

**DRAFT MINUTES OF THE BOARD OF DIRECTORS MEETING
OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

Electric Reliability Council of Texas, Inc.
7620 Metro Center Drive, Room 206
November 13, 2007 at 10:00 a.m.

Pursuant to notice duly given, the meeting of the Board of Directors of Electric Reliability Council of Texas, Inc. (ERCOT) convened on the above-referenced date.

Meeting Attendance:

Board Members:

Director	Affiliation	Segment
Armentrout, Mark		Unaffiliated; Board Chairman
Cox, Brad	Tenaska Power Services	Independent Power Marketers
Dalton, Andrew	Valero Energy Corp.	Consumers/Industrial; Proxy for Ms. McClellan after 3:00 p.m.
Espinosa, Miguel		Unaffiliated
Fehrenbach, Nick	City of Dallas	Consumers/Commercial
Thomas, Robert	Green Mountain Energy	Segment Alternate - Independent Retail Electric Providers
Gent, Michehl		Unaffiliated; Board Vice-Chairman
Hudson, Paul	PUCT Chairman	PUCT
Kahn, Bob	ERCOT President/CEO	
Karnei, Clifton	Brazos Electric Coop	Electric Cooperatives
McClellan, Suzi	OPUC	Consumers/Residential & Small Commercial
Newton, Jan		Unaffiliated
McCall, Mike	Luminant	Segment Alternate - Investor-Owned Utilities
Taylor, William	Calpine	Independent Generators
Wilkerson, Dan	Bryan Texas Utilities	Municipally-Owned Utilities

Staff and Guests:

Adib, Parviz	APX
Archambault, Amy	Tara Energy
Ashley, Kristy	Exelon
Bell, Wendell	TPPA
Brenton, Jim	ERCOT
Brewster, Chris	City of Eastland
Bruce, Mark	FPL Energy
Campbell, Cassandra	ERCOT
Carlson, Trent	Reliant
Comstock, Read	Strategic

Corr, Thomas	Sempra Global
Davis, Morgan	Calpine
Day, Betty	ERCOT
Delenela, Ann	ERCOT
DiPastena, Philip	ERCOT
Drost, Wendell	AREVA
Formier, Margarita	Competitive Assets
Gage, Theresa	ERCOT
Goff, Eric	Constellation
Grable, Mike	ERCOT
Greer, Clayton	Jaron
Hendrix, Larry	LCRA
Hobbs, Kristi	ERCOT
Jones, Liz	Oncor
King, Kelso	King Energy
Morris, Sandy	LCRA
Orr, John	Constellation
Pieniasek, Adrian	NRG Texas
Rexrode, Caryn	Customized Energy Solutions
Rourk, Dottie	ERCOT
Schubert, Eric	BPEC
Seymour, Cesar	SUEZ Energy
Shumate, Walt	Shumate & Associates
Thomas, Robert	Green Mountain
Torrent, Gary	Gary Torrent & Associates
TroxteLL, David	ERCOT
Walker, DeAnn	CenterPoint Energy
Whittle, Brandon	DB

1. Call to Order/Announcements

Mark Armentrout, Chairman, called the meeting to order at approximately 10:05 a.m., pointed out the Antitrust Admonition and determined a quorum was present.

2. Consent Agenda

All items were removed from the consent agenda.

3. Approval of Minutes

Mr. Fehrenbach asked to change the phrase “out of market” to “out of merit” in the second full paragraph on page nine of the minutes from the October Board meeting.

Mr. McCall moved to approve the minutes as revised by Mr. Fehrenbach. Ms. Newton seconded the motion. The motion passed by unanimous voice vote with no abstentions.

4. Chief Executive Officer Report

Bob Kahn, ERCOT President and Chief Executive Officer (CEO), reported that the schedule for the Texas Nodal Market Implementation Program (TNMIP) remains on target. Mr. Sullivan will report on the status of the budget later in the meeting.

Mr. Kahn pointed out some data in the Board packet regarding the prices for Balancing Energy Service (BES) in 2007 versus 2006. He asked Kent Saathoff, Vice President of System Operations, to elaborate on that information. Mr. Saathoff stated that BES prices were approximately double in September 2007 versus September 2006. He pointed out that, last year, the Public Utility Commission of Texas (PUCT) rule requiring price adjustments (the “modified competitive solution”) was in place and came into effect a few times in September 2006. That rule is no longer in place. Additionally, Market Participants have revised the Protocols to require that, if ERCOT deploys Non-Spin Reserve Service (NSRS), ERCOT should adjust prices to a level where they would have been if ERCOT had not deployed NSRS. These two changes have increased scarcity pricing in 2007.

5. Operating Reports

Chairman Armentrout invited comments or questions regarding the Financial Summary, Market Operations Report, Grid Operations Report and Information Technology (IT) Report. No questions/issues were raised. Mr. Kahn pointed out that the Emergency Interruptible Load Service (EILS) report previously requested by the Directors appears in Mr. Saathoff’s Grid Operations Report.

6. Board Retreat Objectives

Chairman Armentrout reminded the Directors about the upcoming annual meeting in December. He also mentioned that, in February 2008, the Directors will have a retreat which will involve:

- strategic planning;
- ethics training;
- a discussion regarding the TAC committee structure;
- a summation of the various decisions made regarding the governance of the Texas Regional Entity; and
- other matters deemed appropriate by the Directors.

7. Nodal Update

Jerry Sullivan, Executive Director of the TNMIP, reported on the following items:

- The scope remains in “green” status
- Quality, schedule and cost remain in “amber” status
- During the last month, the team has focused on ERCOT’s confidence in the schedule
- A major Nodal milestone took place on October 25, 2007 – ERCOT began publishing Locational Marginal Prices (LMPs) with test data provided by Market Participants. This

milestone demonstrates that:

- Market Participants can send Inter-Control Center Protocol (ICCP) data
- The State Estimator works
- The interfaces between the Energy Management and Market Management Systems work
- Security Constrained Economic Dispatch (SCD) works
- LMPs and generation base points can be calculated
- The status of the Early Delivery Systems (EDS)
- Risks to the current schedule
- Market Readiness update
- The ERCOT Executive Vendor Forum that took place on October 18th
- The status of training delivery
- Budget
 - The forecast of the estimate to complete is currently approximately \$285 million
 - Actual spending to date is approximately \$155 million

Mr. Fehrenbach asked about the original due date for the Energy Management System (EMS) versus the current deadline. Mr. Sullivan indicated that ERCOT first learned of a delay in EMS in September. For the Market Management System (MMS), ERCOT first received indications of lateness in August.

Ms. Newton asked about the trend in the increase of the estimated cost at completion. Mr. Sullivan stated that a detailed, staggered schedule from a vendor did not arrive until October, which affected the EDS mid-term milestones. He also stated that ERCOT staff is becoming more confident in the reliability of its cost forecasts because, as the “go live” date gets nearer, variances should decrease in size and frequency. He assured Ms. Newton that the team is doing its best to hold down the costs. Ms. Newton raised a concern about the vendors working on the TNMIP. Mr. Sullivan stated that, in general, he is pleased with the quality of the products the vendors are providing, but other factors have affected the budget.

8. Technical Advisory Committee Report

Chairman Armentrout invited Mark Bruce, Technical Advisory Committee (TAC) Vice-Chair, to report on recent TAC activities.

a. Protocol Revision Requests (PRRs)

The TAC considered the following PRRs at its regularly scheduled meeting:

- ***PRR731, Fuel Oil Index Price (FOIP)***. This PRR adds a FOIP definition in Protocol Section 2 and revises language in Sections 6.8.1.11, *Local Congestion Replacement Reserve Payment to Qualified Scheduling Entity (QSE)*, Section 6.8.2.2, *Capacity and Minimum Energy Payments* and Section 6.8.2.3, *Energy Payments*, to allow the use of a FOIP to meet verifiable cost documentation requirements. ERCOT posted PRR731 on July 2, 2007. On August 23, 2007, the Protocol Revision Subcommittee (PRS) voted to recommend approval of PRR731 as modified by Austin Energy comments and PRS with

one (1) abstention from the Independent Retail Electric Provider (IREP) Segment. All Market Segments were represented. On September 20, 2007, PRS unanimously voted to forward PRR731 and its Impact Analysis (IA) to the TAC with one (1) abstention from the Consumer Market Segment. All Market Segments attended the vote. On October 5, 2007, TAC voted to recommend approval of PRR731 as recommended by PRS with five (5) opposing votes from the Consumer Market Segment. All Market Segments attended the vote. ERCOT credit staff and the Credit Working Group (WG) have reviewed PRR731 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

Mr. Fehrenbach expressed his concern that, under this Protocols revision, Market Participants will receive 120% of an index price for fuel oil. He suggests that Market Participants should receive compensation only for their actual replacement costs. Mr. McCall stated that the additional compensation will cover delivery of the oil because the index price covers only the fuel cost. Additional discussion took place regarding the various possible methods to pay for fuel oil consumed. Mr. McCall pointed out that additional compensation will provide an incentive for Resource Entities to have tank farms containing fuel oil in case of natural gas curtailments.

Mr. Wilkerson moved to approve PRR731 as submitted and reflected in the Resolution attached hereto as Attachment "A." Mr. McCall seconded the motion. The motion passed by a vote of ten to three (Messrs. Fehrenbach and Dalton, Ms. McClellan) and one abstention (Chairman Armentrout).

- ***PRR733, Remove 168-Hour Generation Testing Requirement.*** This PRR will remove the 168-hour test requirement and the need to utilize the observed actual output in the first 168 hours if test data is not provided. ERCOT posted PRR733 on July 9, 2007. The submitter requested Urgent status to ensure compliance with Texas Regional Entity (TRE) requirements. On July 11, 2007, PRS voted to not grant Urgent status. On August 23, 2007, PRS voted to recommend approval of PRR733 as revised by PRS with one (1) opposing vote from the Municipally Owned Utility (MOU) Market Segment and one (1) abstention from the Independent Power Marketer (IPM) Market Segment. All Market Segments attended the vote. On September 20, 2007, PRS unanimously voted to forward PRR733 and its IA to TAC with one (1) abstention from the Consumer Market Segment. All Market Segments attended the vote. On October 5, 2007, TAC unanimously voted to recommend approval of PRR733 as submitted by PRS. All Market Segments attended the vote. ERCOT credit staff and the Credit WG have reviewed PRR733 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

Chairman Armentrout suggested that discussion regarding this PRR should take place during executive session and a vote on the PRR will take place after executive session.

After the executive session, Mr. Bruce described the discussion that took place at the TAC meeting about this PRR. Mr. Fehrenbach commented that, over the last few months, the Directors have heard complaints by Market Participants about ERCOT staff de-rating certain Resources and he believes this PRR is incongruous with that position. Mr. Gent asked Mr. Fehrenbach to elaborate on his concerns about this PRR. Mr. Fehrenbach did so. Chairman

Armentrout asked if Mr. Fehrenbach had a suggested course of action. Mr. Fehrenbach recommended that the Protocols contain a deadline for completion of the test.

Mr. McCall moved to approve PRR733 as recommended by TAC and reflected in the Resolution attached hereto as Attachment “B.” Mr. Karnei seconded the motion. The motion passed by a vote of ten in favor to three opposed (Messrs. Wilkerson, Fehrenbach and Gent) with one abstention (Mr. Dalton for Ms. McClellan).

- ***PRR734, Revisions to Congestion Management in McCamey Area Provisions.*** This PRR: (i) eliminates the 0600 hour timeframe by which ERCOT must post the Tradable Generation Right (TGR) limits in Section 7.8.2, Determination of Generation Limits; (ii) deletes the requirements in Section 7.8.7, Trading or Other Uses of TGRs, and (iii) revises the spelling of “Tradeable” in Section 2.2., Acronyms, and Section 7.8.4, Determination of Tradeable Generation Rights. ERCOT posted PRR734 and its IA on July 30, 2007. On August 23, 2007, PRS unanimously voted to recommend approval of PRR734 as submitted with all Market Segments at the vote. On September 20, 2007, PRS unanimously voted to forward PRR734 and its IA to TAC with one (1) abstention from the Consumer Market Segment. All Market Segments attended the vote. On October 5, 2007, TAC unanimously voted to recommend approval of PRR734 as submitted by PRS. All Market Segments attended the vote. ERCOT credit staff and the Credit WG have reviewed PRR734 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

Mr. Fehrenbach raised a question regarding whether this PRR should contain language encouraging earlier posting of TGRs.

Mr. Fehrenbach moved to approve PRR734 as submitted and reflected in the Resolution attached hereto as Attachment “C.” Mr. Taylor seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Bruce pointed out the following additional items:

- TAC approved RMGRR057, which changes the name of the Competitive Metering Working Group to Retail Metering Working Group; and
- TAC has had on-going discussions regarding ERCOT’s use of Replacement Reserve Service (RPRS) in order to respond to the Directors’ request for a report in December.

9. Lunch

The meeting adjourned for lunch at 11:35.

10. Finance & Audit (F&A) Committee Report

Mr. Karnei, F&A Committee Chair, reported that the committee met this morning and considered the following matters:

- The 2008 internal audit plan
- A quarterly review of the Internal Audit Department's goals
- Internal Audit reports
- EthicsPoint update
- A summary of the analysis addressing future office space issues (ERCOT staff will seek Directors' approval in early 2008)
- Changes to the Credit Working Group (CWG) charter
- A presentation by Sean Barry of PricewaterhouseCoopers regarding the annual Financial audit and the status of the SAS 70 audit report
- The committee's workshop held on November 9th to review progress by Oliver Wyman on ERCOT's credit review (Oliver Wyman representatives will make a presentation to the Directors in February 2008)
- The financial requirements of QSEs and in particular guarantee arrangements
 - The committee has asked CWG to look at issues associated with Guarantees, such as:
 - The strength of ERCOT's standard form guarantee agreement
 - The collateral value associated with guarantees and other guarantee restrictions (including the use of "haircuts")
- Capital projects which are expected to exceed \$1 million and are moving toward execution.

a. Approval of Investment and Financial Standards

Mr. Karnei reviewed the proposed financial standard as revised by the committee this morning.

Mr. Karnei moved to approve the revised financial standard distributed at this meeting and attached hereto as Attachment "D." Mr. Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

11. H.R. & Governance Committee

Jan Newton, the committee Vice-Chair, stated that the committee met this morning and considered the following matters:

- ERCOT's 2008 goals and objectives
- Retention of a search firm to replace the out-going unaffiliated Director
 - The committee recommends retaining the Korn/Ferry firm in light of their good work on other searches – a discussion will take place in executive session
- Requirements for unaffiliated Directors
- A new Nodal retention plan to be discussed during executive session

12. Other Business

No other business was raised.

13. Future Agenda Items

Chairman Armentrout invited Directors to raise any items they wish to be addressed at future meetings. The following items were raised:

- The final board schedule should be published with exact dates (in December 2007)
- Review of the Strategic Plan (next Summer)
- Review of 2009 goals (August/Sept. 2008)
- 2009 budget
- Fee case
- Review of internal controls (July 2008)
- When the “go” or “no go” decision on Nodal will occur (for the August or September 2008 meeting)
- Report on the Oliver Wyman work product (February 2008 meeting)
- IBM update on Nodal (November 2008)

14. Executive Session

Chairman Armentrout adjourned the meeting to Executive Session at approximately 1:00 p.m.

15. Voting on Executive Session Items

Chairman Armentrout re-opened the open portion of the meeting when the Executive Session ended at approximately 3:00 p.m.

Mr. McCall moved to approve the Resolutions attached to the Executive Session minutes as Attachments A through F. Mr. Wilkerson seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Dalton asked that ERCOT staff report on the status of the contract in Item 14.c.(7) by July 2008.

Ms. Newton moved to approve Item 14.b.(1) from the Executive Session agenda in the form of the Resolution attached to the Executive Session minutes as Attachment G. Mr. Kahn seconded the motion. The motion passed with a unanimous voice vote with one abstention (Mr. Fehrenbach).

Mr. Espinosa moved to approve the Korn/Ferry Executive Search firm to assist in finding a new unaffiliated Director for when Ms. Gallagher leaves the Board in early 2008. Mr. Dalton seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Espinosa moved to approve the minutes from the October Executive Session meeting. Mr. Gent seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Adjournment

Chairman Armentrout adjourned the meeting at approximately 3:15 p.m.

Board materials and presentations from the meeting are available on ERCOT's website at <http://www.ercot.com/committees/board/index.html>.

A. Andrew Gallo
Assistant General Counsel & Assistant Corporate
Secretary

ATTACHMENT A

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, the Board of Directors (“Board”) of Electric Reliability Council of Texas, Inc. (“ERCOT”) deems it desirable and in the best interest of ERCOT to approve PRR731, *Fuel Oil Index Price*;

THEREFORE, be it RESOLVED, that the Board hereby approves PRR731, *Fuel Oil Index Price*.

CORPORATE SECRETARY’S CERTIFICATE

I, A. Andrew Gallo, Corporate Secretary of ERCOT, do hereby certify that, at the November 13, 2007 ERCOT ISO Board of Directors meeting, the Directors of ERCOT approved the above referenced Resolution. The Motion passed by a vote of ten in favor, three opposed and one abstention.

IN WITNESS WHEREOF, I have hereunto set my hand this day of ,
200__.

A. Andrew Gallo
Assistant Corporate Secretary

ATTACHMENT B

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, the Board of Directors (“Board”) of Electric Reliability Council of Texas, Inc. (“ERCOT”) deems it desirable and in the best interest of ERCOT to approve PRR733, *Remove 168-Hour Generation Testing Requirement*;

THEREFORE, be it RESOLVED, that the Board hereby approves PRR733, *Remove 168-Hour Generation Testing Requirement*.

CORPORATE SECRETARY’S CERTIFICATE

I, A. Andrew Gallo, Corporate Secretary of ERCOT, do hereby certify that, at the November 13, 2007 ERCOT ISO Board of Directors meeting, the Directors of ERCOT approved the above referenced Resolution. The Motion passed by a vote of ten in favor, three opposed and one abstention.

IN WITNESS WHEREOF, I have hereunto set my hand this day of ,
200__.

A. Andrew Gallo
Assistant Corporate Secretary

ATTACHMENT C

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, the Board of Directors (“Board”) of Electric Reliability Council of Texas, Inc. (“ERCOT”) deems it desirable and in the best interest of ERCOT to approve PRR734, *Revisions to Congestion Management in McCamey Area Provisions*;

THEREFORE, be it RESOLVED, that the Board hereby approves PRR734, *Revisions to Congestion Management in McCamey Area Provisions*.

CORPORATE SECRETARY’S CERTIFICATE

I, A. Andrew Gallo, Corporate Secretary of ERCOT, do hereby certify that, at the November 13, 2007 ERCOT ISO Board of Directors meeting, the Directors of ERCOT approved the above referenced Resolution. The Motion passed by a unanimous voice vote with no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this day of ,
200__.

A. Andrew Gallo
Assistant Corporate Secretary

EXHIBIT “A” TO BOARD RESOLUTION

ERCOT CORPORATE STANDARD

Document Name:	Financial Standard
Document ID:	CS3.1
Effective Date:	Upon Approval
Owner:	Board of Directors, F&A Committee
Approved:	

1.0 PURPOSE

This financial standard is a framework from which ERCOT’s financial integrity will be maintained while serving the long-term interests of the company and the ERCOT market. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT’s primary responsibilities.

2.0 DEFINITIONS

TERM	DEFINITION
Budget	The Budget consists of Project Budgets, an Operating and Maintenance Budget and a Texas Regional Entity Division of ERCOT (“TRE”) Budget as a component.
Project Budgets	Project Budgets consist of proposed expenditures to be made to develop capital assets during ERCOT’s Fiscal Year. Any significant projects not included in the approved project budgets will be presented to ERCOT’s Board of Directors for approval as they arise.
Cash Operating and Maintenance Expenses	Cash Operating and Maintenance Expenses consist of all reasonable and necessary costs (excluding non-cash items such as depreciation and amortization) incurred in the operation and maintenance of ERCOT’s facilities, equipment and systems.
Fiscal Year	ERCOT’s fiscal year is January 1 st through December 31 st .
NERC	North American Electric Reliability Corporation, the entity currently certified as the Electric Reliability Organization by FERC.
Operating and Maintenance Budget	The Operating and Maintenance Budget consists of all reasonable and necessary costs expected to be incurred during ERCOT’s Fiscal Year.
TRE Budget	The TRE Budget is the budget (which can include both operating and

TERM	DEFINITION
	maintenance and project budgets) for the TRE which is approved by NERC and Federal Energy Regulatory Commission (FERC) and which is used exclusively for the TRE's proposal and enforcement of Reliability Standards (Federal Statutory duties) and for ERCOT Protocol and Operating Guide compliance investigation activities.
Scheduled Debt Service	Scheduled Debt Service is all interest and mandatory principal payments due on ERCOT's outstanding indebtedness (both long-term and short-term) for a stated period.
Strategic Financial Plan	The Strategic Financial Plan will provide current financial information and a five-year projection, which addresses all sources of revenues, including any proposed fee adjustments. It will include projections of operating and maintenance expenses, project expenditures, the funding sources of project expenditures, and debt service requirements as well as the resulting capital structure.

3.0 FINANCIAL OBJECTIVES

In seeking to fulfill its corporate objectives, ERCOT will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

Strategic Financial Plan and Budget. Prior to or in conjunction with the submission of the annual Budget, the Chief Financial Officer will submit an update to the Strategic Financial Plan.

The Budget will be substantially consistent with the Strategic Financial Plan and will be submitted to the Board with sufficient time for the review and approval of the Board prior to the beginning of the Fiscal Year. The TRE Budget component of the Budget may be approved in advance of the full Budget if required to meet deadlines set by regulators.

In developing the Strategic Financial Plan and Budget, ERCOT staff will work to ensure that financial ratios required for compliance with debt instruments are maintained.

ERCOT will pursue financial objectives that will allow it to maintain an investment grade debt rating with Standard & Poor's, Moody's or Fitch. If a rating below investment grade is received or expected to be received, staff will promptly recommend a plan for Board consideration to recover or maintain the targeted rating within 18 months.

Overall, the Strategic Financial Plan and the related Budget will seek to assure ERCOT's financial stability. They will be approved by the Board and will guide ERCOT's financial planning process.

Fees and Charges. ERCOT will assess fees consistent with the ERCOT Protocols and PUCT rulings. Established fees will include payment of the portion of the TRE Budget for ERCOT Protocol and Operating Guide compliance investigation activities. ERCOT will also collect fees on behalf of the Electric Reliability Organization as approved by FERC. The TRE will also receive funding for its Federal Statutory duties from NERC, pursuant to its Delegation Agreement. Fees, funding, and charges will be requested to recover the Board-approved Operating and Maintenance Budget (excluding depreciation and amortization), Scheduled Debt Service (less any principal payments reasonably expected to be refinanced), and the portions of Project Budgets that are to be financed with revenue. Fee adjustments, if necessary, will generally be developed and proposed in connection with ERCOT's annual Budget.

ERCOT will use all reasonable means to operate within the approved Budget for the current year. When unforeseen events occur (e.g. MWh's are significantly over or under projected levels, functionality is added or removed, etc.) and as a result, ERCOT experiences or expects to experience in the next 12 month period more than a 25% variance from 1) its Project Budgets, 2) its Operating and Maintenance Budget (excluding depreciation and amortization), or 3) its projected revenue stream, staff will promptly recommend a plan for Board consideration, which may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.

Sources of Financing. ERCOT will use a combination of equity (revenue funding) and debt to finance projects. In determining the combination of equity and debt to be used in any particular year, ERCOT will consider the impact of the current year decision on future years.

Generally, ERCOT will structure debt issues such that the average maturity of the debt approximates the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified.

ERCOT may use variable-rate debt to provide flexibility in its overall financing program and to manage its overall interest rate exposure. However, in no event will ERCOT allow unhedged, variable rate debt to be more than 40% of total debt outstanding.

ERCOT will periodically evaluate the interest rate environment and review ways to manage interest rate exposure within that environment.

As appropriate, ERCOT will periodically evaluate mechanisms to restructure or refinance debt. ERCOT will regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this financial standard.

Liquidity. ERCOT will seek to maintain adequate liquidity to meet its business needs.

Liquidity is the combination of available 1) operating cash on hand, 2) operating cash equivalents / short term investments and 3) undrawn borrowing capacity under credit facilities.

ERCOT's targeted minimum level of liquidity will factor in: 1) six months of forecasted Scheduled Debt Service, other than principal payments reasonably expected to be refinanced, 2) two months of average Cash Operating and Maintenance Expenses, net of projected administrative fee receipts, 3) two months of budgeted project expenditures, and 4) two months of estimated TCRs expected to be paid, net of projected TCR receipts during the same period.

If at any time ERCOT's liquidity is less than or is expected to be less than the targeted minimum level set forth in this standard, staff will promptly recommend a plan for Board consideration to achieve the liquidity target within six months.

Funds received in conjunction with TCR auctions may be utilized to fund ERCOT working capital and project expenditure needs so long as liquidity is at or above the target levels and ERCOT's issuer rating remains investment grade. These funds may be utilized in place of borrowing under short term credit facilities to meet liquidity needs.

4.0 RESPONSIBILITIES

It is the responsibility of the Chief Executive Officer, Chief Compliance Officer and Chief Financial Officer to ensure that this standard is implemented appropriately and to recommend changes in the standard as needed.

5.0 FINANCIAL STANDARD ADOPTION

ERCOT's financial standard will be adopted by resolution of the Board of Directors. The standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.