

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

Electric Reliability Council of Texas, Inc. Offices

Austin, Texas

10:00 a.m.

August 17, 2004

Pursuant to notice duly given, the Meeting of the Board of Directors of Electric Reliability Council of Texas, Inc. convened at approximately 10:20 a.m. on August 17, 2004.

Meeting Attendance:

Board Members:

Armentrout, Mark		Unaffiliated
Baggett, David		Unaffiliated
Espinosa, Miguel		Unaffiliated
Greene, Mike	TXU Power	IOU; Board Chairman; Proxy for Tom Schrader, ERCOT CEO
Hayslip, Darrell	Calpine Corp.	Independent Generator
Hudson, Paul	Public Utility Commission of Texas	PUCT Chairman
Kahn, Bob	Austin Energy	Municipal
Karnei, Clifton	Brazos Electric Power Cooperative	Cooperative
Manning, Bob	H-E-B Grocery Company	Consumer/Commercial – Board Vice Chairman – Until noon, then proxy to Kenan Ogelman
Ogelman, Kenan	Office of Public Utility Counsel	OPUC Residential & Small Commercial Consumers – Proxy for Suzi McClellan
Payton, Tom	Occidental Chemical Corp.	Consumer/Industrial
Stockstill, Dottie	Mirant Americas Energy Marketing	Independent Power Marketer
Weiseh, David	Utility Choice Electric	Independent REP

Staff and Guests:

Adrian Pieniazek	CenterPoint Energy
Barry Smith	AEP
Barry Smitherman	PUCT Commissioner
Betty Day	ERCOT Staff
Bill Bojorquez	ERCOT Staff
Bob Helton	ANP
Bob Peck	LCRA
Brittney Albracht	ERCOT Staff
Carrie Morgan	ERCOT Staff
Cheryl Moseley	ERCOT Staff
Cheryl Yager	ERCOT Staff
Clayton Greer	Constellation
David Kasper	ERCOT Staff
Denise Stokes	Competitive Assets
Diana Zake	ERCOT Staff

Garry Waters	Competitive Assets
Gary Stroud	ERCOT Staff
Greg Ramon	TECO
Heather Tindall	ERCOT Staff
Henry Durrwachter	TXU
Jeff Brown	Coral Power
Jim Harder	Garland Power & Light
John Houston	CenterPoint Energy
John Meyer	Reliant
John Moore	John Moore Consultants
Kent Saathoff	ERCOT Staff
Kevin Gresham	Reliant Energy
Kevin Judice	ERCOT Staff
Kristy Ashley	Exelon
Les Barrow	CPS
Margaret Pemberton	ERCOT Staff – VP, General Counsel and Corporate Secretary
Marialyn Barnard	CPS
Mark Dreyfus	Austin Energy
Mark Smith	TXI
Mark Walker	ERCOT Staff
Maxine Buckles	ERCOT Staff – VP and CFO
Michael Petterson	ERCOT Staff
Milton Davis	ERCOT Staff
Neil Eddleman	TEAM
Parviz Adib	PUCT Staff
Paul Wattles	ERCOT Staff
Paula Mueller	PUCT Staff
Phillip Oldham	TIEC
Randy Jones	Calpine
Ray Giuliani	ERCOT Staff – VP and Chief of Market Operations
Ray King	TECO
Richard Gruber	ERCOT Staff
Richard Ross	AEP
Rick Eliff	Dynegy
Rob Connell	ERCOT Staff
Sam Jones	ERCOT Staff – Executive VP and COO
Smith Day	Direct Energy, LP
Steve Bartley	CPS
Terri Eaton	Green Mountain Energy
Valerie Anderson	GDS Associates
Walt Shumate	Shumate & Associates
Wendell Bell	TPPA

Announcements

Chairman Greene called the meeting to order and determined that a quorum was present and mentioned the proxies set forth above.

Approval of Minutes

Chairman Greene requested comments on and approval of the minutes of the July 2004 meeting. **Mr. Hayslip moved to approve the minutes as circulated. Mr. Veiseh seconded the motion. The motion passed by a unanimous voice vote with no abstentions.**

Operations Update

Chairman Greene invited Sam Jones, Executive Vice-President and Chief Operating Officer, to report on the Reliability Council's operations. Mr. Jones reported that the 2004 peak Load to date has reached only 58,590 MW on August 3, 2004. ERCOT Staff predicted a new all-time high peak this year, but the ERCOT control area has experienced an unseasonably cool summer. Daily peak Loads have averaged 10-12,000 MW less than normal.

Mr. Jones reported on several spikes in Balancing Energy Service prices that resulted from the need to send OOME Down instructions to several large Resources due to Local Congestion. He also noted that an RMR cancellation notice was sent to the San Angelo Resource.

Mr. Jones reported that the cyber-security group has been moved into the Technology Services group. ERCOT is finalizing the engagement of a well-established consultant to provide assistance in this area, as needed. The consultant will provide temporary staff augmentation and assistance with organization design while ERCOT obtains full time staff for this function. ERCOT intends to do additional training and auditing/assessments in this area, as well.

Mr. Karnei asked about the hiring process for the consultant. Mr. Jones and Ms. Pemberton explained that it is a vendor that responded to an RFP for the PUCT audit. Because the PUCT wanted to use a nationally recognized auditor, the vendor was not selected, however, they are recognized in the electric industry, having performed IT security work for other ISOs and utilities. Because of the immediate need for assistance in this area, ERCOT negotiated with them to assist ERCOT as a consultant without an additional RFP.

Mr. Jones stated that the Taylor Control Center expansion project remains on-time and under budget. He stated that employees would begin moving into the facility in January 2005.

Chairman Greene asked Mr. Jones to share with the Board and guests his testimony before the Legislature last week regarding reliability issues. Mr. Jones stated that the hearing served as a one-year look back at the blackout in the Northeast and focused on system reliability. ERCOT is in full compliance with all the issues raised by the NERC task force that studied the blackout. At the hearing, Lt. Governor Dewhurst raised questions relating to Homeland Security and terrorism issues. A question arose at the hearing regarding minimum security standards for Generation Resources. Mr. Manning stated that he also attended the hearing and reported that Mr. Jones did an exemplary job in his presentation. He also stated that several questions came up regarding communications during a natural disaster or terrorism event. Chairman Hudson stated that the PUCT has an emergency response management team that has contact information in order to communicate with many different parties during an emergency.

Market Operations Update

Ray Giuliani, Vice-President and Chief of Market Operations, reported on retail and wholesale activity in the ERCOT Region. He began his report with a discussion of the issues surrounding the Change Control Management process as compared to the initial results of the on-going SAS70 Audit. One issue involves the definition of an "emergency change" and the procedures related thereto.

He also reported on the second quarter performance measures. The lowest percentage was 99.5%, indicating that ERCOT is doing well on meeting the Protocols' requirements. Additionally, the implementation of Texas SET 2.0 went extremely well as a result of hard work by ERCOT Staff, TDSPs, CRs and others. ERCOT also successfully implemented the TML Portal Phase II project.

Mr. Giuliani reported on activities relating to the ongoing work on the Day Ahead Market. ERCOT established selection criteria and issued an RFP for those with intent to bid. ERCOT received bid intentions from many companies. A bidders' conference will take place at ERCOT's Austin offices on August 20, 2004.

Finally, Mr. Giuliani welcomed to the ERCOT Region several new REPs (ConocoPhillips, FPL Energy and Electric Now) and one new QSE (Freedom Power).

Financial Report

Maxine Buckles, Vice-President and Chief Financial Officer, reported on the Reliability Council's financial matters through July 31, 2004. Revenue (approximately \$73.4 million) has been somewhat less than the budget forecast as a result of lower than expected energy usage due to milder weather this year. Operating expenses and capital expenses have also been lower than budget. Ms. Buckles reported that the Reliability Council's employee headcount is up to 418; 530 are budgeted to be in place by the end of the year. Ms. Buckles stated that the Reliability Council currently has 43 capital projects underway. Three projects have recently completed – MIMO solution to stacking, TML Phase II and EMMS Release 3 (Grid Operations).

Ms. Buckles provided forecasts of revenues and expenses for the remainder of the year. If the forecasts are accurate, ERCOT should see approximately a \$15 million favorable variance by the end of the year. The Finance & Audit Committee considered several options on how to handle the variance and will make a recommendation later in the meeting.

Ms. Buckles concluded with an update regarding the status of QSE short-payments and amounts repaid to the market.

Finance and Audit Committee Report

David Baggett, Chairman of the Finance and Audit Committee, reported on the following matters:

(1) Credit Work Group Charter

Mr. Baggett requested that the Board of Directors approve the charter for the Credit Work Group (CWG). **Mr. Karnei moved to approve the Charter. Mr. Armentrout seconded the motion.** Chairman Greene invited discussion. Chairman Hudson asked if the CWG reflected the make-up of the Board of Directors. In response, Ms. Cheryl Yager, ERCOT Treasurer, stated that the CWG is a voluntary group. Meetings may have as few as eight participants or as many as twenty-five, depending on the agenda.

AT THIS TIME, PUCT COMMISSIONER BARRY SMITHERMAN ARRIVED AND CHAIRMAN HUDSON ANNOUNCED THE BEGINNING OF A PUCT OPEN MEETING.

The Board discussed whether an item could move forward through the CWG even though not all

segments would be in attendance. The CWG only makes recommendations that the Board of Directors reviews. A question was raised about how ERCOT would verify the qualifications for the CWG members. Ms. Yager stated that ERCOT uses a form which requests the pertinent information from the participant, but does not intend to run background checks on those individuals.

Chairman Greene then called the question. **The motion passed by unanimous voice vote with Messrs. Ogelman and Payton abstaining.**

(2) **Investment Policy**

Mr. Baggett stated that the committee recommends several minor changes to the ERCOT Investment Policy. He also stated that the committee recommends removal of the penultimate paragraph of the resolution circulated to Board members. **Mr. Baggett moved to approve the Investment Policy as submitted with the exception of the penultimate paragraph. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.** (The modified policy is attached hereto.)

(3) **Financial Policy**

Mr. Baggett stated that the committee recommends several changes to the current ERCOT Financial Policy as circulated to the Board members. **Mr. Baggett moved to approve the Financial Policy as circulated. Mr. Manning seconded the motion.** Chairman Greene invited discussion. Mr. Hayslip commented on the proposed language dealing with changes in the Administration Fee. He proposed that the word "Increase" in the flow chart attached to Exhibit "A" should be revised to "Change." Additionally, Chairman Hudson asked if the same paragraph, which was stricken from Resolution regarding the Investment Policy, should be stricken from the Resolution regarding the Financial Policy. Mr. Baggett agreed that it should be stricken. **Messrs. Baggett and Manning agreed to the amendment of the motion to reflect: (i) revising the word "Increase" to "Change" in the flow charted attached to Exhibit "A" to the Financial Policy; and (ii) striking the penultimate paragraph of the Resolution regarding the Financial Policy.**

The amended motion passed by unanimous voice vote with no abstentions. (The modified documents are attached hereto.)

(4) **2004 Forecast vs. Budget Variance Revenue Application**

As Ms. Buckles discussed earlier, the Reliability Council's revenues should exceed expenses for the year. As a result, the committee considered how to handle any excess revenues at year-end. Currently, the Reliability Council forecasts a \$15 million favorable variance on expenses. The Committee received significant input from consumers, the PUCT and others in considering the issue. At this time, the committee recommends the Board direct ERCOT Staff to apply any favorable budget variances for the remainder of the 2004 budget year to reduce future borrowing and/or to pay down existing debt. By paying down current debt, ERCOT's Administration Fee should decrease due to lower debt and less interest expense.

Mr. Karnei stated that he has concerns over the budgeting process and believes that allowing ERCOT to keep the overage will send the wrong message for the budgeting process. He urged defeat of the proposal. **Mr. Baggett moved to approve the Finance & Audit Committee's recommendation directing ERCOT Staff to apply any favorable budget variances for the remainder of the 2004 budget year to reduce future borrowing and/or to pay down existing debt. Mr. Manning seconded the motion.** Chairman Greene invited discussion. The Board debated the motion.

Mr. Hayslip requested that the resolution make it clear that all budget variance from the year – not just variances from this date forward – should be applied to debt service. **Messrs. Baggett and Manning accepted the amendment to the motion to apply to all 2004 favorable variances to debt.**

The amended motion passed by a vote of twelve to one with Mr. Karnei opposed.

Chairman Greene asked Ms. Buckles to discuss the impact of this decision on the budget for 2005. She stated that the Administration Fee was not expected to change in 2005.

(5) Miscellaneous

Mr. Baggett stated that the Taylor Control Center expansion project is on-time and under budget. He stated that ERCOT currently has less space than its employees and contractors need. When the expansion project is completed, ERCOT should have sufficient space for its employees/contractors. He also reported that Ed Ettore, ERCOT's internal auditor, made several recommendations based on his audit of the expansion project.

Finally, Mr. Baggett reported on the preliminary results of the SAS70 audit. It was noted that there will be some exceptions relating to IT internal controls. ERCOT has been very active in addressing the preliminary findings and will continue to address them between now and the end of the year.

TAC Report

Chairman Greene noted that Ms. Beth Garza was no longer on TAC as she had accepted a position with ERCOT. He then invited Mr. Read Comstock, TAC Vice-Chairman, to report on the following recent TAC activities:

(1) Operating Guide Revisions

- **OGRR 147 System Fuel Availability** – This OGRR is consistent with PRR 499, which would eliminate the fuel shortage communication to Market Participants except for Emergency Notice.
- **OGRR 149 – Types of Responsive Reserve** – This OGRR is consistent with PRR 502 which allows combined cycle Resources operating a combustion turbine (CT) or gas turbine (GT) coupled to a steam turbine to be considered as one unit by ERCOT by aggregating the CT or GT and steam turbine net maximum capability to calculate the 20% compliance capability to provide Responsive Reserve Service.

(2) Commercial Operations Work Group (COPs) Update

Mr. Comstock reported that COPs recommends that TAC modify its procedures to formally create a Commercial Operations Subcommittee. TAC requested COPs to prepare an official proposal for TAC review at a future TAC meeting.

(3) WMS Update

Mr. Comstock reported that WMS continues to work on the Day Ahead Market RFP and established the following deadlines:

- 7/28 RFP Released

- 8/11 Notice of Intent to Bid
- 9/10 Submit Proposals
- 10/1 Final Selection
- 10/15 ERCOT Contracts w/Bidder
- 11/1 Begin Implementation

(4) RMS Update

Mr. Comstock reported on the successful migration of ERCOT and Market Participants to Texas SET Version 2.0. He commended all involved on a job well done. He stated further that RMS approved the 2004 Market Test schedule as follows:

- Version 2.0-0105 (Testing New Market Participants in TX Set Version 2.0)
 - Connectivity to start Dec 17, 2004 (to avoid Christmas/New Years)
 - Jan 21, 2005 – Mar 18, 2005 (8 weeks for scripts)
- Version 2.0-0405 (Testing New Market Participants in TX Set Version 2.0)
 - Connectivity to start Mar 18, 2005
 - Apr 22, 2005 – Jun 17, 2005 (8 weeks for scripts)
- Version 2.0-0705 (Testing New Market Participants in TX Set Version 2.0 or perhaps a new release on TX Set Version 2.1)
 - Connectivity to start Jun 17, 2005
 - Jul 22, 2005 – Sep 16, 2005 (8 weeks for scripts)
- Version 2.0-1005 (Testing New Market Participants in TX Set Version 2.0)
 - Connectivity to start Sep 16, 2005
 - Oct 21, 2005 – Dec 16, 2005 (8 weeks for scripts)

(5) Retail Market Guide Revisions

Mr. Comstock reported on the following RMGRs:

- **RMGR 2004-005 - TDSP Request Cancels** – This RMGR brings the ERCOT market into compliance with MIMO standards.
- **RMGR 2004-009 - TDSP Invoice Dispute Process** – This RMGR establishes a standard dispute process for retail invoices.
- **RMGR 2004-010 - Disconnect/Reconnect Process** – This RMGR updates the Disconnect/Reconnect Guides.

(6) TAC Administration Fee Allocation Meeting

The Board of Directors had previously requested that TAC present to the Board, before March 2005, a fee allocation methodology(ies) focusing on the four elements set forth in Senate Bill 7. As part of that analysis, ERCOT was to hire a third-party to conduct a cost-allocation study. TAC met for a half day to discuss this matter. A TAC special task force helped guide discussions and ERCOT provided overview of the ERCOT organization. At the meeting, participants covered the following topics: (1) broad principles; (2) a proposed goal statement; (3) the scope of consultant activity; (4) allocation alternatives;

and (5) billing determinant options. The meeting focused on item number (3). In doing so, TAC agreed that ERCOT staff should make a first attempt to allocate costs to the four elements in SB 7. A consultant will assist ERCOT staff in analyzing information and identifying any gaps and determine whether the estimates are reasonably accurate.

At this time, TAC sought additional guidance from the Board on whether the TAC is limited to the named four elements in SB 7 for cost allocation. Ms. Stockstill stated that she favors allowing TAC to consider more categories than just the four in SB 7. Mr. Kahn agreed. Mr. Veiseh stated that, no matter what categories we use, ultimately each category must get assigned to a segment. Mr. Payton believes the TAC should use more categories and stated that we should question whether ERCOT is doing more things than those set forth in SB 7. Mr. Veiseh asked if TAC had received input from the PUCT. Mr. Comstock stated that they are monitoring the appeal of PRR482 at the PUCT. Mr. Karnei stated that he would prefer to not limit the analysis to the four categories in SB 7.

(7) Protocol Revision Requests

The Protocol Revisions Subcommittee (PRS) met, discussed the issues and submitted Recommendation Reports to TAC regarding the PRRs described herein. TAC considered the issues and voted to take action on the PRRs as described below.

TAC approved the following PRRs and recommends their final approval to the Board:

- **PRR517 - Reduce the Number of Annual TCRs Sold to 40% from 60%. *Proposed effective date September 1, 2004.*** *No budgetary impact; no impact to ERCOT staffing; no computer system impacts; no business function impact; no impact to grid operations.* This PRR would reduce the number of annual TCRs sold from 60% to 40%. ERCOT Credit Staff and the Credit Working Group (CWG) reviewed this PRR and do not believe that it requires changes to credit monitoring activity or the calculation of QSE liability. The PRS voted to recommend approval of PRR517 as submitted; two members opposed the PRR. The TAC voted to recommend approval of PRR517 as submitted by PRS with one member abstaining.
- **PRR520 - Resource Plan Performance Metrics. *Proposed effective date September 1, 2004.*** *No budgetary impact; no staffing impacts, all tasks necessary to comply with this PRR are performed with current Compliance Staff; no impact to ERCOT computer systems; no business function impact, all tasks necessary to comply with this PRR have already been merged with the business functions of the Compliance team; no impact to ERCOT grid operations.* This PRR would establish Resource Plan performance metrics needed for ERCOT to accurately monitor compliance with Resource Plans. ERCOT Credit Staff and the Credit Working Group (CWG) reviewed PRR520 and do not believe that it requires changes to credit monitoring activity or the calculation of QSE liability. The PRS voted to recommend approval of PRR520 as revised by ERCOT and PRS with one member abstaining and one member opposing. The TAC voted unanimously to recommend approval of PRR520 as submitted by PRS.
- **PRR521 - Add Fleet/Zonal OOME Instruction to SCE Calculation. *Proposed effective date, upon system implementation.*** *Budget impact 6-LL (less than \$100k); no staffing impacts upon implementation; some impact to ERCOT computer systems to include fleet OOME deployment in the SCE calculation; no business function impact; no impact to grid operations.* For EMMS Release 4, ERCOT is planning on partially implementing PRR422. Release 4 cannot include Fleet/Zonal OOME deployment instructions in market clearing, thus an addition to the SCE equation is necessary to aid QSEs who receive fleet deployment instructions in following its SCE. ERCOT Credit Staff and the Credit Working Group (CWG) have reviewed PRR521 and do not

believe that it requires changes to credit monitoring activity or the calculation of QSE liability. The PRS voted to recommend approval of PRR521 as submitted with two members abstaining. The TAC voted unanimously to recommend approval PRR521 as submitted by PRS.

- **PRR529 - Calculating Final REC Purchasing Requirements - URGENT. *Proposed effective upon Board approval.*** Budget impact 6-LL (less than \$100k); no significant staffing impacts upon system implementation; ERCOT will make enhancements to the Renewable Energy Credit software to incorporate the changes required by PUCT rule; no significant business function impacts; no grid operations impact. This PRR would revise Protocol Section 14 to reflect REC Program software changes that: (1) allow for recalculation of previous year's Final REC Requirements for all Competitive Retailers and (2) change the way the Final REC Requirements are calculated. ERCOT Credit Staff and the Credit Working Group (CWG) have reviewed PRR529 and do not believe that it requires changes to credit monitoring activity or the calculation of QSE liability. PRS approved urgent status for PRR529 through an email vote. PRS voted unanimously to recommend approval of PRR529 as amended by TXU, PUCT Staff, Reliant and PRS, and assign it a priority of 1.1. TAC voted unanimously to affirm urgent status for PRR529 and to recommend approval as submitted by PRS.

After some discussion, **Mr. Karnei moved to approve all the PRRs as submitted. Mr. Veiseh seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

All PRRs and supporting materials appear on the following ERCOT web page:

<http://www.ercot.com/AboutERCOT/PublicDisclosure/ProtocolRev.htm>

Texas Nodal Team (TNT) Report

Chairman Greene invited Trip Doggett, one of the Independent Facilitators for the Texas Nodal project, to present the TNT Report. He reported on: (i) the Cost/Benefit study, (ii) Protocol development (Sections 1, 4 and 6 are complete), (iii) comments from the economist (workshop to take place in September) and (iv) comparison of the Texas Nodal market to other markets (the PUCT has decided that this comparison is not necessary at this time). Mr. Doggett then reported on the votes taken at the TNT meeting on July 28, 2004.

Human Resources & Governance Committee Report

Mr. Kahn, Chairman of the H.R. & Governance Committee, stated that he had no report this month.

Special Committee Update

Mike Espinosa, Chairman of the Board Special Committee to investigate matters related to vendor procurement irregularities, reported that the committee met to review the audits that have been taking place. Mr. Armentrout reported that the firm "CanAudit" has concluded its audit of physical security. He also stated that ERCOT retained the firm Satori Web to consult on issues related to IT security based upon his recommendation. Satori Web issued a report with some recommendations, but with no major concerns. ERCOT has addressed the issues raised by this review.

Mr. Espinosa stated that the DPS and District Attorney's office continue their investigations. Additionally, the committee will post the dates for its future meetings. The committee has reviewed the ERCOT ethics policies and vendor retention policies and has provided input on those policies.

Other Business

No other business was raised. Chairman Hudson stated that he was adjourning the PUCT Open Meeting at 2:18 p.m.

Executive Session

The Board met in Executive Session to discuss litigation matters, a request for OOMC costs, contract issues and security.

Adjournment

Chairman Greene adjourned the open portion of the meeting at approximately 2:18 p.m. **The next Board meeting will take place on September 21, 2004 at the Reliability Council's Metro Center office in Austin, Texas. The following meeting will be held on October 19, 2004 at the Reliability Council's Met Center office in Austin, Texas.**

Board materials and presentations from the meeting are available on ERCOT's website at:

<http://www.ercot.com/calendar/2004calendar/2004boardmaterials.htm>

Margaret Uhlig Pemberton, Corporate Secretary