

**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.

October 18, 2005

Pursuant to notice duly given, the meeting of the Board of Directors of Electric Reliability Council of Texas, Inc. convened at approximately 10:10 a.m. on October 18, 2005.

Meeting Attendance:

Board Members:

Armentrout, Mark		Unaffiliated
Cox, Brad	Tenaska Power Services	Independent Power Marketer
Dalton, Andrew	Valero	Consumer/Industrial
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 – Proxy for C. Karnei after 2:15 p.m.
Karnei, Clifton	Brazos Electric 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
Schrader, Tom	ERCOT President and CEO	ERCOT
Weiseh, David	Utility Choice Electric	Independent REP

Staff and Guests:

Adib, Parviz	PUCT
Ashley, Kristy	Excelon
Atanacio, Manuel	KEMA
Belk, Brad	LCRA
Bell, Wendell	TPPA
Bourguignon, John	KEMA
Bruce, Mark	FPL Energy
Byone, Steve	ERCOT VP, Finance
Clemenhagen, Barbara	Sempra
Comstock, Read	Strategic Energy
Connell, Robert	ERCOT Staff
Day, Betty	ERCOT Staff
Dreyfus, Mark	Austin Energy
Drost, Wendell	Areva
Galiunas, Al	KEMA

Giuliani, Ray	ERCOT VP, CMO
Greer, Clayton	Constellation
Gresham, Kevin	Reliant Energy
Harder, Jim	Garland
Headrick, Bridget	PUCT
Helton, Bob	ANP
Hinsley, Ron	ERCOT VP, CIO
Hobbs, Kristi	ERCOT Staff
Houston, John	CenterPoint Energy
Huddleston, Barry	Dynegy
Jones, Randy	Calpine
Jones, Sam	ERCOT VP, COO
Kolodziej, Eddie	Customized Energy Solutions
Krajecki, Jim	The Structure Group
Marlett, Valerie	GDS Associates
McIntire, Nancy	ERCOT VP, HR
McKeever, Deborah	TXU Electric Delivery
Moseley, Cheryl	ERCOT Staff
Oldham, Phillip	TIEC
Petosky, Lisa	ERCOT
Pieniazek, Adrian	Texas Genco
Roark, Dottie	ERCOT Staff
Shellman, Carolyn	ERCOT VP, General Counsel
Shumate, Walt	Shumate & Associates
Smitherman, Barry	PUCT Commissioner
Sparks, Michael	Suez Energy
Tamby, Jeyant	ERCOT Staff
Taylor, William	Calpine
Trenary, Michelle	First Choice Power
Walker, Mark	Texas Genco
Waters, Garry	Competitive Assets
Wattles, Paul	ERCOT Staff
Weathersbee, Tommy	TXU Electric Delivery
Yager, Cheryl	ERCOT Staff
Zoromsky, Steve	LCRA

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. Chairman Greene welcomed Andrew Dalton of Valero as the Board's newest member. He replaced Tom Payton. Chairman Greene and others expressed their appreciation for Mr. Payton's dedication and contributions to the Board of Directors.

Approval of Minutes

Chairman Greene requested comments on and approval of the minutes of the September 2005 Board of Directors meeting as circulated. Commissioner Smitherman stated that he would like the minutes to reflect that he attended the September meeting. **Bob Manning moved to approve the minutes as amended to show that Commissioner Smitherman attended the meeting. Mr. Veiseh seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

CEO Report

Tom Schrader, ERCOT President and Chief Executive Officer, began by inviting Carolyn Shellman, ERCOT Vice President and General Counsel to discuss the status of proceedings before the PUCT and Federal Energy Regulatory Commission (FERC) and the ex parte rules to observe during the board meeting. He also reported on ERCOT's intent to work with other industry segments on lessons learned from the recent hurricanes. He also stated that he has had several meetings with Market Participants in cities around the state (Houston on 9/29, Dallas on 10/5 and 10/6 and San Antonio, which will take place on 11/9). At those meetings, the participants have discussed the market redesign, transmission plans, how to handle the default of a QSE or LSE, communications with system operators and ancillary service prices.

Mr. Schrader also reviewed the monthly dashboard items, stating that some projects remain behind schedule and ERCOT continues to improve on time tracking. He also reported that ERCOT received very positive responses to a recent survey of Board members. The survey results varied from 7.3 to 8.8 (out of a possible 10).

Finally, Mr. Schrader mentioned several matters he would like to include on the agenda for the November meeting, including major plans and projects for 2006, priority capital projects and PRRs, market improvements to consider during nodal development and readiness/mobilization plan status.

Financial Update

Steve Byone, ERCOT Vice President and Chief Financial Officer, provided an update of the Reliability Council's finances as previously circulated to the Board members. He presented a financial dashboard reflecting year-to-date operating expenses. He also set forth projections through the end of the year. ERCOT anticipates \$127.2 million in revenue (\$900,000 higher than budget due to high demand in September). Expenses will be \$126.8 million (approx. \$3.7 million less than budget). Mr. Byone then presented the major variance items (depreciation, facilities expenses, labor/benefits, outside services, employee expenses, insurance and hardware/software maintenance) and noted that ERCOT spent significantly less on projects than originally budgeted. He stated that Mr. Hinsley will elaborate on this item during his presentation.

Mr. Byone also noted that ERCOT has 510 permanent employees at the end of September and had 15 additional contractors conducting on-going work bringing the FTE total to 525 versus a budget of 527.

Finally, Mr. Byone reviewed the status of ERCOT's implementation of audit points and presented a projection of audit point completion. By October 2006, ERCOT anticipates completing all audit points. With respect to the Deloitte & Touche audit, ERCOT hopes to have all internal control gaps addressed by the end of 2005.

Commissioner Smitherman posed several questions about the cash investment policy, interest rates, and the "other income" entry on the financial report to which Mr. Byone responded.

Mr. Armentrout asked about the variance between the 2005 budget for projects and the actual amounts spent. Mr. Schrader stated that, in the future, ERCOT intends to be more rigorous in its monitoring of projects and their related capital expenditures.

Finance & Audit Committee Report

Mr. Karnei, Chairman of the F&A Committee, reported that the committee met this morning and the committee will have a voting item for the Board in executive session. He stated that the benefit audit is concluding and ERCOT recently filed its Form 5500 with the IRS (relating to benefit plans).

The committee also discussed the Enterprise Risk Management program and provided some suggestions to management for inclusion in the program.

He reported further that the committee also discussed credit issues. ERCOT currently holds large amounts of collateral from market participants due to high prices for ancillary services, as well as credit concerns relating to market participants. The committee also discussed recent defaults and their impact on market participants. The committee does not currently have a recommendation on action items relating to this issue.

Finally, Mr. Karnei stated that the committee has reviewed how ERCOT has invested its funds and agrees with the investment philosophy.

Technical Advisory Committee (TAC) Report

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

(1) Protocol Revision Requests (PRRs) and System Change Requests (SCRs)

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

- **PRR593 – Behind the “Fence” Reporting of Load. Proposed effective date: November 1, 2005.** No budgetary impact; some impact to ERCOT staffing; no impact to ERCOT computer systems; added ERCOT business function of soliciting data annually, compiling data and incorporating it into planning analysis; no impact to grid operations. ERCOT posted this PRR on 4/13/05. PRR593 adds more resolution to the total actual and projected ERCOT Load because generation netting may result in a significant amount of Load that never is reported to ERCOT. The submitter requested Urgent status in order to have more accurate Load information available for this summer. The PRR failed to receive enough votes to garner Urgent status. On 4/21/05, PRS unanimously voted to refer the PRR to the Generation Adequacy Task Force (GATF) for further discussion. On 5/19/05, PRS voted to recommend approval of PRR593 as amended by comments from the GATF. The Consumer segment voted against the proposal and Independent Power Marketer segment abstained. On 6/23/05, PRS noted that PRR593 has no system impacts and does not require a project. On 7/7/05, TAC unanimously voted to remand PRR593 to PRS for further discussion to address concerns raised by the Consumer segment at the TAC meeting. On 8/24/05, PRS unanimously voted to recommend approval of PRR593, as amended by Texas Industrial Energy Consumers (TIEC). All segments attended the vote. On 9/8/05, with all segments present, TAC voted unanimously to

recommend approval of PRR593. ERCOT credit staff and the CWG have reviewed PRR593 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

- **PRR599 – Notification for Mismatched Inter-QSE Energy Schedules.** Proposed effective Date: to coincide with implementation of PRR548 (Settlement for Mismatched Inter-QSE Energy Schedules). Budgetary impact less than \$100,000; no impact to ERCOT staffing; minor coding changes to Lodestar; change to Settlements business process to provide a record of the mismatch amount to affected QSEs for reconciliation purposes; no impact to grid operations. PRR599 requires that notice be provided to both QSEs involved in a mismatched schedule in the event that ERCOT remedies the mismatch as prescribed in PRR548 (Section 6.8.9, Settlement for Mismatched Inter-QSE Energy Schedules). This PRR will provide a record of the amount of the mismatch to both parties involved and assist Market Participants in reconciliation of mismatches. ERCOT posted this PRR on 5/2/05. On 6/23/05, PRS unanimously voted to recommend approval of PRR599; all market segments attended the vote. On 7/27/05, PRS unanimously voted to recommend a priority of 1.2 and rank 34.4. On 8/4/05, with all market segments present, TAC unanimously voted to recommend approval of PRR599 as submitted by PRS. On 9/20/05, the Board remanded PRR599 to TAC for development of a cost benefit analysis (CBA). On 9/27/05, the Commercial Operations Subcommittee considered PRR599 and developed a CBA. On 9/29/05, PRS, while discussing this PRR, also reviewed the impact analysis for PRR613, Replacement Reserve Under Scheduled Capacity Delineation, and incorporated the benefits of PRR613 into the CBA for PRR599 because they are linked from an extract perspective. On 10/6/05, TAC reviewed the combined PRR599/613 CBA and unanimously voted to recommend approval of the CBA. ERCOT credit staff and the CWG have reviewed PRR599 and do not believe hat it requires changes to credit monitoring activity or the calculation of liability.
- **PRR612 - Ancillary Service Procurement During the Adjustment Period. Proposed effective date: November 1, 2005.** No budgetary impact; no long-term staffing impacts; no impact to ERCOT computer systems; new business function for Control Room staff; requires revision to Control Room procedures and staff training. PRR612 allows for the update of Ancillary Service (AS) bids after a notice of ERCOT's intent to procure AS during the Adjustment Period. ERCOT posted this PRR on 6/17/05. On 7/21/05, PRS unanimously voted to recommend approval of PRR612 as amended by comments submitted by ERCOT Staff. All market segments attended the vote. On 8/24/05, PRS noted that, although PRR612 has no system impacts, it requires training. On 9/8/05, TAC voted unanimously to approve PRR612 as recommended by PRS. ERCOT credit staff and the CWG have reviewed PRR612 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- **PRR613 - Replacement Reserve under Scheduled Capacity Delineation - URGENT. Proposed effective date: upon Board approval.** Budgetary impact less than \$100,000; additional workload to ERCOT Settlements to manually account for mismatch schedules when calculating the Replacement Reserve Service under schedule charge, no impact to ERCOT staffing upon system implementation; minor change to the EMMS to Lodestar interface to resolve the Inter-QSE Trade mismatch; impact to Market Operations business process to identify and provide to Settlements the appropriate mismatch amounts for each QSE at time of procurement, no impact to ERCOT business process upon system implementation; no impact to grid operations. PRR613 updates the Replacement Reserve Under-Scheduled Capacity section of the Protocols to reflect the calculation for Replacement Reserve Service Obligation for under-scheduled capacity, as well as how to

process mismatched schedules. ERCOT posted this PRR on 6/27/05. On 7/21/05, PRS unanimously voted to grant Urgent status because of the imminent implementation of EMMS Release 4 and referred PRR613 to a PRS task force; all segments attended the vote. On 8/24/05, PRS unanimously voted to defer action until the September meeting. On 9/29/05 PRS unanimously voted to recommend approval of PRR613, as amended by comments from ERCOT staff. Noting that PRRs 548 (Settlement for Mismatched Inter-QSE Energy Schedules), 599 (Notification for Mismatched Inter-QSE Energy Schedules) and 613 are linked and should be implemented together, PRS unanimously voted to assign PRR613 the rank of 0.87 and a priority of 1.0, the same as PRR548 and PRR599. All segments attended the votes. Also on 9/29/05, PRS modified the CBA for PRR599 to include PRR613 so as to avoid duplicating of benefits of the three PRRs. On 10/6/05, TAC voted unanimously to recommend approval of PRR613 and the 599/613 CBA as recommended by PRS; all segments were present for the vote. ERCOT credit staff and the CWG have reviewed PRR613 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

Chairman Greene opened the floor to questions about the PRRs. Mr. Manning applauded the TAC on its development of CBAs and asked about the CBA on PRR599/613. He stated that, now that TAC is presenting CBAs, the Board should assess those analyses before voting on PRRs. He also stated that the Board should verify whether the market segment benefiting from a PRR also incurs the cost for the PRR. Mr. Kahn agreed with Mr. Manning's comments.

Mr. Manning moved to approve the PRRs as submitted. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.

- **SCR745 – Retail Market Outage Evaluation and Resolution - URGENT. Proposed effective date: upon system implementation.** Budgetary impact \$1 to 3 million; an additional 2 FTEs are needed for on-going support of the additional hardware and monitoring capabilities; impacts to NAESB, Paperfree, TCH-EAI, all Retail Database Servers and Training and Database Monitoring; ERCOT will conduct system monitoring training efforts during implementation, document new procedures and additional outage monitoring capabilities for retail applications and implement database server connections; no impact to grid operations. SCR745 will allow ERCOT to implement a high-availability solution to retail market system outages that provides active system failover and redundancy. ERCOT posted this SCR on 05/12/05. RMS considered SCR745 on 06/15/05. On 07/13/05, RMS voted to expand the scope of the SCR to include recommended solutions in addition to a complete evaluation. The Independent REP segment abstained; all market segments attended the vote. On 07/28/05, the SCR745 workshop participants recommended that ERCOT implement the high-availability solution options. On 08/10/05, RMS voted to recommend the high-availability solution options developed at the SCR745 workshop and assignment of a priority 1.1 and a rank of 30. The Consumer segment voted against the proposal; all market segments attended the vote. On 08/24/05, PRS unanimously voted to support RMS' recommendation of a priority 1.1 and rank of 30. All market segments appeared for the vote. On 09/08/05, TAC voted to recommend approval of SCR745 as recommended by RMS with one opposing vote from the IOU segment; and eight abstentions from the Municipal (2), Consumer (4), and Independent Power Marketer (2) segments. All market segments attended the vote. On 10/6/05, TAC voted to grant urgent status to SCR745. The Independent Power Marketer segment abstained; all segments attended the vote.

A lengthy discussion then took place regarding the need for this SCR, the costs associated therewith and the benefits to market participants. Mr. Armentrout asked several questions about the analysis supporting the need for SCR745. Ron Hinsley, ERCOT VP and CIO, described the issues associated with this SCR. Ms. Gallagher questioned whether the Board should consider approving this SCR in stages due to the staged implementation of the changes set forth in this SCR.

Mr. Manning moved to remand SCR 745 to TAC with instructions to re-submit it as several separate items, each with its own CBA. Ms. Gallagher seconded the motion. The motion passed by unanimous voice vote with no abstentions.

(2) Closely Related Elements (CREs) and Boundary Generation Resources

Mr. Comstock stated that Protocol §7.2.3 requires that, each year, ERCOT Staff must identify potential CREs using, at a minimum, the process prescribed in the Protocols §7.2.3(1)-(6). The Protocols define CREs as:

those transmission facilities that have shift factor impacts similar to those associated with a particular Commercially Significant Constraint (CSC), and for which there exists a limited amount of Boundary Generation Resources between it and the particular CSC, so that the zonal deployment of Balancing Energy Service is effective in mitigating Zonal Congestion.

The ERCOT Protocols define two types of congestion: (1) CSC Congestion and (2) Local or Operational Congestion. CSC Congestion is transmission congestion determined to be “commercially significant” which ERCOT uses to establish annual Congestion Zones. The Protocols require that ERCOT identify CSCs on an annual basis via the process described in Protocol §7.2.1. The Board approved the CSCs for 2006 at its September meeting. When facility outages prevent the normal method of monitoring CSCs for Zonal Congestion management, ERCOT uses CREs as the reference transmission facilities for monitoring transmission loading, zonal congestion and the calculation and deployment of Balancing Energy to resolve zonal congestion.

ERCOT Staff has performed the analysis as prescribed Protocol §7.2.3(1)-(6) to identify the appropriate CREs and presented the results to the appropriate subcommittees and working groups. The Wholesale Market Subcommittee (WMS) and TAC support the identification of the CREs described in the information circulated to Board members before the meeting. Most of the 2005 CREs are recommended again as 2006 CREs, with several transmission elements added to the 2006 recommendation.

Mr. Manning moved to approve the CREs and Boundary Generation Resources as submitted by TAC. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

(3) Other TAC Business

Mr. Comstock stated that the PRS is changing the PRR Submission Form to reflect the existence of the new nodal protocols and a greater emphasis on CBAs. It will include information regarding whether the PRR applies to the nodal protocols and, if so, which sections. The sponsor will also have to provide an estimate of market cost and benefits. ERCOT staff will begin building a CBA based on the submitted data. Market Participants may then comment on the CBA estimates. PRS will discuss comments to the sponsor’s CBA estimate and adjust the CBAs needed. Also, the PRR sponsor must fill out all portions of the form. ERCOT will reject PRR submissions if the sponsor leaves items after ERCOT notice to the sponsor of the deficiency,

Mr. Comstock also presented an update regarding the 2005/2006 System Project Status, stating that the 2005/2006 Project Priority List is now available and describing the priorities as follows:

- Priority 1.0a
 - Projects that had been planned to run past 10/31/05
- Priority 1.0b
 - Projects that were not planned to run past 10/31/05
- Priority 1.1a
 - Projects ranked above the projected 2006 cut-line
- Priority 1.1b
 - Projects ranked below the projected 2006 cut-line

He also stated that the PRS is initiating a review of outstanding PRRs awaiting system implementation. The PRS held a special meeting on October 7, 2005 to begin this process. The proposed outcome is to develop criteria to apply to current market design system change proposals for appropriate prioritization and apply criteria to existing protocols on the project list and determine if a certain priority is appropriate.

Finally, Mr. Comstock stated that the Nodal transition plan will come before the TAC at its October meeting. The TAC's goal is to approve the transition plan at the November TAC meeting.

At approximately 12:10 p.m., Commissioner Smitherman left the meeting room and Chairman Hudson adjourned the open meeting of the PUCT.

Report on Independent Market Monitor (IMM) Committee

Mr. Kahn stated that the committee continues its work regarding the establishment of the IMM as requested by the PUCT. The committee is also considering issues relating to the funding of the IMM.

Market Operations Update

Ray Giuliani, ERCOT Vice President and Chief of Market Operations, reported that retail transactions are averaging 400,000 – 450,000 per month. He also stated that one-third of residential Load has switched from the Affiliated Retail Electric Provider (AREP) to another Retail Electric Provider (REP). he reported that 78% of Small Non-Residential Load has switched from the AREP to another REP and 74% of Large Non-Residential Load has switched from the AREP to another REP.

Mr. Giuliani stated that natural gas prices have increased by an average of 68.6% versus last year's price, but ERCOT's net RMR costs have decreased since last year.

Mr. Giuliani also reported that August experienced a large Balancing Energy Neutrality Allocation (BENA) charge resulting from unanticipated contingencies that arose that month.

In conclusion, Mr. Giuliani stated that several new REPs and QSEs have entered the market in the ERCOT Region in recent months.

Information Technology Update

Ron Hinsley, ERCOT Vice President and Chief Information Officer, presented the following items to the Board of Directors.

(1) Program Management Review

Mr. Hinsley stated that ERCOT recently began a review of the Program Management Office and its consultants, KEMA, presented their findings. He stated that they found some good processes in place and determined that ERCOT's maturity level is 2.1 (ERCOT's goal is to reach level 4). This puts ERCOT at about the national average. KEMA found that some opportunities exist for improvement, two of which related to the management of quality and risk.

The major issues identified by KEMA include: (1) accountability and ownership; (2) communications; and (3) tools (*e.g.* time tracking). Mr. Hinsley then discussed how ERCOT intends to address these issues.

(2) Market Redesign Project Flow

Mr. Hinsley then presented a diagram of the project flow for the nodal market redesign. He stated that, after completion of the nodal protocols, business requirements will be designed. TAC approval will then take place. At that time, the conceptual design will occur. TAC will then approve the conceptual design. Subsequently, detailed design would take place and the systems would start to be built. As issues or concerns arise, a sub-group of TAC (called the Transition Plan Task Force) would review the issues and recommend solutions. Ultimately, TAC approval would be given that the systems were ready for market implementation.

(3) Release 4 Summary

Mr. Hinsley reported that Energy and Market Management System (EMMS) Release 4 went live on October 5, 2005. Release 4 covered nine PRRs through seventeen projects. More than 85 ERCOT employees took part in Release 4 development and implementation and over 31,000 ERCOT hours and 23,000 Areva hours were invested in the project. The Release 4 implementation took place very smoothly, with little impact on market participants.

Mr. Armentrout commended ERCOT and Areva staff on the successful implementation of Release 4.

Operations Update

Sam Jones, ERCOT Executive Vice President and Chief Operating Officer, stated that the NERC's audit of the ERCOT System Operations group began this morning. These audits resulted from the analysis done after the blackout in the northeast. Representatives of Federal Energy Regulatory Commission (FERC), North America Electric Reliability Council (NERC), Dept. of Energy (DOE) and others are currently on-site to conduct the audit.

Mr. Jones made some brief comments related to the FERC Notice of Proposed Rulemaking (NOPR) regarding Electric Reliability Organizations (EROs) and Regional Reliability Organizations (RROs). ERCOT filed comments taking the position that ERCOT is a unique entity and any proposed rule should allow for ERCOT to serve as the ERCOT Region's ISO as well as an ERO or RRO so long as ERCOT separates its various functions (reliability versus market operations).

(1) Hurricane Rita Update

Mr. Jones then provided an update on issues surrounding Hurricane Rita. He stated that, on September 21, 2005, ERCOT issued alerts to QSEs and Transmission Operators (TOs). ERCOT also conducted a failover test of its EMMS system. Other steps ERCOT took included:

- procuring satellite voice communications between ERCOT and TOs in the potential impact area
- canceling all planned outages as of Friday, September 23rd
- delaying scheduled implementation of EMMS Release 4
- requesting that QSEs: (i) staff all plants unless safety dictated otherwise, (ii) notify ERCOT of all evacuated plants, (iii) keep Resource Plans and Schedules up to date, (iv) bid into the Balancing Energy Services market and (v) be prepared to take plants off-line quickly.

When the hurricane hit, it severed Entergy's transmission system between Louisiana and Texas. Customer outages in the CenterPoint area hit a peak of 715,000 and approximately 100,000 in the TXU ED area. Most outages resulted from distribution system damage. All ERCOT facilities were back into service by 06:00 on September 28.

ERCOT's system weathered the storm quite well. Mr. Jones stated that the ERCOT Region then experienced record peak September temperatures in the four days after the storm hit.

On September 25, discussions began regarding Block Load Transfers (BLTs) of energy from the ERCOT Region to Entergy to assist in energy restoration. As a result, a 138kV tie between CenterPoint and Entergy was closed in order to help provide electricity for some critical water supply pumps for the city of Houston. Another 138 kV tie was established between TXU ED and Deep East Texas Electric Coop at Huntington, Texas.

Mr. Jones then invited Betty Day, ERCOT Director of Commercial Operations, to discuss the financial ramifications of the BLTs. Ms. Day pointed out that the mass evacuations in East Texas significantly impacted Unaccounted for Energy (UFE) in ERCOT's computer systems.

Mr. Jones mentioned that natural gas production from the Gulf of Mexico decreased dramatically after Hurricane Katrina, began to recover and then decreased again after Hurricane Rita. ERCOT has checked with the Texas Railroad Commission, which has informed us that current gas storage levels are at 105% of the historical average.

Mr. Jones concluded by stating that ERCOT appreciates the cooperativeness of market participants during these emergencies.

(2) October Transmission Report

Mr. Bill Bojorquez, ERCOT Director of Transmission Services, presented an executive summary of the Report on Electric System Constraints and Needs as field with the PUCT on October 10, 2005. He concluded by stating that: (1) ERCOT continues to lead planning and construction of system improvements, (2) capital and operations improvements provide significant reduction in congestion costs and (3) ERCOT has several additional studies underway.

(3) 2006 Ancillary Service Requirements Determination Methodology

Mr. Jones stated that ERCOT staff seeks Board approval for the methodology for determining ancillary service requirements as circulated to Board members before the meeting.

Mr. Manning moved to approve the methodology for determining ancillary service requirements as submitted to the Board. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Human Resources & Governance Committee Report

Mr. Kahn, Chairman of the H.R. & Governance Committee, reported that the committee is currently working on a compensation philosophy for ERCOT management and will bring a proposal to Board members in approximately one month.

He invited Nancy McIntire, ERCOT's Vice-President of Human Resources to inform the Board of the status of the Nominating Committee's work. Ms. McIntire reported that ERCOT received twenty-six names of potential Board members from the executive search firm. The committee reviewed those names and narrowed the list to nine candidates. The committee will continue to have weekly conference calls.

Mr. Kahn then reported that the H.R. and Governance Committee also discussed the need for guidelines for executive sessions and proxies. Ms. Shellman has drafted a proposal for the committee to consider.

Mr. Kahn also reported that only 60% of corporate members have voted on the By-Laws changes. The deadline for voting has been extended to Thursday, October 20, 2005. He encouraged everyone to vote. Mr. Hayslip asked if any final deadline exists. Mr. Kahn stated that we must have By-Laws in place by the end of the year. Two segments (Independent Generator and Independent Power Marketer) have not received the requisite number of votes submitted. Mr. Schrader requested that all members submit their votes. Mr. Hayslip mentioned that members of the Independent Generator segment have concerns about proxies and segment alternates.

Other Business (Part 1)

Mr. Schrader stated that ERCOT management would like to ensure that relevant items are brought before the Board in November and raised the following possible issues: (1) major plans and projects for 2006, (2) priority capital projects and PRRs, (3) market improvements to consider during development of the nodal market design and (4) readiness/mobilization plan status. Mr. Espinosa raised a question regarding whether the Board should consider how to fund the nodal market redesign. Mr. Hayslip stated that he would like ERCOT to consider project management, capital utilization, credit mitigation/exposure, PRRs and market issues to consider pending the implementation of the market redesign.

Mr. Manning mentioned that he would like a discussion regarding CBAs and how to determine which market participants bear the costs of system or market design changes.

Mr. Cox recommended that the Board consider long-term issues as opposed to the typical month-to-month issues addressed at meetings.

Chairman Greene recommended that ERCOT management circulate various issues to Board members and determine their interest in various topics for inclusion in the November meeting agenda.

Chairman Greene adjourned the open meeting into Executive Session at 2:30 p.m.

Executive Session

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

Other Business (Part 2)

Chairman Greene re-opened the open session at 3:00 p.m. for additional Other Business.

Mr. Veiseh stated that some REPs have concerns about the proposed By-Laws which have caused them to either not vote or to vote against the proposed By-Laws.

Chairman Greene suggested that ERCOT staff wait to see how the voting concludes and, if necessary, the Board can reconsider the By-Laws at that time. Mr. Kahn agreed with that suggested approach.

Mr. Veiseh stated that he believes that, with one or two minor changes, ERCOT could obtain unanimous support for the By-Laws. Ms. Shellman stated that ERCOT will have to move quickly if the By-Laws do not pass this week because we must have new By-Laws in place by the end of the year.

Adjournment

The meeting adjourned at approximately 3:10 p.m.

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

Carolyn E. Shellman
Vice President, General Counsel & Corporate Secretary