

**MINUTES OF THE ERCOT BOARD OF DIRECTORS MEETING**

**ERCOT Offices**

**Austin, TX**

**10:00 a.m.**

**August 19, 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 August 19, 2003.

**Meeting Attendance:**

**Board members:**

Armentrout, Mark		Unaffiliated	Present
Baggett, David		Unaffiliated	Present
Beal, Joe	Lower Colorado River Authority	LCRA	Represented by Ross Phillips by Proxy
Clarke, Linda	Exelon Generation Company	Ind PM	Represented by John Meyer, Segment Alternate
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
Stapp, Jerry	Brazos Electric Coop.	Coop	Segment Alternate for Clifton Karnei
Klein, Rebecca	Public Utility Commission of Texas	PUCT Chairman	Present (beginning at approximately 10:45 a.m.)
Lacey, Frank	Strategic Energy	Ind REP	Present
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/Residential	Present until 10:25 a.m. then Proxy given to Bob Manning
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	Present
Veiseh, David	Utility Choice Electric	Ind REP	Present

**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
Sam Jones	ERCOT Staff – VP and COO
Brad Belk	LCRA
Mark Dreyfus	Austin Energy
Thane Twiggs	APX
Terri Eaton	Green Mountain Energy
Jim Galvin	ERCOT Staff
Rich Gruber	ERCOT Staff
Mark Walker	ERCOT Staff
Barry Huddleston	Dynegy Power Corp.
Kevin Gresham	
Cheryl Moseley	ERCOT Staff
Steve Wallace	ERCOT Staff
Mike Petterson	ERCOT Staff
Dottie Roark	ERCOT Staff
Mary Sallee	ERCOT Staff
Heather Tindall	ERCOT Staff
Clayton Greer	Constellation
Greg Ramon	TECO/Frontera
Dan Jones	CPS
Danielle Jaussaud	
Phillip Oldham	
Dave Potts	The Structure Group
Kent Saathoff	ERCOT
Carol McDonald	ERCOT
Kevin Judice	ERCOT
Robert Connell	ERCOT
Mark W. Smith	TX1
D.W. (Bill) Beck	AEP/TCC
Robert Northcutt	Accenture
Danielle T	PUC
Janet Elliot	Houston Chronicle
Jake Dyer	Fort Worth Star Telegram
Ed Ettorre	ERCOT
Mike Petterson	ERCOT
Beth Garza	FPL Energy / TAC chair
Henry Durrwachter	TXU Energy

## 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. Heather Tindall, ERCOT Director of Communications, informed the Board members that several media reporters were in attendance at this meeting and introduced each.

## Approval of Minutes

Chairman Greene requested comments on and approval of the minutes of the July 15, 2003 and August 7, 2003 meetings. Mr. Payton asked that the Board consider certain revisions to the minutes from the July Board meeting. Those proposed revisions were placed on the screen for Board members to review. The Board also considered the minutes from the August 7, 2003 Board subcommittee meeting on the Market Design process.

**David Veiseh moved to approve both sets of meeting minutes (the July minutes, as amended by Mr. Payton). 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 stated that ERCOT has exceeded 5.7 million retail transactions since the market opened. He stated further that ERCOT reached a new high for peak usage on August 7, 2003 at 60,157 MW. Mr. Noel also stated that the ERCOT Grid remained stable during the recent blackout in the Northeastern part of North America. He pointed out that ERCOT has a strong, viable system with over 70,000 MW of installed capacity.

Mr. Noel then stated that the ERCOT budget process is moving forward and focusing on essentials. ERCOT Staff will have a completed budget to present to the Board at its October meeting.

Finally, Mr. Noel introduced ERCOT's new Manager of Internal Audit, Ed Ettorre.

## Grid Operations Update

Chairman Greene invited Sam Jones, ERCOT Executive Vice-President and COO, to the podium to present the Grid Operations Update. Mr. Jones began by discussing the blackout in the Northeast. At this time, he has only preliminary information. ERCOT Staff have participated in several conference calls on the NERC hotline relating to the outage. Mr. Jones stated that he has been asked to participate on a NERC committee investigating the reasons for the blackout.

## RMR Issues

Mr. Jones stated that ERCOT is reviewing its RMR contracts at this time. The existing contracts have one-year terms with a 90-day termination provision. This allows the unit owner to plan maintenance, *etc.* Since the time that ERCOT entered into those contracts, the ERCOT Protocols have been changed to revise the payment methodology for RMR units. ERCOT began discussions with the Generation Entity currently providing RMR Service and they informed ERCOT that the new Protocol would not provide sufficient revenue and, therefore, the Generation Entity was not willing to enter into new contracts using the new terms. Consequently, ERCOT has left the current contracts in effect to ensure reliability of the Grid. The RMR Task Force and the Protocol Revision Subcommittee are now considering additional Protocol revisions to better compensate Generation Resources for RMR Service.

Due to installation of voltage controls on the Grid, ERCOT no longer needs one RMR Unit and has given the required 90-day notice to terminate that contract. This reflects ERCOT's continuing efforts to develop exit strategies for RMR units.

Milton Lee asked Mr. Jones to estimate whether over the next five-to-seven years, with transmission system changes, RMR usage will go up, go down or stay the same. Mr. Jones stated that ERCOT has worked on -- and continues to review -- exit strategies for each RMR unit. He cannot, however, say with any certainty how ERCOT's needs may change, although he assured the Market Participants that ERCOT does everything it can to minimize costs to the market.

### **Market Operations Update**

Ray Giuliani, ERCOT Vice President and Chief of Market Operations, gave a presentation regarding market operations. Mr. Giuliani began by stating that the SCR 727 data extract process continues to move forward. Additionally, he stated that ERCOT discovered an error in the data archiving process that caused some records (approximately .5%) to be omitted from the archive (but not from the production system). ERCOT has identified the problem and implemented a correction and believes the correction will resolve many of the existing variances. This issue should not affect 2002 and 2003 True-up Settlements.

Mr. Giuliani then focused on ERCOT's performance measures on which ERCOT reports to the PUCT on a quarterly basis. The transactions involved are 814 and 867 transactions. ERCOT's performance on switches has neared 100%, a substantial improvement over the first quarter of 2003. With respect to move-in, move-out transactions (on which ERCOT must respond within five hours), ERCOT's performance is in the mid-80% range. Again, the improvement over the first quarter of 2003 (58.5%) is substantial. Chairman Greene complimented Mr. Giuliani and the ERCOT Staff on the improvement in the performance measures.

Mr. Giuliani also stated that ERCOT implemented PRR 440 which suspends the use of Market Solutions for energy payments for Local Congestion management until December 31, 2003.

With respect to the market redesign effort, Mr. Giuliani stated that 2004 staffing, including consultants, will total approximately fifty (50) people. ERCOT is also reviewing technology options to enhance the process and creating a reference file of skill sets of experts and consultants. ERCOT will present the expenses for the market redesign process as a separate item in ERCOT's 2004 budget. Mr. Kahn asked whether ERCOT has considered a head count for 2005 or 2006 relating to the market redesign. Mr. Giuliani stated that ERCOT has not yet determined a number for those years, but expects the numbers will be substantial.

### **Information Technology Update**

Ken Shoquist, ERCOT Vice President and Chief Information Officer, provided the Board with a technology update.

Mr. Shoquist stated that, with respect to production transactions, ERCOT had missed twenty-seven (27) intervals (approximately 1%) in the EMMS environment due to code problems (which the vendors have begun working to fix). He further reported that transaction processing continues to be high, with positive results. Mr. Shoquist stated that all of ERCOT's commercial systems are either on outdated application releases or operating on unsupported versions of the Oracle database. This creates large expenses for ERCOT when problems arise. ERCOT has a plan in place to attempt to resolve this issue.

Mr. Shoquist stated that ERCOT handled over 6,000 settlements in July. He also stated that ERCOT has thirty-two (32) I.T. projects on-going at this time. With respect to the PUCT market monitoring system, Mr. Shoquist stated that the project continues moving forward and is on time.

### **Security**

Mr. Shoquist announced the hiring of ERCOT's Manager of Physical Security, Carlos Luquis, a former FBI agent. Mr. Shoquist also announced the hiring of Steve Akridge, ERCOT's Manager of Cyber Security. Mr. Shoquist also stated that ERCOT intends to participate in a task force of stakeholders concerned about security issues. The group will include representatives from ERCOT, the PUCT, the Department of Homeland Security, the FBI, the DOE, NERC/CIPAG and the U.S. Secret Service.

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 stated that 79% of the ESI-IDs will be represented at the forum. He again encouraged the Board Members to communicate this information to their respective IT staff and encourage them to attend.

### **Financial Update**

Maxine Buckles, ERCOT Vice President and CFO, recapped the detailed financial report provided to Board Members. ERCOT revenues (\$55.1 million) remain on target while operating (\$56 million, including depreciation) and capital expenses (\$16.9 million) are below budget. ERCOT has forty-five (45) active projects on-going at this time. Additionally, ERCOT currently has 362 employees - below the budgeted number of 400. Sixteen additional employees are in the hiring process.

Ms. Buckles concluded by stating that ERCOT remains active in four Market Participant bankruptcy proceedings, is working on audit planning and is focusing on the 2004 budget.

### **Finance & Audit Committee Report**

Milton Lee, of CPS, reported that the committee met this morning and is not yet ready to make a report on the committee charter. The committee has formed a sub-committee to continue work on this item.

Mr. Lee reminded members of the following dates for the budget process:

- August 26, 2003 (2:00 p.m. to 5:00 p.m.) there will be a presentation by ERCOT Staff on the 2004 budget;
- September 3, 2003 (8:30 a.m. to Noon) there will be a public meeting at Met Center; and
- September 11, 2003 (9:00 a.m. to 10:30 a.m.), the Finance & Audit committee will have a conference call to consider the input from the public meeting.

He stated that the committee will present its proposal for the 2004 budget at the September 16, 2003 Board meeting. The Board members can then review the budget for one month and it will come up for final vote at the October Board meeting. At this time, Chairman Klein stated that the PUCT's proposed rule may, in future years, impact the timeline for the ERCOT budgeting process. This would facilitate implementing any new fee before the beginning of the new year.

Finally, Mr. Lee stated that the Credit Working Group has done a lot of hard work culminating in PRR441 (a copy of which appears in the Board packet). The Finance & Audit committee, by unanimous

vote, proposed that the Board approve PRR441. Mr. Lee commended the members of the Credit Working Group for their exceptional effort. Chairman Greene concurred in Mr. Lee's sentiments regarding the efforts of the Credit Working Group.

## **TAC Report**

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

### (1) 2004 Market Test Timeline

Ms. Garza set forth the timeline for the 2004 market testing. All Market Participants must participate in the test flight for Texas SET Version 2.

### (2) Competitive Metering

Ms. Garza stated that PURA allows competitive metering for large customers beginning January 1, 2004. PUCT Rule 25.311 became effective June 19, 2003. Consequently, ERCOT has compiled a list of approved meters and TAC has approved that list. Mr. Walker, ERCOT Senior Corporate Counsel, stated that this matter does not require a Board vote and that TAC has the power to compile the list. Chairman Greene and Chairman Klein agreed with Mr. Walker. Chairman Greene asked whether any Board members had any issues with the list of meters; hearing no comments, Chairman Greene stated that the Board endorses TAC's list.

### (3) Operating Guide Revisions

Ms. Garza stated that TAC had approved OGRRs 129, 130, 131 and 134. She then reviewed -- in general terms -- the substance of those revisions.

### (4) 2004 Congestion Zone Designations

Ms. Garza reported that TAC continues to consider these designations. She anticipates that TAC will present its findings at the October Board meeting.

Mr. Veiseh asked why the determination of zones is taking so long, and if the North-Houston congestion issue has been resolved. Ms. Garza stated that the issue is very complicated and operational considerations are dynamic. TAC has continued to consider these matters and work to develop an optimal solution. John Meyer pointed out that nothing done by TAC would affect current charges because TAC is looking only at CSCs for 2004.

### (5) 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:

- **PRR410 – Resource Obligations during Block Load Transfer (BLT) – *proposed effective date September 1, 2003; this PRR does not impact the ERCOT computer systems.*** This PRR permits a Generation Entity to limit its availability to provide Ancillary Services and/or other services to ERCOT during time periods when the Resource is connected (switched through a Block Load Transfer) to a non-ERCOT Region transmission system, other than through a DC Tie. This PRR addresses concerns about potential conflicts of regulatory requirements and risk to

generation assets. 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.

- **PRR413 – Optimization for the Whole Operating Day in RPRS Procurement Process – *proposed effective upon implementation of functionality in ERCOT computer systems; this PRR impacts ERCOT computer systems; TAC assigned a priority and rank of 1.1.*** This PRR modifies the RPRS procurement process to provide an optimum solution for the whole Operating Day. 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.
- **PRR422 – Out of Merit Zonal Dispatch Instructions -- *proposed effective on September 1, 2003, for those portions of the PRR supportable with manual workarounds, with the balance of the PRR effective upon implementation of functionality in ERCOT computer systems; this PRR impacts ERCOT computer systems and can be partially supported with a manual workaround; the priority and rank are pending assignment from PRS.*** This PRR provides the process for the deployment and settlement of Zonal OOME Dispatch Instructions in command and control situations. Changes recommended in this PRR will allow ERCOT to deploy Energy from a QSE fleet of Resources when all other methods of resolving Congestion have failed. PRS approved this PRR after making suggested modifications. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by voice vote with one dissenting vote and one abstention.
- **PRR431 – Collateral Requirements related to Balancing Energy Service and Estimated Aggregate Liability (EAL) – *proposed effective date September 1, 2003; this PRR does not impact ERCOT computer systems.*** This PRR adds a new section in the Protocols to calculate additional collateral requirements for a QSE intending to utilize Relaxed Balanced Schedules for more than twenty (20) percent of its Load. This PRR also excludes certain portions of the EAL calculation from the sixty (60) day “look back” provisions, reduces the number of days in which collateral must be posted from three (3) to two (2), and allows ERCOT to accelerate the due date on all outstanding amounts owed in the event of a late payment. Each of these changes will provide ERCOT more flexibility to match risk and collateral requirements. 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.
- **PRR439 – Clarification on Defining Out of Merit Energy (OOME) as Instructed Deviation – *proposed effective upon implementation of functionality in ERCOT computer systems; this PRR impacts ERCOT computer systems; TAC assigned a priority and rank assigned the same as PRR373 – to be included in EMMS Release 3.2.*** This PRR clarifies two exceptions regarding the definition of OOME as an Instructed Deviation for the implementation of PRR373. Before the Balancing Energy Service market is cleared for the affected interval, the manual OOME instruction will *not* be defined as an Instructed Deviation under the following conditions: (1) ERCOT instructs a Resource to operate at or above the instructed output level and the planned output level of that Resource exceeds the instructed output level, or (2) ERCOT instructs a Resource to operate at or below an instructed output level and the planned output level of that Resource is below the instructed output level. PRS approved this PRR after making suggested modifications to ensure consistency with the language in PRR422. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.

**Mr. Lee moved to accept the PRRs as approved by TAC. John Meyer seconded the motion.**

Mr. Payton raised a question regarding PRR431. He asked if a Market Participant could exceed the 20% limit without posting additional collateral. Ms. Buckles responded that, under the new Protocol, a Market Participant who will exceed the 20% limit has the obligation to inform ERCOT (at which time, ERCOT will require additional collateral). If the Market Participant does not inform ERCOT, then ERCOT will impose the additional collateral requirement plus a 10% additional amount. This creates an incentive for Market Participants to timely inform ERCOT when the Market Participant will exceed the 20% limit.

Hearing no further discussion, Chairman Greene called the motion. **The motion passed by unanimous voice vote with no abstentions, with one exception: Mr. Payton voted against PRR431.**

### **PRR 384 - Preamble and Code of Conduct**

The Board previously remanded this matter to TAC to consider: (i) whether the preamble should be in the Protocols and (ii) alternative language developed by Laurie Pappas and Shannon McClendon. TAC recommends tabling PRR 384 until the PUCT finalizes its Code of Conduct rule (Project No. 26201). At that time, TAC can compare the PUCT rule to the proposed Code of Conduct and coordinate the two. No Board member expressed any disagreement with this approach.

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

### **Other Business**

Chairman Greene stated that Mr. Veiseh had sent a letter from an organization of REPs (“TEAM”) regarding the costs associated with Balancing Energy Service in Northeast Texas. Chairman Greene asked Margaret Pemberton, ERCOT General Counsel, to make a statement regarding this issue. Ms. Pemberton began by reviewing the process for adding an item to the Board meeting agenda. She then stated that ERCOT, including its Board, consists of competitors in the electricity industry. Those competitors cannot make any agreements on the prices that they can charge. Any action that would set any price, even a maximum price, could cause an antitrust problem. Repricing or postponing a settlement could be viewed as competitors setting a maximum price. Ms. Pemberton stated that if a Market Participant has a concern about prices offered by other Market Participants, the correct forum for addressing the issue is at the PUCT, who has the duty and authority to address pricing issues. In essence, Ms. Pemberton stated that ERCOT administers the Ancillary Services market, but does not have the power or duty to monitor prices in the market for “fairness” or abuse of market power. Chairman Klein agreed with Ms. Pemberton’s statement. Additionally, Chairman Klein stated that the PUCT’s MOD has been working on the issues related to prices for services in Northeast Texas. The PUCT has been actively involved in this marketing monitoring effort.

Mr. Veiseh stated that he knew MOD was looking into the issue, but the REPs were concerned about the cost and the time frame within which ERCOT informed Market Participants of the cost for those services.

At this time, Neil Edelman, a representative of TEAM, addressed the Board asking that they look into developing “early indicators” so it would know when exceptionally high prices occur and provide that feedback to the market and the PUCT for early action. Mr. Noel and Ms. Garza reported to the Board that the issue would be addressed by the Wholesale Market Subcommittee, and that the Board will be apprised of their findings.





## Market Design Committee Report

Chairman Greene invited Bob Manning, Vice-Chair of the ERCOT Board, to update the Board on the status of the effort to develop a proposal for the Market Redesign team. Mr. Manning stated that a Board sub-committee meeting took place within the last month and the committee members approved a recommendation for the market redesign process, which was developed through TAC and ERCOT Staff cooperation. The committee felt strongly that ERCOT Staff should be responsible for selecting a facilitator and coordinator for that process. Mr. Manning stated that the Board supported Mr. Noel making a recommendation for facilitators that the Board would approve. Mr. Manning then invited Mr. Noel to make a presentation to the Board presenting the recommended process and ERCOT's recommendations for a facilitator and coordinator for Board approval.

Mr. Noel presented a chart setting forth an overview of the redesign process. The chart is similar to that presented previously. The chart now contains an Independent Facilitator, Independent Coordinator and ERCOT Coordinator. This "Facilitation Group" would be responsible for coordinating and managing the market design development process. TAC will remain in the position of addressing minority positions. Ultimately, though, the Board will make decisions.

Mr. Noel stated that the next component focuses on roles and responsibilities of the various participants (PUCT, Market Participants, ERCOT Board of Directors, TAC, sub-committees, Independent Facilitator, Independent Coordinator, ERCOT Coordinator, ERCOT Staff). He commended TAC on its work on identifying those roles and responsibilities. Mr. Noel noted that the process would include a voting structure based on ERCOT membership.

Mr. Noel further stated that ERCOT recommends that Trip Doggett serve as the Independent Facilitator, Vikki Gates-Cuddy as the Independent Coordinator and Jim Galvin as the ERCOT Coordinator. Mr. Noel discussed the credentials of each of the individuals and his basis for recommending them, including ERCOT's personal experiences in working with them.

Mr. Noel then announced that ERCOT will develop a portfolio of available resources to address issues and resource needs that may arise during the market design development and implementation processes. ERCOT will create a Request for Qualifications template for outside resources using industry standard job definitions. ERCOT will issue the RFQ through the ERCOT web site and then compile a master list of outside resources, their skill sets and rates (by way of a matrix). The redesign team will select services from this pool, as needed.

Chairman Greene invited comments and questions. Ms. McClendon requested that the language on the handout be revised to clearly state the intent that had been expressed at the Board sub-committee meeting. She clarified that the last line of item 7 on the handout's voting structure slide should read, "then each Member of that sub-segment would have a fractional vote equal to one-ninth." The correction to the handout was made. Ms. Stockstill proposed that all votes should be documented.

Mr. Armentrout asked who would monitor risks. Chairman Klein stated that the working groups would have that responsibility and, ultimately, the PUCT will have the obligation to either approve or disapprove a design model.

John Meyer mentioned that during the original market design the designers took the position that reliability was the prime goal and the commercial issues were secondary. Mr. Noel stated that the market redesign should use the same approach. Mr. Jones agreed. Mr. Payton stated that, in addition to cost/benefit analyses, the team should use risk/benefit analyses.

Chairman Klein thanked Mr. Manning, Ms. Garza, Mr. Giuliani and the other Market Participants for their efforts in developing this recommendation.

At this time, Chairman Greene recapped Mr. Noel's recommendation. **Mr. Manning moved to accept the recommendation as amended by the consumers, including Trip Doggett as Independent Facilitator, Vikki Gates-Cuddy as Independent Coordinator and Jim Galvin as the ERCOT Coordinator. Mr. Meyer seconded the Motion. The motion passed by unanimous voice vote with no abstentions.**

### **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 H.R./Governance matters.

### **Adjournment**

Chairman Greene adjourned the Meeting at approximately 3:30 p.m. **The next Board meeting will take place on September 16, 2003 at ERCOT's Austin facility. The following meeting will be held on October 21, 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>

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Margaret Uhlig Pemberton, Corporate Secretary