Financial Summary. Mr. Taylor, Ms. Wiley and Trip Doggett responded to questions and comments from Committee members.

Periodic Report on Investments; Financial Institutions which are Market Participants (Agenda Items 13.2 and 13.3)

Ms. Wiley presented the Periodic Report on Investments and the Financial Institutions which are Market Participants. There were no questions or comments from Committee members.

Future Agenda Items (Agenda Item 14)

Mr. Petterson presented the Future Agenda Items. There were no questions or comments from Committee members.

Other Business (Agenda Item 15)

No other business was discussed at this time.

Periodic Report on Credit Work Group Activity (Agenda Item 9)

Michael Mathews, 2014 CWG Chair, presented the Periodic Report on Credit Work Group Activity. He, Mr. Ruane and Brad Jones responded to questions and comments from Committee members.

Mitigation of Credit Tail Risk Exposure (Agenda Item 10)

Mr. Meek, 2015 CWG Chair, presented the Mitigation of Credit Tail Risk Exposure and responded to questions and comments from Committee members.

Executive Session; Vote on Matters from Executive Session; Adjournment (Agenda Items 16 and 17)

Vice Chairman Karnei announced that no voting items from Executive Session were expected; accordingly, he would adjourn the meeting immediately upon conclusion of Executive Session. Vice Chairman Karnei recessed the General Session at approximately 11:10 a.m. to convene Executive Session at approximately 11:16 a.m.

There were no voting items from Executive Session.

Vice Chairman Karnei adjourned the meeting upon the conclusion of Executive Session at approximately 1:08 p.m.

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

Jonathan Levine
Corporate Counsel