

DRAFT

DRAFT MINUTES OF THE ERCOT BOARD OF DIRECTORS MEETING

ERCOT Offices

Austin, TX

10:00 a.m.

July 15, 2003

Pursuant to notice duly given, the Meeting of the Board of Directors of the Electric Reliability Council of Texas, Inc. convened at approximately 10:15 a.m. on July 15, 2003.

Meeting Attendance:

Board members:

Armentrout, Mark		Unaffiliated	Present
Baggett, David		Unaffiliated	Present
Beal, Joe	Lower Colorado River Authority	LCRA	Present
Clarke, Linda	Exelon Generation Company	Ind PM	Present
Espinosa, Miguel		Unaffiliated	Present
Greene, Mike	Oncor Electric Delivery Company	IOU - ERCOT Chairman	Present
Harper, Trudy	Tenaska	Ind Generator	Present
Itz, David	Calpine Corp.	Ind Generator	Present
Kahn, Bob	Austin Energy	Municipal	Present
Karnei, Clifton	Brazos Electric Coop.	Coop	Present
Klein, Rebecca	Public Utility Commission of Texas	PUCT Chairman	Present
Lacey, Frank	Strategic Energy	Ind REP	Represented by Segment Alternate, Vanus Priestly
Lee, Milton	CPS	Municipal	Present
Manning, Bob	H-E-B Grocery Company	Consumer/ Commercial – ERCOT Vice Chairman	Present
McClellan, Suzi	Office of Public Utility Counsel	Consumer/OPUC/Resid ential	Present
McClendon, Shannon	Attorney	Consumer/ Residential	Present
Noel, Tom	ERCOT	ERCOT CEO	Present
Payton, Tom	Occidental Chemical Corp.	Consumer/Industrial	Present
Schaeffer, Steve	CenterPoint Energy	IOU	Present
Stockstill, Dottie	Mirant Americas E.M.	Ind PM	Present
Troell, Mike	South Texas Electric Coop.	Coop	Represented by Segment Alternate, Jerry Stapp
Veiseh, David	Utility Choice Electric	Ind REP	Represented by Proxy to Vanus Priestly

ERCOT Staff and Guests:

Maxine Buckles	ERCOT Staff – VP and CFO
Ray Giuliani	ERCOT Staff – VP and Chief of Market Operations

Margaret Pemberton	ERCOT Staff – VP, General Counsel and Corporate Secretary
Ken Shoquist	ERCOT Staff – VP and CIO
Rob Connell	ERCOT Staff
Weldon Gray	Concho Valley Electric Coop
Denise Stokes	Competitive Assets
Garry Waters	Competitive Assets
Neil Eddleman	TEAM
Mike Rowley	Rowley Consulting
Suzanne Bertin	Reliant Resources, Inc.
Terri Eaton	Green Mountain Energy
Heather Tindall	ERCOT Staff
Walt Shumate	Shumate & Associates
Kevin Gresham	Reliant Resources, Inc. (PRS Chair)
Weldell Bell	TPPA
Becky Motal	LCRA
Bridget Headrick	PUCT
Gary Torret	Navigant Consulting
Paul Messerschmidt	Frontera Generation L.P.
Gary Stroud	ERCOT Staff
Ralph Weston	ERCOT Staff
Robert Northcutt	Accenture
Kent Saathoff	ERCOT Staff
Richard Gruber	ERCOT Staff
Lacy Seybold	ERCOT Staff
David Kasper	ERCOT Staff
Tom Sweatman	Consultant
Jim Harder	City of Garland
Glenn MacRill	Lodestar
Mark W. Smith	TXI
Ray King	Frontera Generation L.P.
Beth Garza	FPL Energy (TAC Chair)
Dan Jones	CPS
Marialyn Barnard	CPS
Les Barrow	CPS
David Jungman	CPS
Steve Bartley	CPS
Steve Wallace	ERCOT Staff
Adrian Pieniazek	CenterPoint Energy
Mark Walker	ERCOT Staff
Cheryl Yager	ERCOT Staff
Jim Dubensky	ERCOT Staff
Dave B. Potts	The Structure Group
Jeyant Tamby	ERCOT Staff
Mark Dreyfus	AustinEnergy
Henry Durrwachter	TXU Energy
Clayton Greer	Constellation
Brad Belk	LCRA

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. Andrew Gallo mentioned one typographical change to the minutes. Chairman Klein mentioned that each reference to "PUCT" on pages 6 and 7 should instead read, "Market Oversight Division." **David Itz moved to approve the June meeting minutes as amended. Shannon McClendon seconded the motion. The motion passed by a unanimous voice vote with no abstentions.**

CEO Report

Chairman Greene invited Tom Noel, ERCOT President and CEO, to the podium. Mr. Noel presented an update regarding the Texas Commercial Energy bankruptcy. Mr. Noel explained that yesterday the Court ordered an amendment to the Temporary Injunction, which would allow ERCOT to draw down the \$2.5 million Letters of Credit it currently holds. Also, TCE will begin paying to ERCOT \$25,000 per month on September 15, 2003, which will increase to \$1 million per month in July 2004. ERCOT will also receive 50% of any amounts TCE collects for pre-petition accounts receivable. Finally, TCE agreed to dismiss the adversary proceeding filed against ERCOT in the bankruptcy case.

Mr. Noel mentioned that ERCOT has processed more than 5.2 million retail transactions since the market began. Additionally, ERCOT remains concerned about local congestion issues. Mr. Noel concluded by stating that the PUCT is expected to extend the milestones and deadlines associated with the market design rule, which will provide more time for the overall market design process, stakeholder involvement, software/hardware development, and implementation.

Project Update

Steve Wallace, ERCOT Director of Program Management, presented an update regarding current ERCOT projects. Mr. Wallace stated that the extension of the deadline for market redesign will lessen the impact on current ERCOT projects. ERCOT anticipates needing 25 - 30 FTEs by year-end working on the market redesign project. ERCOT will incorporate costs for the market redesign project into the 2004 budget. The costs for hardware, software and implementation efforts should be expected in the 2005 and 2006 budgets.

Additionally, Mr. Wallace stated that ERCOT has 159 projects on its priority list. ERCOT has asked TAC and PRS to re-prioritize those projects with priority levels two or three in light of the Texas Nodal effort.

Grid Operations Update

Chairman Greene invited Kent Saathoff, ERCOT Director of System Operations, to the podium to present the Grid Operations Update. Mr. Saathoff stated that ERCOT experienced no major events in June. ERCOT is monitoring Hurricane Claudette at this time. Additionally, Mr. Saathoff mentioned that the North-to-Houston congestion discussed at last month's meeting has occurred only five out of twenty-eight days between June 17th and July 14th. Last week, only one incident occurred. This decrease has occurred because additional generation has become available in the Houston zone totaling over 1,000

MW. Also, the quantity of power being dispatched to manage the congestion has decreased. Consequently, ERCOT has withdrawn PRR 418 that would have created a North-to-Houston CSC for the remainder of 2003.

Bob Kahn stated that ERCOT has seen an increase in local congestion costs recently and asked for Mr. Saathoff to provide information on that subject. Mr. Saathoff stated that ERCOT has seen a local constraint in Northeast Texas. ERCOT uses local balancing energy instructions to solve that congestion. In this instance, there is a Market Solution for that congestion. Usually, there is no Market Solution for the local congestion, so the “out of merit” formula for payment is used. When a Market Solution exists, the QSE gets paid its premium plus the Market Clearing Price for Energy. Mr. Saathoff mentioned that zonal balancing instructions are used only for CSC congestion.

Paul Messerschmidt asked if ERCOT still supported PRR 422 relating to settlement of zonal OOME deployments. Mr. Saathoff stated that ERCOT has not withdrawn PRR 422.

Market Operations Update

Ray Giuliani, ERCOT Vice President and Chief of Market Operations, gave a presentation regarding market operations. Mr. Giuliani began by discussing the impact of SCR727 on the True-up Settlement process. ERCOT sends SCR727 data extracts to Market Participants daily. The Market Participants then compare that data to their existing database. The Market Participant then identifies any variances. Any variance needing attention gets put into the ERCOT FasTrak system (which tracks *issues*, not variances). Some variances involve ERCOT issues (those variances usually involve the REP of record) and some involve Non-ERCOT issues (predominantly ESI-ID assignment or usage data). Those issues then get resolved either between the affected Market Participants or between the Market Participant and ERCOT. Some questions have arisen regarding whether the Market Participants are comparing the daily extracts to the correct database. Additionally, because the extracts are daily, the information may be corrected in a subsequent extract. The Non-ERCOT issues are the most prevalent; these involve usage discrepancies between the TDSP and the CR or assignment of ESI-IDs to an LSE. These are not considered “ERCOT issues” because ERCOT only makes use of the customer usage information it gets from the TDSP. If that data is erroneous, the CR and TDSP must work out the discrepancy between themselves.

Mr. Giuliani presented a set of charts depicting the number of issues and the categories into which they fall. Chairman Klein asked for a description of why issues may be “rejected.” Mr. Giuliani explained the basis for the rejection of an issue. Essentially, it is because they are not valid variances. Mr. Priestly asked for some elaboration on the ERCOT issues, which Mr. Giuliani provided. Mr. Payton provided an example transaction. He then asked whether ERCOT must resettle all dates from the beginning of the market to correct the errors being identified in the SCR 727 data. Mr. Giuliani explained that the ERCOT Protocols require that ERCOT resettle the market if the impact is more than two percent of the total dollars involved in the market at that time. ERCOT has reviewed the data and has not seen any impacts greater than two percent.

Information Technology Update

Ken Shoquist, ERCOT Vice President and Chief Information Officer, provided the Board with a technology update. Mr. Shoquist stated that the IT group is changing the metrics framework it uses. ERCOT will collect the metrics, analyze the results and challenges and implement appropriate action items in response. Mr. Shoquist then presented a slide depicting how to measure the IT group’s activities.

Mr. Shoquist explained that ERCOT has experienced some EMMS outages over the last several months and is working to minimize those outages. He also discussed cyber-security.

Mr. Shoquist reported on the metrics associated with wholesale and retail transactions and stated that the Resettlement of 2002 Settlements increased ERCOT's computing needs by 80%.

He then discussed the various IT projects currently in progress or planned and remarked that the projects have been on-time and on-budget.

Finally, Mr. Shoquist mentioned that ERCOT will host a Texas Energy Market IT Forum on September 15, 2003, the day before that month's Board meeting. He again encouraged the Board Members to communicate this information to their respective IT staffs.

Financial Update

Maxine Buckles, ERCOT Vice President and CFO, recapped the detailed financial report provided to Board members. ERCOT revenues (\$45.5 million) remain on target while operating (\$47.6 million, including depreciation) and capital expenses (\$13.7 million) are below budget. ERCOT currently has 355 employees below the budgeted number of 400.

Ms. Buckles stated that ERCOT has thirty-seven capital projects currently underway.

Ms. Buckles then discussed the initiatives and issues facing the Finance group, which include the various Market Participant bankruptcies, internal audit personnel, the 2004 budget process, the PUCT rulemaking on ERCOT's fee filing requirements and an evaluation resulting in a reduction in property tax valuations, and therefore, tax costs.

Finance & Audit Committee Report

Milton Lee of CPS reported on the activities of the Finance & Audit committee. The committee did not get an opportunity to address its charter due to other items it had to consider. The committee considered the issue of ERCOT's facility requirements. Mr. Lee believes the committee will make a report to the Board at next month's meeting on this subject, after some additional research takes place.

Mr. Lee reported that a Relaxed Balance Schedule PRR continues its way through the PRR process.

Finally, Mr. Lee stated that the committee will begin to review the 2004 budget once it receives that information from the appropriate people. The committee will review and vote on the budget in time for the October Board meeting.

Ms. McClendon asked about the upcoming dates on the budget process. Ms. Buckles described that process and stated that ERCOT will provide copies of the schedule of upcoming events to the Board members.

TAC Report

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

- (1) Retail Market Issues.

In its recent meeting, TAC approved: (i) Load Profiling Guide revision request 2003-001 related to Direct Load Control implementation; (ii) version 1.0 of Retail Market Guide; and (iii) revisions to the Market Testing Timelines for Flights 0703 and 1003.

Additionally, Ms. Garza reported on the various issues associated with the competitive metering required by PURA and newly approved PUCT Rules. TAC's Retail Market Subcommittee (RMS) formed a Competitive Metering Subcommittee ("CoMet") to address the issues associated with competitive metering. TAC intends to present a list of approved meters to the Board at next month's meeting. Additionally, RMS developed a process for the approval of meters for use in the ERCOT market. This process will come to the Board for approval in the form of PRRs that have yet to be filed.

(2) 2004 Congestion Zone Designation.

Ms. Garza confirmed that PRR418 was withdrawn. During discussions on this topic, TAC considered the concept of a "secondary" CSC. Additionally, TAC approved a concept for granting an exemption to a Resource from a CSC zone. The WMS will submit a PRR to implement these criteria. Finally, Ms. Garza stated that TAC does not have a recommendation for the Board regarding the 2004 CSCs, but expects to have recommendations in time for next month's Board meeting.

Mr. Itz asked if a clustering analysis had been done for the previously proposed North-to-Houston CSC. Ms. Garza and Mr. Clayton Greer (Vice-Chair of TAC) stated that a clustering analysis had been done and it looked similar to the analyses done for the existing CSCs. Mr. Itz also asked if TAC was considering making the CSCs go in both directions. Ms. Garza stated that TAC is looking at that issue.

(3) 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. TAC approved the following PRRs and recommended them to the Board for final approval:

- **PRR382 – Settlement Statement Suspension – *proposed effective date August 1, 2003; does not impact the ERCOT computer systems.*** This PRR adds a new subsection allowing the Board to direct ERCOT Staff to suspend the Settlement process to address unusual circumstances. Any proposal to suspend settlements must be presented to TAC for review and comment, in a reasonable manner under the circumstances, prior to the suspension. PRS approved this PRR after making suggested revisions. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.
- **PRR402 – Delete Good Friday Holiday - *proposed effective date August 1, 2003; does not impact the ERCOT computer systems.*** This PRR deletes Good Friday from the list of observed holidays in the definition of a Business Day. PRS approved this PRR as submitted. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.
- **PRR405 – Under-scheduled Replacement Reserve Capacity - *proposed effective date August 1, 2003; does not impact the ERCOT computer systems.*** This PRR updates Section 6.9.2.1.1 to reflect implementation of PIP132 and updated Section 6.10.4.3 to match wording changes in PRR394. PRS approved this PRR as submitted. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by voice vote with 1 abstention.

- **PRR408 – High Voltage Direct Current Tie Schedule Data – *proposed effective date is August 1, 2003; does not impact ERCOT computer systems, has an impact on ERCOT staffing.*** The PRR requires ERCOT to provide High Voltage Direct Current Tie data to TDSPs. PRS approved this PRR with a revision to make the data Protected Information as defined in the Protocols. TAC approved a revised version of the PRS recommendation. The PRR was approved by unanimous voice vote.
- **PRR411 – Protocol Clarification Request [original title: Advisory Opinion] – *proposed effective August 1, 2003; does not impact ERCOT computer systems.*** PRS modified this PRR to eliminate the proposed language related to ERCOT issuing Advisory Opinions and made revisions to 21.1 to make it clear that requests to clarify the Protocols should be submitted as a Protocol Revision Request. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.
- **PRR415 – Modify Limit for LaaRs to Provide Responsive Reserve Service – *proposed effective date August 1, 2003; does not impact ERCOT computer systems, impacts ERCOT business practices with potential staffing impact.*** This PRR modifies the Protocols to set the amount of Resources on high-set under-frequency relays providing Responsive Reserve Service to be the lower of 50% or the limit established by ERCOT. PRS approved this PRR with suggested modifications. TAC approved this PRR as recommended by PRS and struck all references to Non-Spinning Reserve Service (NSRS) in the PRR title and description/explanation. This PRR was approved by a 25 to 2 voice vote with 1 abstention.
- **PRR419 – Transfer of Balancing Up Load (BUL) Qualification Testing to QSEs – *proposed effective date July 17, 2003; does not impact ERCOT computer systems.*** This PRR streamlines the qualification testing for BULs by transferring the responsibility for the testing from ERCOT to the QSE representing the BUL. If the BUL does not respond when dispatched, the QSE does not receive any capacity payment and the qualification testing responsibility will transfer back to ERCOT. PRS approved this PRR as submitted. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.
- **PRR423 – Dispatch of Qualifying Facilities Below Minimum Generation Levels – *proposed effective upon implementation of functionality in ERCOT computer systems; impacts ERCOT computer systems and may impact staffing.*** This PRR provides that ERCOT shall use other Resource Dispatch options to maintain system reliability prior to dispatching a Generation Resource below its Low Operating Limit. PRS approved this PRR after making suggested modifications. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.
- **PRR424 – Elimination of Resource Specific Deployment Used for Energy Balance Purpose – *proposed effective upon implementation of functionality in ERCOT computer systems; impacts ERCOT computer system.*** This PRR eliminates Resource-specific deployment for energy balance purposes and will reduce the cost of Local Congestion currently uplifted to all Loads. PRS approved this PRR as submitted. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.
- **PRR429 – Disclosure of TDSP Information – *proposed effective date August 1, 2003; no impact to ERCOT computer systems.*** This PRR clarifies that ERCOT will disclose and share with a TDSP any confidential information it has received or has knowledge of that would affect the operation and security of the TDSP. PRS approved this PRR after making suggested

modifications. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.

Ms. McClendon moved to accept the PRRs -- other than PRRs 415 and 423 -- as approved by TAC. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Greene announced that the Board would take up PRRs 415 and 423 after it discussed the process for market design.

(4) Process for Market Design.

The Board received proposals from TAC and ERCOT Staff regarding the process for development of the redesigned market. The first issue TAC addressed was the voting structure. TAC discussed the “one person, one vote” concept. The REP segment would like to have one person represent more than one entity and have that person’s vote counted multiple times. TAC could not obtain sufficient votes (67% affirmative) to pass this issue. Ms. Garza then discussed differences between TAC’s proposal and the ERCOT Staff proposal: (i) who should facilitate the process, ERCOT staff or an outside facilitator; (ii) who should participate in the process and how; (iii) where votes should occur, at a sub-group level (proposed by ERCOT Staff) or at a centralized “RUG-type” group (proposed by TAC); and (iv) who should oversee the process; and (v) whether a quorum should be four of seven segments (proposed by ERCOT Staff) or five of seven segments (proposed by TAC).

Many similarities exist between the two proposals - Board involvement, the appeal process for minority opinions, PUCT involvement, MOD involvement, the use of external experts and votes requiring two-thirds approval to pass.

At this time, Chairman Greene invited Ray Giuliani to make a presentation regarding the ERCOT Staff’s revised version of the market redesign process. Mr. Giuliani stated that the facilitation team would consist of the coordination group and concept groups. The independent facilitator would lead the facilitation team. The vice-chair of each concept group (and the coordination group) would be an ERCOT Staff member. Mr. Giuliani then presented the roles and responsibilities of each group (ERCOT Board, Coordination Group, Concept Groups, ERCOT Staff, PUCT, MOD).

A lengthy discussion regarding the differences between the proposals ensued.

Generally, all of the Board members commended ERCOT Staff and the TAC for working to resolve the differences between the two proposals.

Chairman Klein stated that the PUCT wants to ensure the implementation process goes in the right direction, incorporates a fair amount of participation among the segments, is efficient and allows the PUCT to look to one party to ensure the timelines are met and the deliverables accomplish the right goals. Chairman Klein believes an independent facilitator should have a role, but does not have an opinion regarding whether that person should be chair or vice-chair of the group. She stated her belief that ERCOT Staff, not TAC, should oversee the process. Mr. Manning agreed, stating that ERCOT Staff is beyond reproach in its independence and, therefore, is best to take the lead in the facilitation role.

After a ten-minute break, additional discussion took place. At that time, a recommendation was made that a straw vote on the various outstanding issues take place. The straw vote would be used only as direction to the TAC and ERCOT Staff as to the leanings of the Board. The straw vote results were as

follows:

(a) Qualifications Required to Vote

Corporate membership	6
Any membership	14
Any entity, member or not	2

The Board members expressed their opinion that each Market Participant will get only one vote.

(b) Segmented voting

By Concept Group	2
By Centralized Rug-type Body	15
Did not vote	5

(c) Chair

Independent Facilitator	12
ERCOT Staff	7
Did not vote	3

(d) Oversight of process

TAC	11	
ERCOT Staff	9	(included a vote by Chairman Klein)
Did not vote	2	

(e) Proxies

A preponderance voted that proxies in some form were acceptable.

(f) Quorum

A preponderance voted that 4 of 7 segments would constitute a quorum.

It was noted that two of the votes were too close to give definite direction, who should chair the process and who should provide oversight for the project. The Chair asked Ms. Garza to continue working with ERCOT Staff to come up with a comprehensive proposal at the August 2003 Board meeting.

PRRs (continued from above)

Ms. McClendon moved to approve PRR415, Ms. Harper seconded the motion. The motion was approved unanimously with no abstentions.

The Board then turned its attention to PRR423. Mr. Payton recommended that the Board not approve this PRR and provided his reasons for that position. Ms. Garza provided TAC's response to Mr. Payton's comments. Mr. Brad Belk of LCRA provided comments from LCRA's perspective as an operator of hydro facilities.

Mr. Karnei moved to approve PRR423. Mr. Lee seconded the motion. The motion passed by a vote of 17 in favor and 4 opposed with no abstentions.

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

Other Business

No other business was raised.

Executive Session

The Board met in Executive Session to discuss various matters including an update on the status of litigation and ADRs, contract issues and HR matters.

Adjournment

Chairman Greene adjourned the Meeting at approximately 5:30 p.m. **The next Board meeting will take place on August 19, 2003, at ERCOT's Austin facility. The following meeting will be held on September 16, 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/2003calendar/2003boardmaterials.htm>

Margaret Uhlig Pemberton, Corporate Secretary