

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

ERCOT Met Center Offices

Austin, Texas

10:00 a.m.

July 19, 2005

Pursuant to notice duly given, the meeting of the Board of Directors of Electric Reliability Council of Texas, Inc. convened at approximately 10:15 a.m. on July 19, 2005.

Meeting Attendance:

Board Members:

Cox, Brad	Tenaska Power Services	Independent Power Marketer
Espinosa, Miguel		Unaffiliated, Proxy for Mark Armentrout
Greene, Mike	TXU Power	IOU; Board Chairman
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
McClellan, Suzi	Office of Public Utility Counsel	OPUC Residential & Small Commercial Consumers; Kenan Ogelman, as proxy, after 2:00 p.m.
Payton, Tom	Occidental Chemical Corp.	Consumer/Industrial
Schrader, Tom	ERCOT President and CEO	ERCOT
Striedel, James	Entergy Solutions	Independent REP – Segment Alternate

Staff and Guests:

Barbara Clemenhausen	Sempra
Barry Smitherman	PUCT Commissioner
Betty Day	ERCOT Staff
Bob Helton	ANP
Clayton Greer	Constellation
Eddie Kolodziej	Customized Energy Solutions
Evan Rowe	PUCT Staff
Garry Waters	Competitive Assets
Henry Durrwachter	TXU Energy
Jeyant Tamby	ERCOT Staff
Jim Galvin	ERCOT Staff
Joel Mickey	ERCOT Staff
John Houston	CenterPoint
John Moore	John Moore
Kevin Gresham	Reliant
Kristy Ashley	Exelon

Mark Bruce	FPL Energy
Mark Dreyfus	Austin Energy, ERCOT TAC Vice-Chair
Mark Walker	ERCOT Interim V.P. and General Counsel
Nancy McIntire	ERCOT H.R. V.P. of Human Resources and Organization Development
Nieves Lopez	ERCOT Staff
Randy Jones	Calpine
Ray Giuliani	ERCOT V.P. and CMO
Read Comstock	Strategic Energy; ERCOT TAC Chair
Richard Gruber	ERCOT Staff
Richard Verrett	AEP
Ron Hinsley	ERCOT V.P. and CIO
Roy Bowman	ERCOT Interim V.P. and CFO
Sam Jones	ERCOT Executive Vice-President and COO
Steve Byone	ERCOT Staff
Steve Myers	ERCOT Staff
Thane Thomas Twiggs	Green Mountain Energy
Valerie Marlett	GDS Associates
Walt Shumate	Shumate & Associates
Wendell Bell	TPPA
Wendell Drost	Areva

Announcements

Mike Greene, Chairman of the ERCOT Board of Directors, called the meeting to order and determined that a quorum was present. Chairman Hudson of the Public Utility Commission of Texas (PUCT) called to order an Open Meeting of the PUCT.

Approval of Minutes

Chairman Greene requested comments on and approval of the minutes of the June 2005 Board of Directors meeting as circulated. **Mr. Manning moved to approve the minutes as circulated. Mr. Kahn seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

CEO Report

Tom Schrader, ERCOT's President and CEO, reported on the following matters:

- A recent default by a QSE/REP
- ERCOT's recently-revised Mission Statement
- Management dashboard summary of corporate goal performance

Mr. Schrader also presented an analysis of ERCOT's costs versus the costs of other ISOs in the United States for 2004, based on a KEMA report. Excluding retail costs (because ERCOT is the only ISO that supports retail transactions), ERCOT's cost on a population basis (\$/person) within the ERCOT Region ranks third among the seven ISOs. Using Peak Load as the measurement, ERCOT ranks second. Analyzing by electric energy consumption in the Region (\$/GWh), ERCOT ranks first. Based on dollars per mile of transmission line, ERCOT ranks second. Focusing on daily schedules, ERCOT ranks first. Based on number of market participants, ERCOT ranks second. In general, ERCOT consistently ranks as one of the most cost-effective ISOs in the United States.

Operations Update

Sam Jones, ERCOT Executive Vice-President and COO, reported on the progress ERCOT has made in improving the transmission system in the DFW area to reduce congestion. Stakeholders in the North Regional Planning Group considered twenty-six projects, of which nine were selected based on reliability and economic criteria. One project was approved for both reliability and economic reasons. He also reported that ERCOT is performing a 2009 Congestion Relief and reliability Study for the area.

Mr. Jones then presented the results of the McCamey area study. In November 2004, ERCOT staff recommended reconsideration and acceleration of certain 345kV transmission projects in order for the full 755 MW capacity of McCamey to be exported. In 2005, ERCOT staff concluded that 755 MW could be exported with minor modifications to a proposal by AEP regarding line ratings and reactive power management and that the additional 345 kV lines were not needed until additional generation interconnection agreements were signed for the McCamey area. If Senate Bill 20 passes in the current Special Session of the Texas Legislature, new studies will be required to manage 5,880 MW of renewable energy required by the legislation.

Mr. Jones then reported on the Transient Voltage Stability Analysis in the Corpus Christi shows that parts of the Corpus Christi area remain a concern. ERCOT has, therefore, elected to keep the Barney Davis generation units as RMR units and is discussing possible Must Run Alternative agreements.

He then made a presentation regarding Balancing Energy Service (BES) prices. He presented a graph of energy prices since January 2002, showing a correlation of increased natural gas prices and BES prices. Theoretical Heat rate comparisons remain between 6 and 8 MMBTU/MWh with some spikes above 8 MMBTU/MWh in July/August 2002, February 2003, August 2003, September/October/November 2004 and June/July 2005. Mr. Jones reported that ERCOT has depleted the "Balancing Energy Up" bid stack in approximately twenty-seven market intervals (15 minute periods) in June and July, which is fewer in number than in recent low load months. He also noted that ERCOT is experiencing peak Load earlier in the day than historically (1600 - 1700 instead of 1700 - 1800). Additionally, ERCOT has seen lower peaks than it would expect given the unusually high temperatures. Despite this fact, total energy use was 5% above ERCOT's estimates.

Mr. Striedel asked if ERCOT had analyzed BES volatility on an hourly basis. Joel Mickey, ERCOT's Manager of Market Support, replied that his group had not looked at volatility, only averages, but they could perform additional analyses if needed.

Commissioner Smitherman stated that the PUCT uses the Henry Hub price for gas when setting the Price To Beat. He wondered why ERCOT looked at the HSC price. Mr. Payton stated that, for physical transactions in the ERCOT Region, most companies use prices based on the HSC price. For broader financial transactions, they typically use the Henry Hub price because it is published in the national newspapers.

Market Operations Update

Ray Giuliani, ERCOT's Chief of Market Operations, reported some clarifications and updates from matters that arose at last month's Board meeting. He reported on volume and price data for Regulation Up, Regulation Down and Responsive Reserve Services. He reported that the required volume of each service has not changed much since last year, but that the self-arranged volumes have decreased significantly and more Market Participants procure the Ancillary Services through ERCOT which has generally increased the price because ERCOT must go deeper in the bid stack to fulfill the requirements.

Mr. Giuliani stated that this phenomenon may be a result of the fact that most new QSEs entering the ERCOT Region do not have their own Generation Resources and, therefore, may be more likely to rely on ERCOT to procure Ancillary Services on their behalf.

Mr. Giuliani then stated that Azor Energy, LP, had defaulted on its ERCOT agreements and Protocol requirements and, as a result, the process of dropping their ESI IDs to the Providers of Last Resort (POLRs) began on Wednesday, July 13, 2005. He also reported that Market Participants have established two task forces, one through WMS and one through RMS, to look at the rules and Protocols applying to Market Participant defaults to develop enhancements to mass drop processes.

Ms. McClellan stated that, in her opinion, dropping customers to POLR should be a last resort. Mr. Giuliani stated that this issue is addressed by PUCT rules.

Mr. Payton stated his concern regarding the financial risk to Market Participants if a large QSE or REP defaulted. He believes that ten to fifteen days of UFE or short-pay uplift could adversely impact the remaining Market Participants.

Commissioner Smitherman asked about Reliability Must Run (RMR) Service for May, 2005. He asked why the total congestion charges for May 2005 were approximately one-half of the charges for May 2004. Mr. Giuliani replied that he believes the reduction resulted from operational improvements implemented since last year and pointed to Special Protection Schemes and dynamic line ratings as examples.

Mr. Giuliani also made a brief report on ERCOT Region hub pricing data for May 2005.

Texas Nodal Team (TNT) Update

Mr. Giuliani made a brief statement regarding the announced resignation of Jim Galvin, ERCOT's Director of Market Operations and Co-Facilitator of the TNT. He commended Mr. Galvin for his hard work and diligence during his years of service with ERCOT.

Mr. Galvin then made a brief presentation regarding the status of the Texas Nodal Team's work. He stated that the group continues working on the settlement formulae and the credit sub-committee continues to work on open items in Section 16. He anticipates completion of this work by August 1, 2005. He stated further that real-time co-optimization remains an unresolved issue and the Protocols synchronization effort continues. He also reported that they are following the rulemaking at the PUCT regarding the role of the Independent Market Monitor.

He also reported that there has been a great deal of focus regarding transition planning for the new market structure. Initial discussions took place on July 6, 2005, and the TNT hopes to develop a transition whitepaper.

At that time, Chairman Hudson stated that the last PUCT open meeting in July and first open meeting in August the Commission will finalize its direction to ERCOT and stakeholders regarding wholesale market redesign. He also commended Mr. Galvin for his extraordinary efforts of the last several years. Commissioner Smitherman also commended Mr. Galvin for his work and then asked for elaboration on what the stakeholders would like out of an independent market monitor (IMM). Mr. Galvin replied that the TNT has looked at the role of the IMM in other ISOs and considered input from stakeholders.

Mr. Striedel thanked Mr. Galvin for his contributions through the years and then stated that the TNT must take into account the effect of the new market structure on long-term contracts which may already be in place.

In conclusion, Mr. Galvin thanked Mr. Giuliani for his kind words and support. He also thanked the stakeholders and the PUCT for their support during his time at ERCOT.

Financial Update

Mr. Roy Bowman, ERCOT's Interim Chief Financial Officer, provided an update of the Reliability Council's finances as previously circulated to the Board members. Mr. Bowman highlighted several matters, including the fact that year-to-date capital expenditures are behind schedule as a result of a few capital projects running behind schedule. Management is addressing those projects. He also reported that ERCOT currently has 511 employees and thirty contractors.

Mr. Bowman reported that ERCOT realized \$250,000 in cost savings during June 2005 and anticipates another \$385,000 in cost savings through year-end. For the year, ERCOT has cut almost \$1.5 million from its expenses.

Additionally, Mr. Bowman reported that ERCOT has made significant progress in its response to the various audits that have been conducted.

Finance & Audit Committee Report

Mr. Karnei reported that the Committee met yesterday, July 18, and earlier this morning, July 19, with a focus on the 2006 budget. Although ERCOT can keep the Administration Fee at \$0.42/MW for 2006 (supporting base operations but not including increased resources needed for market monitoring or wholesale market redesign), doing so will mean ERCOT can accomplish only \$25 million of capital projects out of a total of \$69 million currently identified projects. This fact will result in the need to re-evaluate the projects ranked at priority 1.1 (which cannot all be completed). Mark Dreyfus of Austin Energy stated that the TAC has developed a list of questions to consider when prioritizing the projects. Mr. Karnei stated that ERCOT could increase spending on projects by \$15 million, but to do so would raise the fee by two cents and would increase debt by \$9 million.

Mr. Schrader stated that ERCOT management continues to focus on possibilities to drive more costs out of the budget. Mr. Karnei then stated that there would be a public meeting regarding the budget on August 3, 2005.

Mr. Karnei reported that the Board would consider debt issues in executive session to evaluate a proposal to lock in a portion of existing debt into fixed rates.

Mr. Payton asked about how ERCOT tries to recover for short pays or UFE when a Market Participant defaults on its obligations to ERCOT. Cheryl Yager, ERCOT's Treasurer, stated that if the party is a QSE, ERCOT holds collateral. For an REP who exits the market place, ERCOT does not hold collateral, but intends to attempt to collect unpaid amounts from that entity.

Mr. Karnei stated that the SAS 70 audit should begin this Fall. Additionally, he reported that one new project that has been identified is anticipated to cost more than \$1 million (automation of the DC Tie with Mexico) and the matter will come before the Board for approval within the next few months.

TAC Report

Chairman Greene invited Mr. Read Comstock, TAC Chairman, to report on recent TAC activities.

(1) **Protocol Revision Requests**

Mr. Comstock reported that the PRS met, discussed the issues and submitted Recommendation Reports to TAC regarding the PRRs described below. TAC considered the issues and voted to take action on the PRRs as described below:

- (1) **PRR564 –OOME Definition.** Proposed effective date: August 1, 2005. No budgetary impact; minor impact to ERCOT staffing; no impacts to ERCOT computer systems; an additional business function will be incorporated into Control Operations procedures documentation; activation of a special protection scheme (SPS) will require ERCOT's control room operators to issue verbal confirmation with a TSP and a verbal Dispatch Instruction (VDI) to the affected QSE. This PRR provides ERCOT guidance when an SPS actuation occurs. ERCOT posted this PRR on 12/17/04. PRS discussed the PRR during its February meeting; the sponsor agreed to redraft the PRR for PRS reconsideration in March. PRS considered PRR564 on 3/17/05 and voted to recommend approval as amended by ANP, Calpine and ERCOT. There were three abstentions from the MOU IOU and Consumer segments and three opposing votes from the MOU, Consumer and Independent Power Marketer segments. All segments were present for the vote. On 4/21/05, PRS affirmed ERCOT's impact analysis. On 5/5/05, TAC voted to recommend approval of this PRR as submitted by PRS. There were five abstentions from the consumer segment; all segments were present for the vote. On 6/21/05, the Board discussed PRR564 and voted to remand it to TAC for further clarification regarding the potential impacts of this PRR on OOM payments. On 7/7/05 TAC discussed the PRR and the comments submitted by ERCOT staff on 6/30/05. ERCOT's comments, included with Board meeting materials, provided quantification of SPS actuations and an explanation of how OOME Down payments typically offset Resource Imbalance charges. TAC voted to recommend approval of this PRR again as recommended by PRS; there was one opposing vote from the Consumer segment and a total of nine abstentions, five from the Consumer segment and four from the Coop segment. ERCOT credit staff and the CWG have reviewed PRR564 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.
- (2) **PRR577 – Availability of Aggregated Load Data by TDSP.** Proposed effective date: upon system implementation. Budgetary impact less than \$100,000; no impact to ERCOT staffing; some impact to Lodestar to generate the extract; no impact to ERCOT business functions; no impact to grid operations. PRR577 requires ERCOT to make available to each TDSP, on a daily basis, its base Load plus allocation of Distribution Losses, Transmission Losses and UFE so that the TDSP can accurately identify its system peaks required for FERC filings. ERCOT posted this PRR on 2/28/05. On 4/21/05, PRS voted to recommend approval of the PRR as submitted, with one abstention from the Independent Generator segment. All segments attended the vote. On 5/19/05, PRS voted to assign a priority of 1.3 and a rank of 57.5 to PRR577, with one abstention from the IOU segment. This rank and priority place PRR577 below the cut line for 2005. All segments participated in the vote. On 6/02/05, TAC voted unanimously, with all market segments present, to recommend approval of PRR577 as recommended by PRS. On 6/27/05, PRS voted to assign a priority of 1.2 and a rank of 82 for 2006. ERCOT credit staff and the CWG have reviewed PRR577 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.
- (3) **PRR581 – Update RMR Language due to PUC Rule 25.502.** Proposed effective date: August 1, 2005. No budgetary impact; no impact to ERCOT staffing; no impacts to

ERCOT computer systems; no impact to ERCOT business functions; no impact to grid operations. PRR581 changes the RMR language to conform with P.U.C. SUBST. R. 25.502, Pricing Safeguards in Markets Operated by the Electric Reliability Council of Texas. This Rule requires a Generation Resource that has not finalized an RMR Agreement with ERCOT to maintain the Resource available for OOM Dispatch Instructions until certain provisions have been met. ERCOT posted this PRR on 3/8/05. The PRR did not receive enough votes for processing under the urgent timeline. On 4/21/05, PRS voted to recommend approval of the PRR as revised by ERCOT and TXU comments. There was one abstention from the Independent Power Marketer segment. All segments attended the vote. On 5/19/05, PRS noted that there was no change to the ERCOT impact analysis for PRR581 and that no project prioritization was required. On 6/02/05, TAC voted unanimously, with all market segments present, to recommend approval of PRR581 as recommended by PRS. ERCOT credit staff and the CWG have reviewed PRR581 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

- (4) **PRR583 – Responsive Reserve Deployment.** Proposed effective date: August 1, 2005. No budgetary impact; no impact to ERCOT staffing; no impacts to ERCOT computer systems; no impact to ERCOT business functions; slight impact to ERCOT grid operations for revision of Control Room procedures and staff training. PRR583 allows ERCOT to distinguish Responsive Reserve deployments for frequency restoration from deployments during conditions that require ERCOT to declare an Emergency Electric Curtailment Plan (EECP). ERCOT posted this PRR on 3/11/05. On 4/21/05, PRS voted to recommend approval of the PRR as revised by PRS with two abstentions from the IOU and Independent REP segments. All segments were present for the vote. On 5/19/05, PRS noted that there was no change to the ERCOT impact analysis for PRR583 and that no project prioritization was required. On 6/02/05, TAC voted unanimously to recommend approval of PRR583 as recommended by PRS with all market segments present. ERCOT credit staff and the CWG have reviewed PRR583 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.
- (5) **PRR585 – Settlement Obligation Formula for Balancing Energy Service.** Proposed effective date: August 1, 2005. No budgetary impact; no impact to ERCOT staffing; no impacts to ERCOT computer systems; no impact to ERCOT business functions; no impact to grid operations. PRR585 modifies the sum function in the Imbalance Ratio Share settlement equation to reflect how ERCOT determines the Imbalance Ratio Share. ERCOT posted this PRR on 3/25/05. On 4/21/05 PRS voted to approve the PRR as submitted with three abstentions (Municipal, Independent Generator, and Cooperative segments). All segments were present for the vote. On 5/19/05, PRS noted that there was no change to the ERCOT impact analysis for PRR585 and that no project prioritization was required. On 6/02/05, TAC voted unanimously to recommend approval of PRR585 as recommended by PRS with all market segments present. ERCOT credit staff and the CWG have reviewed PRR585 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

Mr. Comstock then invited Sam Jones to make some comments regarding the use of Special Protection Schemes (related to PRR 564). Mr. Jones stated that Special Protection Schemes detect system conditions outside of established operating limits which need mitigation faster than possible by having an Operator intervene. An SPS automatically takes pre-planned corrective actions. Putting an SPS in place reduces the need to limit resources under normal conditions and increases transfer capacity and reduction in capacity constraints. ERCOT has seventeen currently active Special Protection Schemes and seven SPS actuation

events have occurred since January 1, 2004. Mr. Jones briefly reviewed each of those incidents and responded to several questions raised by Board members. He stated that, to date, SPSs have not presented an operational problem, but if any SPS is activated excessively it would be reviewed closely to determine the causes.

Mr. Kahn moved to approve PRR564. Mr. Espinosa seconded the motion. The motion passed by a unanimous voice vote with no abstentions.

Mr. Manning moved to approve the remaining PRRs. Mr. Hayslip seconded the motion. The motion passed by a unanimous voice vote with no abstentions.

(2) Annual Project Prioritization Process

Mr. Comstock reported on the process used in prioritizing the various capital projects developed during the year.

(3) Market Participant Default Task Force

Mr. Comstock reported that TAC created an RMS/WMS joint task force to look at issues surrounding Market Participant defaults to better understand the underlying issues and to develop process enhancements to limit the financial exposure of other Market Participants. The task force has separated into two groups – one will deal with pre-triggering events and the other will focus on post-triggering events. They will focus on short-term and long-term revisions to the Protocols and market guides. TAC will provide monthly status reports to the Board of Directors.

(4) Notice of TAC Actions

Mr. Comstock reported on the following TAC actions that require no Board action:

- TAC voted to revise its procedures as documented in the information sent in the Board packet
- TAC approved the Generation Adequacy Task Force report
- TC approved the Alternative Fuel Resolution (which will be included in next month's Board packet, along with a resolution for the Board).

Human Resources & Governance Committee Report

Mr. Kahn reported that the Committee has been working on revising the Bylaws, which the Board must reauthorize by year-end. Mr. Kahn reviewed the proposed schedule for the revision process and referred the Board members to information sent in their Board packets.

Mr. Espinosa moved to release the proposed Bylaw revisions for public comment. Mr. Cox seconded the motion. The motion passed by a unanimous voice vote with no abstentions.

Mr. Kahn then pointed out some questions/issues regarding the newly proposed Ethics Agreement for Board members. The Committee intends to continue addressing those questions/issues.

Nominating Committee Report

Chairman Greene stated that the process of identifying two additional unaffiliated Board members has begun. Since the last Board meeting, Board members have developed preferred competencies for the new

Unaffiliated Board Directors to guide the search process, including experience in internal controls, deregulated industries, and high transaction retail markets. Ms. McIntire stated that an RFP has been issued to select a professional search firm to assist in identifying and selecting Director candidates. The RFP will request proposals for longer term favorable pricing for Board director searches over the next several years.

Special Committee Report

Mr. Espinosa stated that this committee had no report at this time. Chairman Hudson asked about the end date for the committee and whether the committee would review ERCOT's implementation of the audit recommendations. Mr. Espinosa stated that the Finance & Audit Committee would oversee the monitoring of those efforts when the Special Committee disbands. Mr. Schrader then stated that the F&A Committee is already monitoring ERCOT's new Internal Control Management Plan.

Other Business

Mr. Schrader stated that there would be a brief reception on July 24th at ERCOT as part of the NARUC conference. He invited any interested parties to attend.

At this time, Chairman Hudson and Commissioner Smitherman delivered a cake to Mr. Schrader to commemorate his first anniversary as ERCOT CEO. Chairman Greene thanked Mr. Schrader for his hard work over this last year. Mr. Schrader commended ERCOT Staff for their hard work and professionalism over the last year.

Adjournment

Chairman Greene adjourned the open portion of the meeting at approximately 2:00 p.m. and Chairman Hudson adjourned the PUCT Open Meeting.

Executive Session

The Board met in Executive Session to discuss litigation, personnel issues and contract matters.

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

Mark A. Walker, Corporate Secretary