

**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.

August 16, 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 August 16, 2005.

Meeting Attendance:

Board Members:

Armentrout, Mark		Unaffiliated
Cox, Brad	Tenaska Power Services	Independent Power Marketer
Espinosa, Miguel		Unaffiliated
Gallagher, Carolyn Lewis		Unaffiliated
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
Ogelman, Kenan	Office of Public Utility Counsel	OPUC Residential & Small Commercial Consumers; Proxy for S. McClellan
Payton, Tom	Occidental Chemical Corp.	Consumer/Industrial
Schrader, Tom	ERCOT President and CEO	ERCOT
Veiseh, David	Utility Choice Electric	Independent REP

Staff and Guests:

Adams, Lynn	ERCOT Staff
Adib, Parviz	PUCT Staff
Belk, Brad	LCRA
Bell, Wendell	TPPA
Bojorquez, Bill	ERCOT Staff
Bowman, Roy	ERCOT Acting Chief Financial Officer
Brown, Jeff	Coral Power
Byone, Steve	ERCOT Acting V.P. of Finance
Connell, Rob	ERCOT Staff
Day, Betty	ERCOT Staff
Day, Smith	Direct Energy
Doolin, Estrellita	ERCOT Staff
Dreyfus, Mark	Austin Energy
Drost, Wendell	Areva
Durrwachter, Henry	TXU Energy

Eddleman, Neil	Texas Energy Association for the Marketers (TEAM)
Flores, Isabelle	ERCOT Staff
Galiunas, Al	KEMA Inc.
Giuliani, Ray	ERCOT V.P. and Chief of Market Operations
Greer, Clayton	Constellation
Gresham, Kevin	Reliant
Gruber, Richard	ERCOT Staff
Helton, Bob	ANP
Heyeck, Mike	AEP
Hinsley, Ron	ERCOT V.P. and Chief Information Officer
Houston, John	CenterPoint Energy
Jones, Randy	Calpine
Jones, Sam	ERCOT Executive V.P. and Chief Operating Officer
Kasper, David	ERCOT Staff
Kolodziej, Eddie	Customized Energy Solutions
Lopez, Nieves	ERCOT Staff
Lozano, Rafael	PSEG Texgen I
McIntire, Nancy	ERCOT V.P. of Human Resources
Meyer, John	Reliant
Moore, John	Consultant
Moseley, Cheryl	ERCOT Staff
Oldham, Phillip	TIEC
Parsley, Julie	Commissioner, Public Utility Commission of Texas
Petterson, Mike	ERCOT Staff
Pieniazek, Adrian	Texas Genco
Roark, Dottie	ERCOT Staff
Seely, Chad	ERCOT Staff
Shellman, Carolyn	ERCOT V.P., General Counsel and Corporate Secretary
Smitherman, Barry	Commissioner, Public Utility Commission of Texas
Striedel, James	Entergy
Tamby, Jeyant	ERCOT Staff
Verret, Richard	AEP
Vincent, Susan	ERCOT Staff
Walker, Mark	ERCOT Staff
Waters, Garry	Competitive Assets
Windler, Jennifer	LCRA
Wood, Farrell	Whitlock Group
Yager, Cheryl	ERCOT Staff

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 July 2005 Board of Directors meeting as circulated. **Bob Kahn moved to approve the minutes as circulated. David Veiseh seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Ratification of Carolyn Shellman as Vice President, General Counsel and Corporate Secretary

Chairman Greene requested a motion to ratify Ms. Carolyn Shellman as Vice President, General Counsel and Corporate Secretary of Electric Reliability Council of Texas, Inc. **Bob Kahn moved to pass the Resolution attached to these minutes as Exhibit A. David Veiseh seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Mr. Schrader then thanked Mark Walker for serving as Interim General Counsel after the former General Counsel, Margaret Pemberton, resigned.

CEO Report

Tom Schrader, ERCOT President and Chief Executive Officer, reported on the status of the budget preparation and capital project processes. He stated that the budget will be tight, but achievable. He also reported on the status of the Texas Nodal effort and mentioned that PricewaterhouseCoopers (PwC) had completed their reports on the financial statements for 2003 and 2004, which will be discussed later in the meeting. He also reported that the internal control management program continues moving forward.

With respect to legislative issues, he stated that the Governor has signed legislation increasing the requirement for renewable energy in the state (requiring 5,880 MWs by 2015) which will impact ERCOT's transmission planning group. Additionally, the U.S. Congress has passed and the President has signed a national energy bill. As a result, it is expected that NERC will be the Electric Reliability Organization (ERO) required by the statute. FERC must adopt rules implementing a new reliability standard administrative process. ERCOT is assessing the implications of this federal legislation, which largely hinges on the outcome of the FERC rulemaking.

Mr. Schrader also reported on ERCOT's work on winter preparedness. ERCOT intends to approach the Texas Railroad Commission to consider changes to their curtailment rules to raise the priority of electric generation as a critical human need in severe weather events.

In conclusion, Mr. Schrader presented his monthly report of the executive dashboard. He stated that most goals meet or exceed their target levels. He noted that progress on capital projects was less than target and corrective steps were being evaluated.

Operations Update

Sam Jones, ERCOT Executive Vice President and Chief Operating Officer, reported that ERCOT sent a letter canceling the Robinson #2 unit from RMR status. The termination will take effect in approximately ninety days.

Mr. Jones then expounded on the issues Mr. Schrader mentioned in connection with the new federal energy legislation. As part of the bill, electric system reliability standards will become FERC jurisdictional with delegation of authority to the ERO and Regional Reliability Organizations (RROs). All users of bulk transmission systems will have to comply with the standards. The bill provides for penalties for non-compliance. Mr. Jones stated that ERCOT has voluntarily complied with the standards for several years. ERCOT will become subject to FERC jurisdiction for reliability matters for the first time, although exclusions from other FERC regulation in the ERCOT Region remains intact (utility and wholesale transaction regulation). As part of the implementation of the bill, NERC has worked with a stakeholder group to provide FERC suggested rule language for certification of an ERO. FERC must have the final ERO rule in place within 180 days. Mr. Jones recommends that the ERCOT Region establish an RRO.

Chairman Greene invited John Meyer to provide his thoughts on the new requirements. Mr. Meyer recommended that there should be an RRO established for the ERCOT Region. John Houston of CenterPoint asked if stakeholders can participate in the FERC rulemaking processes. Mr. Jones stated that anyone can participate in the FERC rule making process. He also stated that, after ERCOT staff sees the proposed rule, we will begin making recommendations regarding courses of action.

Mr. Jones then invited Bill Bojorquez, ERCOT Director of Transmission Services, to present a report on transmission expansion. Mr. Bojorquez reported that more than \$2 billion has been spent on transmission projects since 1999. For 2005, ERCOT has recommended the construction of two major transmission projects and several smaller projects. He then presented a brief explanation of how ERCOT analyzes the economics of proposed projects. ERCOT has several studies underway to focus on relieving likely causes of market price differentials between areas of the state. In conclusion, he stated that ERCOT conducts its studies with the best information it has available at the time and, therefore, actual results may differ from the study results. Mr. Bojorquez then answered several questions from Board members and the audience.

Mr. Jones then acknowledged the presence of Mr. Richard Verret, AEP's V.P. of Transmission, who has been very involved in the ERCOT Region for many years. Mr. Verret is retiring from AEP and Mr. Jones commended him for his contributions through the years. Mr. Verret then made a brief statement.

Market Operations Update

Ray Giuliani, ERCOT Vice President and Chief of Market Operations, reported on market metrics in the ERCOT Region for the last month, including end-user migration from AREPs to new REPs, which has reached much higher levels in recent months. He also reported that ERCOT is well within Protocols limits on transactions and that I.T. system availability has been running consistently at almost 100%.

Texas Nodal Team (TNT) Update

Mr. Bojorquez reported on the recent activity of the TNT. The team has completed the second round of Protocols review of Protocols Sections 3, 4, 5 and 7. The credit sub-committee has finished its review of Section 16. The TNT believes the review of all sections will be completed by the end of August and presented to the Board in September.

Additionally, the TNT voted to approve the concept of having all energy scheduling activity in the ERCOT Region covered by one Market Participant contract. In response to a question, Cheryl Yager, ERCOT Treasurer, explained the exemption from the netting provision which applies to Co-ops and River Authorities.

Mr. Bojorquez then reported that the TNT has completed several reviews of a transition plan outline for implementing a wholesale market redesign expected to be ordered by the PUCT. A vote will take place on the transition plan on August 22, 2005. Additionally, the TNT proposed tabling the real-time co-optimization issue. After all the settlement equations are completed, an effort will be undertaken to synchronize the TNT protocols with the then-current version of the Protocols. Finally, he reported that the TNT will not address the issue of the independent market monitor because the PUCT is handling that issue through a rule making. Chairman Hudson stated that the PUCT anticipates having a contested case docket regarding the TNT Protocols.

Commissioner Smitherman stated his concern regarding the differing opinions on the length of time for the transition from the current market design to the Texas Nodal design. He stated his desire that Market Participants try to reach some consensus on this issue. A discussion ensued regarding the timing for the transition.

Texas Nodal – Wholesale Market Design Change

Mr. Giuliani stated that ERCOT staff wants to ensure appropriate Market Participant reviews and feedback opportunities on various issues related to implementing the market design changes even though ERCOT management will have to directly manage the implementation timeline and budget. ERCOT staff also wants to make sure that adequate time is allowed to finalize requirements before detailed development efforts begin. Finally, ERCOT staff wants to ensure efficient staging of testing, market trials and transitions.

Ron Hinsley, ERCOT Vice President and Chief Information Officer, then explained the systems impacts he anticipates for a transition to a nodal market design. He informed the Board that the transition will have significant impacts on ERCOT staff, hardware and software. There will also be facilities implications.

Mr. Giuliani then presented ERCOT staff's estimate of a timeline for a transition. He stated that ERCOT has examined the timelines for the transition to a new market design experienced by NEISO and NYISO. Those two transitions took twenty-five and thirty-five months, respectively, however these timelines may not reflect all the elements of development. Mr. Giuliani also presented an updated cost estimate for Nodal implementation. The low estimate is now \$71.1 million and the high estimate is \$88.5 million (not adjusted to present value). Mr. Giuliani stated that the NYISO and NEISO costs were in the \$90 to \$100 million range. Mr. Veisoh asked if any study has taken place regarding the cost impact on Market Participants. Mr. Giuliani stated that no such study has occurred since the previous impact analysis performed by KEMA. Commissioner Parsley stated that she believes training should be included in the timeline. Mr. Neil Edelman stated that Market Participants will encounter some of the same costs and impacts as ERCOT and, therefore, those costs should be considered.

Mr. Giuliani also presented a slide demonstrating the management challenges associated with the inter-relationship of the systems, staffing and other impacts of the transition to the nodal market design. In conclusion, Mr. Giuliani stated that ERCOT staff can begin to develop a readiness plan.

Financial Update

Steve Byone, ERCOT Acting Vice President of Finance, provided an update of the Reliability Council's finances as previously circulated to the Board members. He explained the variances between budgeted and actual amounts. Mr. Byone provided some information regarding the status of capital projects and how those projects affect ERCOT's budget. He reported that ERCOT currently has \$173 million in debt and has completed converting a portion of the floating debt to fixed rate debt. He noted that the interest rate on ERCOT's floating rate debt has increased from 1.65% in May 2004 to 3.9% currently.

From a staffing perspective, the ERCOT budget includes 561 positions for 2005 (with an assumed 6% vacancy rate). Currently, ERCOT has 505 employees and there are thirteen contractors filling the roles of FTEs. ERCOT has decreased its reliance on staff augmentation contractors from sixty in January 2004 to thirteen currently.

Mr. Byone reported that ERCOT staff identified \$115,000 (annualized) cost savings in July, bringing the annual cost savings total to \$1.5 million for 2005.

Mr. Byone stated that, with respect to the recent audits, out of 288 audit items originally identified, ERCOT has only 86 remaining to complete.

Commissioner Smitherman commended ERCOT staff on the conversion of floating rate debt to fixed-rate debt. He asked Mr. Byone to elaborate on ERCOT's activity in this area. Mr. Byone stated that ERCOT has entered into an arrangement which allows ERCOT to continue to benefit from the current low rates for floating debt while hedging the exposure to potential interest rate increases beginning in November 2006. Mr. Byone noted that ERCOT used a competitive bid process to obtain the best rates available before entering into this swap transaction.

TAC Report

Chairman Greene invited Mr. Mark Dreyfus, TAC Vice-Chairman, to report on recent TAC activities.

(1) Protocol Revision Requests

Mr. Dreyfus 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:

- **PRR568 – Change Initial Settlement from 17 days to 10 days.** *Proposed effective date: upon TAC approval of transition plan. No budgetary impact; additional workload will be absorbed by current staff; minor coding changes to Lodestar; change to settlement process from 17 to 10 day Initial Settlement; no impact to grid operations.* This PRR changes the day ERCOT issues Initial Settlement Statements from seventeen days to ten days following the Operating Day. ERCOT posted this PRR on 1/19/05. PRS referred PRR568 to COPS on 2/17/05. PRS reviewed COPS comments in March and voted to remand the PRR back to COPS for further development. On 5/19/05, PRS voted unanimously to recommend approval of PRR568 as amended by comments from ERCOT and COPS. On 6/23/05, PRS reviewed the Impact Analysis for PRR568 and discussed the transition timeline. On 7/7/05, TAC voted unanimously to approve PRR568 as recommended by PRS and the transition plan as amended by TAC (included in the Board materials for informational purposes). All segments attended the vote. The Credit Working Group (CWG) agrees that PRR 568 has credit implications. As long as the quality of the data for billing is approximately the same for settlements at ten days versus seventeen days (that is, the estimations by QSE are reasonably accurate, resulting in approximately the same adjustments for Final Statements and True-up Statements), the CWG believes this PRR will reduce credit exposure and, therefore, collateral requirements for QSEs. Also, reducing the payment cycle by one week, as well as reducing the settlement timeline, will have a greater impact on reducing credit exposure.
- **PRR588 – Testing of Quick Start Units in the Balancing Energy Market.** *Proposed effective date: upon implementation of OGRR171 (Testing of Quick Start Units in the Balancing Energy Market). No budgetary impact; no impact to ERCOT staffing; no impact to ERCOT computer systems; no impact to ERCOT business functions; no impact to grid operations.* This PRR establishes a test for a Quick Start Unit, as defined in the PRR, to demonstrate its ability to perform in the Balancing Energy Services (BES) market. OGRR171 will update the Operating Guides with the Quick Start qualifications testing process. ERCOT posted this PRR on 4/1/05. On 5/19/05, PRS voted unanimously to recommend approval, as amended by ERCOT. On 6/23/05, PRS noted that PRR588 has no system impacts and does not require a project. On 7/7/05, TAC voted to recommend approval of this PRR as submitted by PRS. The motion passed with five abstentions (Consumers) and one vote opposed (IOU). All market segments attended the vote. ERCOT credit staff and the CWG have reviewed PRR588 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

- PRR590 – Update Unit Telemetry Requirement.** *Proposed effective date: upon system implementation. Budget impact less than \$100,000; short-term impact to ERCOT Network Modeling team and minor long-term impact due to new business function; impact to Energy and Market Management System (EMMS), Inter-Control Center Protocol (ICCP), Remote Terminal Unit (RTU), and Plant Interface (PI) systems; new business function to analyze the collected real-time Automatic Generation Control (AGC) status and ramp rates for each generating unit and aggregate of combined cycle units; no impact to grid operations.* This PRR adds a requirement for QSEs to submit Real Time Automate Generation Control (AGC) status and Ramp Rates for all on-line Resources in their portfolio. ERCOT posted this PRR on 4/1/05. On 5/19/05 PRS voted unanimously to recommend approval of PRR590 as amended by comments submitted by ERCOT staff, FPL, Exelon and PRS. On 6/23/05, PRS reviewed the impact analysis and determined that the project to implement PRR590 should be prioritized for 2006. On 6/27/05, PRS recommended a priority of 1.2 and a rank of 83 for PRR590. On 7/7/05, TAC voted unanimously to approve PRR590 as recommended by PRS. All segments attended the vote. ERCOT credit staff and the CWG have reviewed PRR590 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- PRR595 - ERCOT Protocol Section 10.** *Proposed effective date: September 1, 2005. No budgetary impact; no impact to ERCOT staffing; no impact to ERCOT computer systems; no impact to ERCOT business functions; no impact to grid operations.* This PRR clarifies and makes Section 10, Metering, consistent with current Market Participant and ERCOT processes. ERCOT posted this PRR on 4/19/05. On 5/19/05, PRS voted unanimously to recommend approval of PRR595 as submitted. On 6/23/05, PRS noted that PRR595 has no system impacts and does not require a project. On 7/7/05, TAC voted unanimously to approve PRR595 as recommended by PRS. All segments attended the vote. ERCOT credit staff and the CWG have reviewed PRR595 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- PRR597 - Texas Test Plan Team.** *Proposed effective date: September 1, 2005. No budgetary impact; no impact to ERCOT staffing; no impact to ERCOT computer systems; no impact to ERCOT business functions; no impact to grid operations.* This PRR updates Section 23, Texas Test Plan Team – Market Testing. ERCOT posted this PRR on 4/20/05. On 5/19/05, PRS voted unanimously to recommend approval of PRR597 as amended by comments submitted by ERCOT staff. On 6/23/05, PRS noted that PRR597 has no system impacts and does not require a project. On 7/7/05, TAC voted unanimously to approve PRR597 as recommended by PRS. All segments attended the vote. ERCOT credit staff and the CWG have reviewed PRR597 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- PRR614 - Balancing Bids for Replacement Capacity – URGENT.** *Proposed effective date: upon system implementation. Budgetary impact less than \$100,000; no impact to ERCOT Staffing; minor change to the bid point verification procedure in the market database to confirm that awarded Replacement Reserve Service (RPRS) megawatts bid for Balancing Energy Service are within the Resource's sustainable limits; no impact to ERCOT business functions; no impact to grid operations.* This PRR requires a QSE for a Resource awarded RPRS to bid an amount of MW into Balancing Energy Service that conforms to the difference between the high and low limits of the unit. ERCOT posted this PRR on 6/30/05. PRS granted urgent status to PRR614 through an email vote on 7/5/05. On 7/21/05, PRS voted to recommend approval of the PRR as amended by PRS and comments submitted by Tenaska and ERCOT Staff. One segment abstained (Consumer); no REPs were present for the vote. On 6/27/05, PRS voted to recommend a priority of 1.1 and a rank of 32.6. On 8/4/05, TAC voted unanimously to recommend approval of PRR614 as amended by ERCOT, Tenaska and TAC. ERCOT credit staff and the CWG have reviewed

PRR614 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

- **SCR742 - Automated Retail Transaction Verification.** *Proposed effective date: Upon system implementation. Budgetary impact to build interface to Market Certification environment – estimated cost \$500,000 to \$1,000,000; an additional 1-2 FTEs will support the requested business functionality; interface components to Market Certification environment would have to be built; additional ERCOT business support required for Market Participants and application maintenance; no impact to grid operations.* This SCR will implement three functional requirements (transaction validation, file transfer protocol requirements and transaction samples) for tools to allow Market Participants to conduct automated pre-testing of retail transactions and reduce the test flight error rate. ERCOT posted this SCR on 03/01/05. RMS considered SCR 742 on 04/12/05. On 05/19/05, PRS voted to recommend assignment of a priority 1.3 and a rank of 57.7. On 06/02/05, TAC requested additional market benefit information from RMS. Prior to the RMS meeting on 06/15/05, revisions were made to the Overall Market Benefit, Overall Market Impact and Customer Impact sections of the RMS Recommendation Report. After review and discussion, RMS voted to approve a revised RMS Recommendation Report and send the revised report to TAC. Two segments abstained (Consumer and Independent Generator). All Market segments attended the vote. During the 2006 prioritization process at RMS, the group recommended that SCR742 be prioritized as a 2.3. On 6/27/05, PRS concurred with RMS's recommendation of a priority of 2.3 for 2006. On 7/7/05 TAC unanimously voted to recommend approval of SCR742 as recommended by RMS. All segments attended the vote.

Mr. Payton asked about the current “cut line” for projects in the capital budget. Mr. Dreyfus replied that he believes the cut line is in the vicinity of projects ranked at a priority of 1.1. Mr. Karnei stated that the Finance & Audit Committee discussed this issue at length at its meeting yesterday. Mr. Espinosa asked whether the Board should consider a moratorium on PRRs in light of the development of a new market design. Mr. Hayslip raised a concern regarding previous PRRs that have been passed but never implemented due to budget constraints. Mr. Manning stated that it may be time to re-think how ERCOT approaches projects and their prioritization. He recommends breaking down PRRs into those that directly benefit consumers versus those that may reallocate costs among different market participants.

In response to Mr. Hayslip's comments, Mr. Dreyfus stated that the Protocols Revision Subcommittee is working on a PRR that would remove unimplemented PRRs from the Protocols that may no longer be desirable.

Mr. Karnei moved to approve all PRRs except PRR588 and PRR595. He also moved to approve SCR742. Mr. Veiseh seconded the motion. The motion passed by a unanimous voice vote with no abstentions.

With respect to PRR595, Mr. Payton stated that the proposed change in Section 10.3.2.3(3), to “Qualifying Facility owner” should be rejected. Additionally, the word “host” should be changed to “host(s).” As a result, the first sentence of the section would read as follows:

A Qualifying Facility (QF) with point(s) of interconnection where QF is selling to the QF's thermal output host(s) may net the Load meters of the thermal host(s) with its generation meters when the Load and generation are electrically connected to a common switchyard.

Mr. Payton moved to approve PRR595 as amended. Mr. Hayslip seconded the motion. The motion passed by a unanimous voice vote with no abstentions.

With respect to PRR588, Mr. Armentrout asked for input from the Consumer segment regarding why they abstained from the vote at the TAC. Mr. Ogelman explained that the Consumer representatives had some concerns about the PRR, but they were not sure if the concerns were legitimate and, therefore, abstained from the vote (instead of voting against the PRR). Sam Jones then explained the genesis of the PRR and how it affects the reliability of the ERCOT Grid. He believes the standard established by this PRR is required for reliability reasons.

Mr. Armentrout moved to approve PRR588. Mr. Hayslip seconded the motion. The motion passed by a unanimous voice vote with no abstentions and one recusal (Mr. Kahn recused himself).

(2) Retail Market Guide Revisions

Mr. Dreyfus reported that the Retail Market Subcommittee approved Retail Market Guide Revision Request 23.

(3) Load Profile Validation

Mr. Dreyfus then stated that, since last Fall, when the Board suspended the Load profile validation process, ERCOT staff conducted a preliminary mail survey of residential customers regarding electricity usage. The survey experienced a good response (9.4%). In August, TAC endorsed a recommendation to conduct a full survey of 40,000 residential accounts. That survey will occur in September. After that survey, the Profile Working Group will review the data and use it in their work on Load profiles.

(4) Alternative Fuel Resolution

Mr. Dreyfus reported that, in April 2004, the TAC assigned the Reliability and Operations Subcommittee (ROS) the task of examining the need for a requirement for reliable fuel sources in the ERCOT Region. That assignment followed TAC's affirmation of the Protocol Revision Subcommittee's rejection of PRR 486, Fuel Oil Inventory Service, which would have created a new ancillary service for maintaining fuel oil inventories. Beginning in October of 2004, the ROS conducted a survey of all Resource Entities in the ERCOT Region to identify Resources capable of dual fuel operation, installed dual fuel infrastructure, typical secondary fuel storage levels and to assess the preparedness of Generation Resources to operate on secondary fuel should primary fuel become unavailable. The ROS reported its initial results and recommendations to the TAC in February of 2005. At that meeting, the TAC assigned WMS to examine whether ERCOT should have an ancillary service for maintaining alternative fuel capabilities. The conclusion of WMS and TAC was that such an ancillary service was not justified. The resolution of TAC is attached to these minutes. Mr. Dreyfus noted that in response to the ROS survey, TAC had previously adopted a change in EECF for advanced market notice of fuel curtailments. Other ongoing efforts to assure winter reliability include consideration of an emergency demand-side service, ongoing ERCOT and market participant discussions to develop a winter season assessment, and possible discussion with the Texas Railroad Commission and the Public Utility Commission regarding fuel curtailment priority.

A discussion ensued regarding proposed discussions between ERCOT and the Texas Railroad Commission regarding its gas curtailment rule. Mr. John Houston of CenterPoint stated his concern that the ERCOT Grid may not be able to withstand large scale gas curtailments.

(5) Operating Guide Revisions

Mr. Dreyfus reported that OGRR163, OGRR166, OGRR167 were approved.

(6) Market Participant Default Task Force

Mr. Dreyfus presented a brief report on the status of this task force's efforts. The WMS is working on several PRRs to address Market Participant defaults.

Finance & Audit Committee Report

(1) Acceptance of Financial Statements (2003 and 2004)

Mr. Karnei, Chairman of the Finance & Audit Committee (F&A Committee), reported that ERCOT engaged PricewaterhouseCoopers LLP ("PwC"), pursuant to Board approval, to perform the annual audit of ERCOT's financial books and records. On August 16, 2005, PwC made a formal presentation to the Finance & Audit Committee to discuss the proposed audit report for the year 2004 and PwC's assessment of the internal controls, recommendations and other business items that the F&A Committee raised. In addition, PwC recommended a restatement of the 2003 financial statements. The F&A Committee reviewed the PwC assessment and recommends that the Board accept the audited financial statements as presented by PwC.

Mr. Karnei moved to accept the audited financial statements as presented by PwC. Mr. Espinosa seconded the motion. The motion passed by a unanimous voice vote with no abstentions.

(2) Budget Process Update

Mr. Karnei informed the Board members that, for 2006, the F&A Committee recommends a decrease in the administration fee from \$0.42/MWh to \$0.4054/MWh. He then asked Mr. Byone to update the Board on the budget process.

Mr. Byone reported on the budget schedule as it has taken place so far and as it will proceed in the future. The next step will be Board approval of the Budget in September. He described the tension between keeping the fee low while meeting all reliability and operations requirements. The proposed 2006 budget is \$139.9 million, a 4.5% decrease from the 2005 budget. This amount, however, does not include wholesale market redesign or independent market monitor expenses. He then presented some fee sensitivities associated with electric consumption, capital projects and unanticipated events.

Mr. Byone explained that, to handle budget variances, ERCOT management can: (i) seek off-setting spending cuts; (ii) absorb the variance via debt; or (iii) seek a mid-year fee adjustment (as a last resort).

Mr. Kahn asked how ERCOT staff intends to handle the costs of the Texas Nodal market redesign and the independent market monitor. Mr. Schrader stated that ERCOT management assumes that the PUCT will provide for the funding necessary for those items, which would be above the "base" fee proposed by the F&A Committee. Chairman Hudson stated that the PUCT has done preliminary estimates of costs for the independent market monitor and continues to look at the issue.

Mr. David Kasper, ERCOT's Finance Manager, presented historical data for the budgets in 2003, 2004 and 2005. He also presented a five year forecast of the budget and provided the assumptions that went into the budget for 2006.

Rob Connell, ERCOT Director of IT Projects, then presented budget data relating to capital projects. The systems capital budget has decreased from \$57 million in 2003 to \$24.2 million in 2005. The 2006 budget includes \$23.4 million for systems capital projects. Mr. Connell presented a chart showing the 2006 Project Priority List and stated that projects below Project No. 40 will not be funded under the current budget proposal.

Mr. Payton asked whether an analysis should take place to cull projects from the list if there is little chance they will ever get implemented. Mr. Connell stated that there may be some reasons to leave projects on the list, such as the chance that they might get done as part of another, higher priority, project. Mr. Kevin Gresham of Reliant (Chair of PRS) stated that PRS looks at many factors when establishing the priority of projects.

In conclusion, Mr. Karnei commended Mr. Schrader and ERCOT staff on their relentless work to reduce expenses and lower the administration fee. He believes ERCOT management has been extremely cost conscious in the budget development. Mr. Bowman supported Mr. Karnei's comments. The Finance and Audit Committee will make a final recommendation on the 2006 budget at the next Board meeting.

(3) Other Matters

Mr. Karnei stated that the F&A Committee reviewed credit issues, major capital projects and the Enterprise Risk Management project. The Committee also asked ERCOT staff to solicit bids for the 2006 financial audit and SAS70 audit. He also announced that the next F&A Committee meeting will take place on September 20, 2005.

Human Resources & Governance Committee Report

Mr. Kahn, Chairman of the H.R. & Governance Committee, reported that a By-Laws review process began in April 2005. He then referred to a handout of proposed By-Law changes which includes comments received from stakeholders. He also stated that the Committee held a public meeting in early August regarding proposed By-Laws revisions. Mr. Kahn then reviewed the proposed changes and asked that, by August 26, anyone with questions contact him or Mark Walker, ERCOT's Deputy General Counsel. After receiving this input, the Committee will include a new column which contains the Committee's recommendation for each item. The recommendation will also include "pros" and "cons."

Mr. Armentrout then reported that the search for additional independent directors is underway.

Special Committee Report

Mr. Espinosa, Chairman of the Special Committee, stated that the committee has issued its final public report regarding the contract irregularities that occurred last year and ERCOT's responses. That report was circulated to Board members in the meeting packet sent out last week. From this point, the F&A Committee will follow-up on any outstanding matters related to last year's events, such as completion of audit points. This concludes the activity of the Special Committee.

Other Business

No other business was raised at this time.

Adjournment

Chairman Greene adjourned the open portion of the meeting at approximately 3:30 p.m. and Chairman Hudson adjourned the PUCT Open Meeting.

Executive Session

The Board met in Executive Session to discuss 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>

Carolyn Shellman, Corporate Secretary

Exhibit A

**Resolution Ratifying Carolyn Shellman as Vice-President,
General Counsel & Corporate Secretary**

WHEREAS, pursuant to the ERCOT Bylaws, Section 7.2, the ERCOT Board of Directors shall ratify the officers of the corporation;

WHEREAS, the ERCOT Board of Directors approves the appointment of Carolyn Shellman as the Vice President, General Counsel and Corporate Secretary;

THEREFORE, BE IT RESOLVED, that the ERCOT Board of Directors hereby RATIFIES the appointment of Carolyn Shellman as the Vice President, General Counsel and Corporate Secretary effective August 16, 2005.

Exhibit B

Technical Advisory Committee Resolution Regarding Alternative Fuel Capabilities

Whereas, the WMS has received data from the ROS on the extent of dual fuel capable generating resources in ERCOT; and

Whereas, ERCOT has reported to TAC that at least 5,481 MW of dual fuel capable generating resources have been recently retired or mothballed; and

Whereas, the ERCOT market is critically dependent upon natural gas fired generating resources; and

Whereas, the ROS analysis indicates that fuel oil storage and capability would prove inadequate to prevent firm load shedding in the event of a sufficiently widespread natural gas curtailment; and

Whereas, there are many factors that impact fuel reliability including contract terms, supply and transportation availability, credit, on site storage for gas or coal, resource maintenance outages and other causes that are the subject of each entity's internal business and competitive decisions; and

Whereas, in response to ROS's recommendation, ERCOT has revised its procedures to provide advanced market notice in circumstances that may be conducive to a severe weather event with possible fuel curtailments; and

Whereas, the TAC continues to consider other market and non-market measures for assuring fuel reliability in ERCOT, *e.g.*, demand-side services for emergency curtailments, annual determination of fuel availability status through an assessment of the coming winter season, and gas curtailment priority;

Whereas, the WMS has resolved that it is inadvisable to establish an ancillary service related to alternative fuel sources at this time.

Therefore, the TAC resolves that it is inadvisable to establish an ancillary service related to alternative fuel sources at this time.