

MINUTES OF THE ERCOT BOARD OF DIRECTORS MEETING

ERCOT Offices

Austin, TX

10:00 a.m.

May 20, 2003

Pursuant to notice duly given, the Meeting of the Board of Directors of the Electric Reliability Council of Texas, Inc. convened at approximately 10:30 a.m. on May 20, 2003.

Meeting Attendance:

Board members:

Tom Payton	Occidental Energy Ventures Corp.	Consumer/Industrial	Present
Laurie Pappas	Office of Public Utility Counsel	Consumer/OPUC/ Residential	Designated Representative for Suzi McClellan and proxy for Bob Manning
Clifton Karnei	Brazos Electric Power Cooperative	Coop	Present
Mike Troell	STEC	Coop	Present
David Itz	Calpine Corp.	Ind Generator	Present
Trudy Harper	Tenaska	Ind Generator	Present
Linda Clarke	Exelon Generation Co.	Ind PM	Present
Dottie Stockstill	Mirant Americas E.M.	Ind PM	Present
Vanus Priestly	Constellation New Energy	Ind REP	Segment Alternate (for Frank Lacey)
Marion Cole	Utility Choice Electric	Ind REP	Designated Representative for David Veiseh
Steve Schaeffer	CenterPoint Energy	IOU	Present
Mike Greene	TXU – ERCOT Chairman	IOU	Present
Paul Brower	Lower Colorado River Authority	LCRA	Designated Representative for Joe Beal
Bob Kahn	Austin Energy	Municipal	Present
Milton Lee	City Public Service/San Antonio	Municipal	Present
Tom Noel	ERCOT	ERCOT CEO	Present
Rebecca Klein	Public Utility Commission of Texas	PUCT Chairman	Present
Shannon McClendon	Attorney	Consumer/Residential	Present

ERCOT Staff and Guests:

Maxine Buckles	ERCOT Staff – VP and CFO
Ken Shoquist	ERCOT Staff – VP and CIO
Ray Giuliani	ERCOT Staff – V P and Chief of Market Operations
Margaret Pemberton	ERCOT Staff – VP, General Counsel and Corporate Secretary
Garry Waters	Competitive Assets
Denise Stokes	Competitive Assets
Steve Bartley	CPS

Walt Shumate	Shumate & Associates
Vicki Sandler	APS Energy Services
John Stauffacher	
Calvin Opheim	ERCOT Staff
Carol McDonald	ERCOT Staff
David Kazer	ERCOT Staff
Henry Durrwachter	TXU Energy
Adrian Pieniazek	CenterPoint
Ken Donahoo	ERCOT Staff
Liz Drews	Carroll, Gross, Reeder & Drews, LLP
Jerry Stapp	Big Country Electric Coop
Jim Harder	Garland P&L
James Whitlock	ERCOT Staff
Jason VanDerMark	ERCOT Staff
Cheryl Moseley	ERCOT Staff
Beth Garza	FPL Energy – TAC Chair
Dan Jones	CPS
Richard Ross	AEP
Cheryl Yager	ERCOT Staff
Philip Oldham	Andrews & Kurth
Steve Grendel	ERCOT Staff
Vanessa Spells	ERCOT Staff
Mark Walker	ERCOT Staff
Terri Eaton	Green Mountain Energy
Mark Dreyfus	Austin Energy
Les Barrow	CPS
Thane Twiggs	Automated Power Exchange
Greg Ramon	TECO/Frontera
Paul Messerschmidt	TECO/Frontera
Parviz Adib	PUCT Staff (MOD)
Ralph Weston	ERCOT Staff
Bill Bojorquez	ERCOT Staff
Ken Donohoo	ERCOT Staff
Clayton Greer	Constellation
Kevin Gresham	Reliant (PRS Chair)
Barry Huddleston	Dynegy
John Meyer	Reliant
Rob Connell	ERCOT Staff
Heather Tindall	ERCOT Staff
Jim Galvin	ERCOT Staff
Steve Wallace	ERCOT Staff
Gary Stroud	ERCOT Staff
Mike Petterson	ERCOT Staff
Kent Saathoff	ERCOT Staff

Announcements

Chairman Greene called the meeting to order and determined that a quorum was present. He then acknowledged representatives attending in the place of Board members, as shown in the attendance list above.

Approval of Minutes

Chairman Greene requested comments on and approval of the last meeting's minutes. **Bob Kahn moved to approve the April Board meeting minutes. David Itz seconded the motion. The motion passed by a unanimous voice vote.**

CEO Report

Chairman Greene invited Tom Noel, ERCOT President and CEO, to the podium. Mr. Noel presented an agenda for the presentations by ERCOT Staff at today's meeting stating that the majority of the Board meeting would be focused on TAC issues, in that TAC had numerous PRR's for consideration. Mr. Noel then informed the Board of recent and upcoming ERCOT activities (PRRs, orientation session for new Independent Board members, strategic planning and a project status update). Chairman Klein mentioned that no one had filed any opposition to the proposed independent ERCOT Board members in the PUCT's docket to approve the independent Board members.

Mr. Noel reported that RMS has adopted an approach for "stacked" transactions. Additionally, he mentioned that true-up settlements for 2002 have begun.

Grid Operations Update

Chairman Greene invited ERCOT Staff member, Kent Saathoff, to the podium to present the Grid Operations Update. Mr. Saathoff explained the circumstances that caused the voltage collapse in the Bryan/College Station area on April 15, 2003. Additionally, he explained the actions being taken to evaluate the apparently faulty equipment that caused the failure and to address communication and other issues between ERCOT and the Market Participants involved. A discussion ensued regarding causes of the voltage collapse and response actions.

Mr. Saathoff also discussed the customer outages throughout ERCOT due to a transmission line fault in North Texas on May 15, 2003. He explained the actions being taken to analyze the faulty equipment that caused the failure and to address ways to avoid this happening again in the future. At that time, Chairman Greene provided information regarding Oncor's activities to address the equipment failure, including extensive review of similar facilities, procedures and maintenance practices. A discussion ensued among Board members regarding causes of the event and response actions.

At the conclusion of that discussion, Chairman Greene invited ERCOT Staff members, Bill Bojorquez and Ken Donahoo, to make a presentation regarding the McCamey 345kV Transmission Plan. Several Board members posed questions regarding issues associated with congestion in and around the renewable facilities in West Texas. Mr. Donahoo mentioned that the plan passed at TAC by a unanimous vote with four abstentions. **Milton Lee moved to approve the McCamey area transmission plan. Vanus Priestly seconded the Motion. The motion passed with three abstentions (Ms. Pappas for Ms. McClellan, Mr. Troell and Mr. Payton) and one vote against (Ms. McClendon).**

Information Technology Update

Ken Shoquist, ERCOT Vice President and Chief Information Officer, provided the Board with a technology update. He presented a systems summary describing transaction throughput improvements, system incidents and other data. Mr. Shoquist presented an update regarding IT projects (activities and performance). ERCOT currently has over 25 projects in progress. One recently completed project is the disaster recovery system. Mr. Noel mentioned that he is very pleased that the disaster recovery system ERCOT has now been put in place.

Mr. Shoquist mentioned that ERCOT will host a Texas Energy Market IT Forum on September 15, 2003. He encouraged the Board Members to communicate this information to their respective IT staffs.

Market Operations Update

Ray Giuliani, ERCOT Vice President and Chief of Market Operations, gave a presentation regarding market operations. Mr. Giuliani mentioned that the TCE customer drops to AREPs and POLR are 100% completed. Market Sync is nearly 100% complete. The 2002 True-up settlements have begun and are complete through January 13, 2002. ERCOT continues to resettle two Operating Days per night.

Mr. Giuliani presented data regarding the Performance Measures relating to ERCOT transactions (Move-in/Move-out and switches) from data sent to the PUCT for the first quarter of 2003. Several Board members asked questions regarding the data.

Finally, Mr. Giuliani presented an update regarding Market Operations' forward-looking issues (Texas Nodal, Day Ahead Market and other issues)

Financial Update

Maxine Buckles, ERCOT Vice President and CFO, recapped the detailed financial report provided to Board members. Additionally, Ms. Buckles mentioned that ERCOT has had significant activity relating to its 2003 financing, the TCE bankruptcy proceeding, the Credit Work Group, risk management, audit planning, staffing and human resources and planning for the 2004 fee filing.

TAC Report

Beth Garza, the TAC Chair, reported on the following recent TAC activities:

(1) **Protocol Revision Requests (PRRs).** Ms. Garza reported that the Protocol Revision Subcommittee (PRS) met this past month, discussed various PRRs and submitted recommendations to TAC regarding many PRRs. She will present fourteen PRRs to the Board today. The following PRRs were approved by TAC and recommended to the Board for final approval:

- **PRR362 - Load Profiling ID Type Correction** – *proposed effective date June 1, 2003.* This PRR does not impact the ERCOT computer systems. It directs that changes to Load Profile IDs be made in ERCOT's billing system instead of the registration system. TAC unanimously approved the PRS recommendation.
- **PRR385 – Direct Load Control (DLC) Implementation** – *proposed effective date upon system implementation.* This PRR impacts ERCOT's computer systems and provides clarification to the existing DLC project. TAC unanimously approved the PRS recommendation.
- **386PRR – Scheduling Information** - *proposed effective date June 1, 2003.* This PRR has no impact to the ERCOT computer systems and provides clarification (added text “where applicable”) to indicate that not all services are deployed by zone and the services deployed by zone will be reported by zone. TAC unanimously approved the PRS recommendation.
- **392PRR – Posting Balancing Energy (BE) Forecast – PIP138** – *proposed effective date June 1, 2003.* This PRR does not impact the ERCOT computer systems and eliminates the need for a

software revision. TAC unanimously approved the PRS recommendation.

- **393PRR – Balancing Energy Bid Expiration Time – PIP 147 – *proposed effective date June 1, 2003.*** This PRR has no impact on ERCOT’s systems and also eliminates the need for a software revision. TAC unanimously approved the PRS recommendation.
- **394 PRR – Balancing Energy Ramps as Instructed Deviation – *proposed effective date June 1, 2003.*** This PRR has no impact on ERCOT’s systems. It conforms the Protocols to the ERCOT system’s treatment of Balancing Energy ramp ups outside of the target Settlement Interval. TAC unanimously approved the PRS recommendation.
- **398 PRR – Combined Cycle Settlement - *proposed effective date upon system implementation.*** This PRR impacts ERCOT’s computer systems and is related to PRR369. This PRR changes the way instructions to combined cycle plants are settled to more accurately reflect the operational interdependencies of these plant technologies. TAC approved the PRS recommendation unanimously, with one abstention.
- **400PRR – Provisional Approval for LaaRs – *proposed effective date upon system implementation.*** This PRR impacts the ERCOT computer systems. In part, this PRR is related to PIP 112. It allows Loads to begin participating in the market as soon as they meet all telemetry and calibration testing until such time as an actual load interruption test can be scheduled with ERCOT and the load facilities. TAC unanimously approved the PRS recommendation.
- **403PRR – URC Update for New Smoothing Algorithm - *proposed effective date upon system implementation.*** This PRR impacts ERCOT computer systems. It clarifies and describes in detail the changes to the URC equation as a result of the implementation of PRR 350. Specifically, it describes how to treat DC Tie Schedules when calculating the schedule used in the URC calculation. TAC unanimously approved the PRS recommendation.

Trudy Harper moved to approve PRRs 362, 385, 386, 392, 393, 394, 398, 400 and 403. Shannon McClendon seconded the Motion. The motion passed by a unanimous voice vote.

- **PRR371 – Minimum Energy OOME When OOMC Issued - *proposed effective date upon system implementation.*** This PRR impacts ERCOT’s computer systems. This PRR improves the “proxy” criteria for cost recovery for OOMC and OOME services and provides that financial settlement will treat the deployment as if an OOME instruction had been issued so the QSE does not bear the cost of the difference between market pricing and unit production costs.

Ms. Garza presented information regarding the various issues associated with this PRR. Linda Clarke (Exelon) asked Exelon’s attorney, Elizabeth Drews, to address the propriety of posting deployment information on the MIS.

Linda Clarke moved to amend the TAC recommendation to remove the information disclosure requirement from the current PRR wording [*i.e.* Sections 1.3.1(6) and 6.5.10(8)]. Ms. Harper seconded the motion. The motion passed by a vote of fourteen to four.

A discussion ensued regarding which costs would be paid as OOMC Service and how a QSE could request payment for certain costs that are above and beyond fuel. Chairman Klein suggested sending this issue back to TAC to get clarification on which verifiable costs will be included in OOMC payments. Steve Schaeffer agreed with this suggestion.

Greg Ramon, of Frontera, and others addressed the Board regarding this PRR. In response to those comments, Chairman Klein withdrew her suggestion.

A discussion then ensued regarding ERCOT Staff's suggestion to reinstate the language, "during the Operating Period" in 6.8.2.2(3) and adding an additional thirty (30) minutes to the period of time that Uninstructed Resource Charges would not be charged for failing to update schedules in complying with OOMC instructions. Mr. Saathoff explained that if a QSE completely fails to schedule the energy associated with an OOMC instruction, that energy would not appear in ERCOT's analysis of Balancing Energy needs. That omission would cause an increase in ERCOT's use of Regulation Service. On the other hand, QSEs cannot update their schedules during the Operating Period and, therefore, the language suggested by ERCOT Staff would provide relief to QSEs who receive OOMC instructions.

Ms. Pappas moved to remand this PRR to TAC to be readdressed. Ms. McClendon seconded the Motion. The motion received nine affirmative votes and, therefore, failed.

Mr. Payton moved to amend the TAC recommendation to include the changes proposed by ERCOT in its comments. David Itz seconded the motion. The motion passed with fourteen votes in favor of the motion.

Mr. Payton indicated that he disagrees with the "PRR Background" section in the TAC Recommendation Report. **Mr. Payton moved to approve the PRR as amended at this meeting, making it clear that the Board does not sanction the language in the "PRR Background" section of the TAC Recommendation Report. David Itz seconded the Motion. The motion carried with sixteen members voting in favor of the motion.**

- **PRR381 – Update QSE Designation - *proposed effective date June 1, 2003.*** This PRR does not impact the ERCOT computer systems. It clarifies a process and timeline for a QSE to terminate its designation for an LSE or Resource Entity. This PRR was considered by the Board last month and remanded back to PRS.

Ms. Harper moved to approve PRR381. Mr. Schaeffer seconded the motion.

Several Board members posed questions regarding what happens to an LSE's customers if the LSE has no QSE. Chairman Klein also asked about other Protocol sections that might be affected by this change.

Ten directors voted in favor of the PRR, seven voted against the PRR and one director abstained (Mike Troell). Therefore, the motion failed. Chairman Greene recommended to Ms. Garza that TAC consider the issues associated with termination of the QSE/LSE relationship on a broader scale.

- **396 PRR – RMR Issues – *proposed effective date June 1, 2003.*** This PRR impacts the ERCOT computer systems and requires a manual process. It revises the guidelines and compensation for Reliability Must Run Service. TAC approved the PRS recommendation by a vote of 20 for, 8 against, 1 abstention.

Ms. Garza explained how the proposed PRR addresses the issues which TAC raised and which were presented to the Board last month.

Chairman Greene invited Richard Ross of AEP to make comments regarding this PRR. Chairman Greene asked Kevin Gresham (PRS Chair) to provide information regarding the discussions that took place in the PRS. Further discussion ensued.

Bob Kahn moved to approve PRR396. Milton Lee seconded the motion. Additional discussion took place. **The Motion passed with thirteen affirmative votes and five abstentions.**

- **401PRR – Partial Payments & Credits – *proposed effective date June 1, 2003.*** This PRR has no impact on the ERCOT computer systems and involves a manual process. This PRR updates ERCOT's calculation of each QSE's Total Estimated Liability and Estimated Aggregate Liability. It also clarifies that ERCOT has the ability to offset amounts owed to and from a QSE that does not remit a payment in a timely manner. TAC approved the PRS recommendation with a vote of 25 for, 1 against, and 4 abstentions.

Cheryl Yager, ERCOT Treasurer, provided the Board with background information regarding the changes made by this PRR.

Mr. Lee moved to approve the PRR with an amendment changing the 120 day period in §9.4.4(6) to 180 days. Clifton Karnei seconded the motion. The motion passed by unanimous voice vote.

- **407PRR – Sunset Date Removal for Relaxed Balanced Schedules (RBS) – *proposed effective date June 1, 2003.*** This PRR has no impact on the ERCOT computer systems. The PRS recommended rejection of this PRR as submitted. The PRR, as submitted, proposed to eliminate the "sunset" language that limited ERCOT's ability to suspend RBS for reliability reasons. TAC approved the PRR after modifying the proposed PRR to completely remove the paragraph addressing ERCOT's ability to initiate a limitation or suspension of RBS. In the discussion, members of TAC acknowledged the current handling of the credit issues surrounding the use of RBS (and the work of the Credit Work Group), as well as the fact that ERCOT has the authority elsewhere in the Protocols to take broad actions to address reliability needs. As modified, TAC approved this PRR upon a vote of 27 for, 1 against, and 1 abstention.

Mr. Lee moved to approve this PRR as approved by TAC. Mr. Priestly seconded the motion. Some discussion took place regarding the revision to the PRR made by TAC. Mr. Payton made the comment that the language TAC struck from the PRR (as received from PRS) was not needed because ERCOT already had the ability to take such action. Ms. Pappas and Ms. Garza agreed with Mr. Payton's comment. **The motion passed by a unanimous voice vote.**

All PRRs and supporting materials appear on the following ERCOT web page:
<http://www.ercot.com/AboutERCOT/PublicDisclosure/ProtocolRev.htm>

(2) 2004 Congestion Zone Designations

Ms. Garza described the TAC's process in determining the 2004 CSC zones, including recommendations to grant exceptions to Bryan Texas Utilities and STEC to have certain facilities considered as being in different zones (from the zones indicated in the technical analysis).

Mr. Karnei moved to approve the zone designations. Mr. Lee seconded the motion.

Mr. Payton asked if the Board could vote separately on the zones and the exceptions. He related his

view that the exceptions are not justified. Chairman Klein recommended that criteria be developed to determine whether exceptions should be granted. Mr. Saathoff mentioned that ERCOT has considered the need to add a new congestion zone (from North to Houston). Additional discussion took place. Mr. Payton suggested postponing this vote until ERCOT determines whether there is a need for an additional CSC zone for 2004. Ms. Harper agreed. At this time, **Mr. Karnei withdrew his motion.**

Chairman Greene asked Mr. Saathoff to work with TAC and WMS regarding: (i) whether an additional CSC zone is needed and (ii) how to determine if exceptions should be granted. Ms. Garza will report to the Board next month regarding the outcome of that work.

Finance & Audit Committee Report

Milton Lee referred the Board to the May 13, 2003 Memo from ERCOT regarding a proposed resolution relating to credit issues associated with Relaxed Balanced Schedules.

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RESOLUTION

Whereas, recent events have shown that the calculation of EAL in Section 16.2.7.2 of the protocols, under certain circumstances, might expose ERCOT to greater credit risk than is acceptable;

Whereas, the Board acknowledges that such an unsecured financial risk to the ERCOT market could place ERCOT's operational reliability at risk;

Whereas, the Board of Directors directed a review and revision of ERCOT's collateral requirements to reduce credit risk and ensure that more appropriate credit standards are adopted;

Whereas the Credit Working Group has not yet completed its review or issued a recommendation to revise collateral requirements;

Whereas ERCOT must limit its unsecured financial exposure to purchasers of Balancing Energy and Ancillary Services while the credit working group is completing its review;

Therefore, it is RESOLVED that the ERCOT Board of Directors rescinds the limitation on relaxed balanced schedules adopted at the March 2003 Board Meeting and adopts in its stead the following resolution.

It is further RESOLVED that the ERCOT Board of Directors directs ERCOT Staff to require that a QSE notify ERCOT Staff and provide appropriate collateral in advance, in the event that the QSE anticipates purchasing greater than 10% of its daily average load from the balancing energy market;

It is further RESOLVED that the ERCOT Board of Directors directs ERCOT Staff, under Section 16.2.7.2 of the protocols, to calculate and require a reasonable level of additional credit from any Entity that purchases or plans to purchase, more than 10% of its daily average load from the Balancing Energy Market;

It is further RESOLVED that the ERCOT Board of Directors directs ERCOT staff to consider any failure to comply with ERCOT's credit provisions as a violation of the protocols and the ERCOT Operating Agreement and to invoke as appropriate any and all necessary remedies available.

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Mr. Lee moved to approve the above-referenced resolution. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote.

At this time, Chairman Greene invited Chairman Klein to make comments regarding the PUCT's market design analysis. Chairman Klein stated that it is important that all Market Participants have a chance to participate in the process of developing the new market design. Ms. Stockstill stated that ERCOT has experience in using the stakeholder process to design a market. Ms. Stockstill recommended that the Board set up a steering committee (with members from each segment) to work on this process. Mr. Greene suggested that Ms. Stockstill, Tom Noel and he work together to consider how best to address the process of developing the new market design.

Board Committee Charter Review

Mr. Lee reported that the Finance and Audit Committee reviewed its proposed charter this morning. It considered making some changes. The revised charter will be sent to Board members.

Mr. Kahn circulated a charter document. He mentioned that the committee has proposed changing its name to the Human Resources and Governance Committee. The committee reviewed this document and Mr. Kahn asked the Board members to review the document before next month's meeting.

Other Business

A question was raised regarding how often mismatched schedules were occurring and whether information regarding the frequency of such occurrences could be made available to the Board. Ms. Buckles stated that she would review the charges and report to the Board.

Executive Session

The Board met in Executive Session to discuss various matters including an update on the status of litigation.

Adjournment

Chairman Greene adjourned the Meeting at approximately 5:15 p.m. **The next Board meeting will take place on June 17, 2003 at the ERCOT's Austin facility. The following meeting will be held on July 15, 2003 at ERCOT's Austin facility.**

Board materials and presentations from the meeting are available on ERCOT's website at:
<http://www.ercot.com/calendar/2002calendar/boardmaterials.htm>

Margaret Uhlig Pemberton, Corporate Secretary