

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

7620 Metro Center Drive (Room 206) – Austin, Texas 78744
March 23, 2010

Pursuant to notice duly given, the Finance & Audit Committee (“Committee”) of Electric Reliability Council of Texas, Inc. (“ERCOT”) convened on the above-referenced date. Committee Chairman Clifton Karnei confirmed that a quorum was present and called the meeting to order at approximately **8:18 a.m.** The Committee immediately went into Executive Session, where it remained until it recessed, and then reconvened to General Session at **9:06 a.m.**

General Session Attendance

Committee members:

Crowder, Calvin	American Electric Power Service Corporation	Investor Owned Utility	Present
Dreyfus, Mark	Austin Energy	Municipal	Present
Espinosa, Miguel (Vice Chair)	Unaffiliated Board Member	Unaffiliated Board Member	Present
Fehrenbach, Nick	City of Dallas	Commercial Consumers	Present
Gent, Michehl	Unaffiliated Board Member	Unaffiliated Board Member	Present
Karnei, Clifton (Chair)	Brazos Electric Power Cooperative	Cooperative	Present
Zlotnik, Marcie	StarTex Power	Independent REP	Present

Other Board Members and Segment Alternates:

Prochazka, Scott	CenterPoint Houston Energy	Segment Alternate	Present
Walker, Mark	NRG Texas	Independent Generator	Present

ERCOT Staff and Guests:

Adams, Jack	ERCOT – Manager of Retail Client Services & Market Analysis
Baker, Randy	ERCOT – Director of Credit Risk Management
Brown, Jeff	Shell Energy
Brandt, Adrienne	Austin Energy
Burke, Tom	Luminant
Cleary, Mike	ERCOT – Senior Vice President and Chief Technology Officer
Day, Betty	ERCOT – Director of Markets
DiPastena, Phil	ERCOT – Enterprise Risk Manager
Doggett, Trip	ERCOT – Interim Chief Executive Officer
Doolin, Estrellita	ERCOT – Assistant General Counsel
Fox, Kip	American Electric Power Company
Gillmore, Gina	ERCOT – Senior Financial Analyst
Headrick, Bridget	Public Utility Commission of Texas
Jones, Brad	Luminant

Jones, Liz	Oncor
Manning, Chuck	ERCOT – Vice President and Chief Compliance Officer
Medina, Eric	ERCOT – Opportune Consultant
Morehead, Juliana	ERCOT – Associate Corporate Counsel
Morgan, Richard	ERCOT – Chief Information Officer
Petterson, Michael	ERCOT – Controller
Schwertner, Ray	Garland Power & Light
Swanson, Leslie	ERCOT – Treasury Management Contractor
Walker, DeAnn	CenterPoint Energy
Wullenjohn, Bill	ERCOT – Director of Internal Audit
Yager, Cheryl	ERCOT – Treasurer

Approval of Prior Meeting General Session Minutes

Mr. Fehrenbach moved to approve the minutes for the General Session of the Committee meeting held on February 16, 2010. Mr. Espinosa seconded the motion. The motion passed unanimously with no abstentions.

Financing Update

Cheryl Yager directed the Committee to materials provided them prior to the meeting concerning ERCOT's Financing Update.

Ms. Yager presented the Committee with a brief overview of ERCOT's debt from 2005 to its projected debt balance for 2010 at year-end, and an explanation of ERCOT's current and projected debt by source.

Ms. Yager identified the following sources of ERCOT's debt: (a) Nodal; (b) Market Start-Up; and (c) Other.

Ms. Yager noted that of the projected \$359M for 2010, the largest portion of debt, \$234M, was debt attributed to the Nodal program. In addition to Nodal debt, ERCOT was expected to have \$54M of debt remaining under senior notes, mainly related to market start-up in the early 2000s. Ms. Yager explained that the remaining \$70M of projected debt was categorized as "Other", and primarily resulted from base capital expenditures from ongoing business operations: (a) \$39M from building the TCC3 and Bastrop facilities, and (b) the remainder arising from other capital projects related to system upgrades, and the like (i.e., the 60% of capital expenditures ERCOT funds with debt).

Ms. Yager advised the Committee that a) Market Start-Up debt was set up to amortize at the start of the market, and would continue to pay out \$13.7M per year through 2014, at which point it would be paid off, and b) Nodal debt was expected to be paid in full by 2013, and the Other debt by 2015. All such debt was based on current levels of revenue available for debt reduction.

Ms. Yager then highlighted key factors considered in proposing a revenue/debt mix, including the need to match the cost of debt with its benefits (i.e., demonstrated revenue streams), and the desire to "smooth" the impact on the System Administration Fee. Mr. Espinosa asked whether ERCOT expected to see debt levels decrease in the upcoming years, to which Ms. Yager replied in the affirmative. Mr. Espinosa reiterated the need for ERCOT to determine

whether it could become a 501(c)(3) organization. Ms. Yager advised the Committee that the ERCOT Legal Department was working with outside counsel on that issue.

Ms. Yager began a discussion concerning two projections of ERCOT debt, and assumptions that were used to arrive at those projections. The two projections included: (1) a projection of debt based on the five-year plan; and (2) a projection of debt that would assume a level of debt repayment higher than that in the five-year plan.

Assumptions included:

1. Capital expenditures from the five-year plan prepared with the 2010 budget were used in the projections.
2. Capital expenditures were 40% revenue funded in the year of purchase/development, which was consistent with requirements in the Financial Corporate Standard.
3. 2011 was considered a stabilization year for ERCOT in that no significant enhancements would be made for the Nodal project.
4. Market projects would be funded through the System Administration Fee after 2010.
5. The Nodal surcharge would be discontinued after current Nodal projects were paid for, and all other fees would be funded by the System Administration Fee.
6. The revenue requirement impact from the combination of (a) the 40% revenue contribution from capital expenditures, and (b) the debt reduction per year will be relatively flat.

Mr. Crowder noted that the assumption of no new Nodal enhancements in and following 2011 was a "big assumption." Ms. Yager responded that in preparing the forecasts, it was assumed that any major Nodal outlay following Nodal go-live would be funded through the System Administration Fee and reiterated that 2011 was expected to be a stabilization year. Mr. Cleary added that (a) the inherent nature of maintaining Nodal systems would cause future Nodal operation and maintenance expenses to be higher than current Zonal expenses, and (b) there would be additional capital expenditures for base load maintenance on Nodal applications.

Ms. Yager then sought input from the Committee on how it wanted to approach debt reduction over the upcoming years based on the information provided in the two projections. In the first scenario, the combined impact on revenue requirements from a) the 40% revenue contribution from capital expenditures, and b) debt reduction, was held relatively constant over the years with a gradual increase from that which was approved in 2010. Alternatively, in the second scenario, revenue requirements were ramped up to speed debt reduction per year. She noted that, ultimately, the approach used should produce a level of debt that interested parties were comfortable with over the time horizons, and one for which a reasonable revenue stream was available for debt reduction.

Mr. Dreyfus inquired about the Board Contingency Fund. Ms. Yager responded that the Fund was a reserved budget amount that had not been approved for use at that time. Mr. Espinosa and Ms. Yager discussed that the projections under discussion were based on the projected spend (excluding contingency) and the related recovery of those costs through the Nodal surcharge. Mr. Karne asked whether Ms. Yager included revenue in the projections consistent with the \$0.375 per GWh determined in the PUC order, to which Ms. Yager answered in the affirmative. Ms. Yager noted that if ERCOT was authorized to spend the contingency, the projections would need to be updated for a) an increase in total spend, and b) an increase in the total revenue from the \$0.375 per MWh approved Nodal Surcharge. Ms. Yager further noted that, based on current projections and assuming that ERCOT renewed or replaced maturing facilities due in 2010, ERCOT expected to have adequate capacity through 2012.

In discussing the liquidity requirement portion of the projections, Mr. Karnei suggested that a term such as "liquidity reserve" or "estimated liquidity reserve" be used. Mr. Karnei then reintroduced Ms. Yager's question as to whether the Committee would like ERCOT to pursue a revenue requirement that would speed debt reduction as quantified on page 17, rather than the projections as presented on page 15, of the materials. Ms. Yager expressed that a range was available, but that some additional level of revenue requirement for debt reduction between that which was projected on pages 15 and 17 would be appropriate. Mr. Karnei commented that as long as a financing order from the PUC was in effect, and ERCOT could recover its costs, he did not feel there was a significant need for additional debt reduction. Mr. Crowder mentioned that there could be opportunities to pay off some debt without increasing revenue requirements by increasing revenue related to debt reduction after Nodal costs were fully recovered. Mr. Karnei agreed and suggested that the Committee wait to address such issues in 2013 or 2014, after the Nodal surcharge was eliminated. Mr. Feherenbach agreed with Mr. Karnei, and pointed out that that might be a good time to consider adjusting the 60/40 debt-to-capital ratio.

Ms. Yager then switched gears to discuss ERCOT's debt facility maturation. She informed the Committee that one debt facility would be maturing in November 2010 and another December 31, 2010. She noted that floating rate credit spreads were coming down from 2009 year-end, and banks seemed to be more willing to consider longer-term agreements. She mentioned that ERCOT was planning to prepare an RFP/RFI to more formally price the market.

In summation, Mr. Karnei noted/suggested the following:

1. Based on the information available, the Committee was not in favor of pursuing a revenue requirement for additional debt reduction.
2. The Committee would continue to monitor pricing in the market place following the associated RFP/RFI, and revisit options later in 2010.
3. Due to repeated questions about the level of ERCOT debt, Ms. Yager was asked to update the full Board on debt using Slides 8, 9, 15 (updated), 17, and 19 from the presentation materials. .

Committee Briefs

Materials distributed prior to the Committee meeting focused on the following areas:

1. Financing Update

Future Agenda Items

The following items were identified as future agenda items:

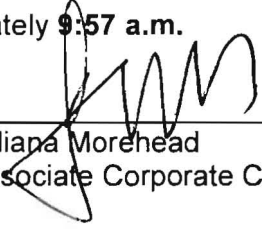
1. Standing Internal Audit – Have a representative from ERCOT's independent auditor present
2. Review of Internal Audit Department Charter
3. Review of Audit Report – Significant Issues & Best Practices
4. Quarterly Investment Review
5. Committee briefs
6. Future agenda items

Other Business

None.

Adjournment

Mr. Karnei adjourned the meeting at approximately 9:57 a.m.



Julianna Morehead
Associate Corporate Counsel