

**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.

November 15, 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 November 15, 2005.

Meeting Attendance:

Board Members:

Armentrout, Mark		Unaffiliated
Cox, Brad	Tenaska Power Services	Independent Power Marketer
Dalton, Andrew	Valero Energy Corp.	Consumer/Industrial
Espinosa, Miguel		Unaffiliated
Gallagher, Carolyn Lewis		Unaffiliated
Greene, Mike	TXU Power	IOU; Board Chairman
Helton, Bob	American National Power	Independent Generator, Segment Alternate
Kahn, Bob	Austin Energy	Municipal
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
Parsley, Julie	Public Utility Commission of Texas	PUCT Commissioner, Proxy for Paul Hudson
Schrader, Tom	ERCOT President and CEO	ERCOT
Striedel, James	Entergy Solutions Supply Ltd	Independent REP, Segment Alternate

Staff and Guests:

Adams, Lynn	ERCOT Staff
Adib, Parviz	PUCT
Anderson, Troy	ERCOT Staff
Ashley, Kristy	Exelon
Belk, Brad	LCRA
Bell, Wendell	TPPA
Brenton, Jim	ERCOT Staff
Bruce, Mark	FPL Energy
Byone, Steve	ERCOT V.P. and Chief Financial Officer
Clemenhausen, Barbara	Sempra Texas
Connell, Robert	ERCOT Staff
Day, Betty	ERCOT Staff
Doolin, Estrellita	ERCOT Staff
Durrwachter, Henry	TXU Wholesale
Galiunas, Al	KEMA
Giuliani, Ray	ERCOT V.P. and Chief of Market Operations

Greer, Clayton	Constellation
Grim, Mike	TXU Wholesale
Grimm, Larry	ERCOT Staff
Gruber, Richard	ERCOT Staff
Hinsley, Ron	ERCOT V.P. and Chief Information Officer
Hobbs, Kristi	ERCOT Staff
Houston, John	CenterPoint Energy
Huerta, Miguel A.	Sifuentes, Drummond & Smith
Jones, Don	Andrews Kurth
Jones, Randy	Calpine
Jones, Sam	ERCOT Exec. V.P. and Chief Operating Officer
Kolodziej, Eddie	Customized Energy Solutions
Lloyd, Brian	PUCT
Meek, Don	ERCOT Staff
Moore, John	John Moore Consulting
Moseley, Cheryl	ERCOT Staff
Mueller, Paula	PUCT
Petosky, Lisa	ERCOT Staff
Pieniazek, Adrian	Texas Genco
Roark, Dottie	ERCOT Staff
Ross, Ned	FPL Energy
Saathoff, Kent	ERCOT Staff
Shellman, Carolyn	ERCOT V.P. and General Counsel
Smallwood, Aaron	ERCOT Staff
Tamby, Jeyant	ERCOT Staff
Trenary, Michelle	First Choice Power
Vincent, Susan	ERCOT Staff
Walker, Mark	Texas Genco
Walter, Bruce	Tex-La
Waters, Garry	Competitive Assets
Wattles, Paul	ERCOT Staff
Webking, Catherine	TEAM
Yager, Cheryl	ERCOT Staff
Zake, Diana	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 Greene pointed out the new ERCOT web site and stated that ERCOT staff would provide a demonstration over the lunch hour.

Approval of Minutes

Chairman Greene requested comments on and approval of the minutes of the October 18, 2005 and October 25, 2005 Board of Directors meetings as circulated. **Mr. Manning moved to approve the minutes as circulated. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

CEO Report

Tom Schrader, ERCOT President and Chief Executive Officer, reported that ERCOT experienced an REP default last week. The drop of ESI IDs to the Providers of Last Resort (POLR) process has begun. ERCOT does not yet know the ultimate financial impact on Market Participants of this default.

Mr. Schrader then reported that ERCOT staff is reviewing the Nodal Protocols to look for gaps or other issues in those protocols. Mr. Trip Doggett is facilitating the Transition Plan Task Force (TPTF). One transition issue that has arisen is the need for a data center to duplicate computer systems during development of the systems for the market redesign. If a duplicate data center is needed, it will be a significant cost.

Mr. Schrader also discussed the monthly dashboard items distributed to Board members last week.

He stated that ERCOT's annualized attrition rate for the past several is currently at 11.7%, higher than the company's target of 10%. This issue is receiving management's attention.

Mr. Schrader mentioned that the implementation of PRR525 (Schedule Control Error ["SCE"] Performance and Monitoring) has progressed and ERCOT will start assessing SCE compliance on January 1, 2006. At that time, Mr. Helton asked the Board members to consider having an analysis done regarding which QSEs might encounter difficulty in complying with the standards. Mr. Schrader invited Larry Grimm, ERCOT Director of Compliance, to address the Board. He stated that ERCOT compliance personnel have provided QSEs their performance statistics for more than one year. To this point in time, QSEs who have not passed the standard have not changed their behavior and, as a result, the scores have not improved. Mr. Grimm noted that the non-performance is affecting ERCOT's NERC scores and emerging as a reliability issue. Messrs. Helton, Cox, Manning, Armentrout and Ms. McClellan raised several questions and made comments. Commissioner Parsley stated that the Commission has had concerns about the issue of SCE non-compliance since she became a Commissioner three years ago and if ERCOT does not address this issue, the Commission will have to do so and Market Participants may not like the solution imposed by the Commission. Mr. Manning stated that the Board already passed PRR525 and should not reconsider the merits of the PRR. He also recommended that ERCOT Compliance staff provide a report in December regarding QSE performance and the potential impacts on the Market Participants. Chairman Greene agreed with Mr. Manning's proposal, and the Board agreed to allot time at the December Board meeting for a detailed discussion of the issues.

Operations Update

Sam Jones, ERCOT Executive Vice President and Chief Operating Officer, stated that a recent article published by an East Texas newspaper indicated that a study of bringing the East Texas Entergy service area into ERCOT would soon be completed.. Mr. Jones noted that the study is underway but is still very preliminary and will not be completed in the near future. He also noted that some quotes of the article are not correct.

Mr. Jones then reported on the recent NERC readiness audit of ERCOT's system operations. During the exit interview, the auditors stated that there were no significant findings or violations of NERC Standards found, but the audit team intended to provide some recommendations, which is normal for all such NERC audits. ERCOT hopes to have a draft report from the audit team soon.

Mr. Jones stated that ERCOT will soon post a list of units it will need for RMR purposes in 2006. He believes ERCOT will need fewer RMR units next year.

Mr. Jones also reported that ERCOT Operations had recently conducted a cold weather event operations preparedness drill with the TDSPs and QSEs and it went very well.

Finance & Audit Committee Report

Clifton Karnei, Chairman of the Finance and Audit Committee, reported that the committee met this morning and received a report on the SAS70 and benefit audits.

Financial Standard & Investment Standard

Mr. Karnei stated that, in July 2002, ERCOT established a financial policy defining the principals by which ERCOT performs its financial planning and budgeting. The Board revised and approved that policy in December 2004. The Financial Policy attached hereto as Exhibit A to Attachment A reflects format and other proposed changes in that policy.

Mr. Karnei moved to pass the Resolution attached hereto as Attachment A. Mr. Armentrout seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Karnei then stated that ERCOT also established an Investment Policy to optimize its cash management in August 2002. Since that time, ERCOT has invested its operating funds, funds from borrowings and funds held for Market Participants as prescribed by its Investment Policy. In conjunction with implementing the internal control management program, ERCOT is establishing a new documentation framework and, in this framework, the Investment Policy may be renamed an Investment “Standard” in the future. The Investment Policy attached hereto as Attachment B reflects format and other proposed changes for this Policy.

Mr. Karnei moved to pass the Resolution attached hereto as Attachment B. Mr. Manning seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Karnei then stated that Cheryl Moseley provided a report to the Committee on the status of the audit recommendations. She will continue making such reports through 2006 until all the recommendations are implemented. The Board will receive presentations on Enterprise Risk Management and credit issues.

ERCOT is currently expecting a greater-than 25% variance on its capital budget (\$11.2 million). As a result, the Board must consider how to handle the excess funds. The Committee tentatively recommended that any excess funds be used to reduce ERCOT’s outstanding debt.

Mr. Karnei stated that ERCOT has not budgeted for the Nodal market redesign and a question has arisen regarding how to fund that work in 2006. The Committee does not yet have a recommended solution.

Financial Update

Steve Byone, ERCOT Vice President and Chief Financial Officer, stated that the Board members received financial data in their Board packets and, in the interest of time, he will not make a presentation but will entertain any questions. No Board member raised any questions about the previously-circulated materials.

Enterprise Risk Management

Mr. Byone made a detailed presentation regarding ERCOT’s ERM program, which began earlier this year. The presentation included ERM concepts, ERCOT’s status of implementing ERM and the items ERCOT will institute in the future. Mr. Byone stated he is seeking input and recommendations from

Board members regarding ERM. After the presentation, a brief discussion took place among Board members regarding ERM.

Mr. Byone also mentioned that Don Meek recently joined ERCOT as its Manager of Risk Management.

Human Resources & Governance Committee Report

Bob Kahn, Chairman of the H.R. & Governance Committee, reported that the recent amendments to the By-Laws passed, as five of seven segments approved them. He also reported that the nominating committee has narrowed the list of Board candidates to five finalists. The committee hopes to have a new member chosen in January.

He stated further that the committee hopes to circulate a proposal regarding how proxies will work in the near future.

Mr. Kahn mentioned that Representative Phil King and Richard Sergel, the new President and CEO of NERC, will speak at the annual meeting next month.

Mr. Kahn reported that the committee has met with PUCT staff regarding the independent market monitor and that comments provided to the PUCT have been circulated to the Board members. The comments will be included in the rulemaking record.

Ms. McClellan asked questions about the By-Law change process. Mr. Kahn stated that two open meetings took place and comments were solicited and received. He believes the process was very transparent, although every process can be improved.

Credit Management

Cheryl Yager, ERCOT Treasurer, reported on credit issues associated with Market Participant defaults. She explained how ERCOT calculates collateral requirements and how the collateral amounts might affect outstanding liability. She also explained that several initiatives are underway to decrease liability for other Market Participants in the event of a default. A discussion ensued regarding the various issues associated with Market Participant defaults and credit requirements.

Chairman Greene then invited Kristi Hobbs, Manager of Market Rules, to present the issues associated with the mass drop of Electric Service Identifiers (ESI IDs) upon a default and the work of various task forces to address the issues. She explained that a WMS sub-committee was established to address pre-triggering event issues and an RMS task force to look at post-triggering event issues. Ms. Hobbs set forth a timeline of how a transition event would progress. She also explained how the process would change if PRR625 is passed and implemented. Several Board members asked various questions regarding the issues associated with these defaults.

Review of Interim System & Market Changes

Kent Saathoff, ERCOT Director of Systems Operations, made a presentation regarding the fourteen Potomac Economics recommendations for improvement of the market in the ERCOT Region. He stated that six of the recommendations have been implemented (Nos. 1-4, 8, 10), two are in progress (Nos. 6, 14), two are addressed by the nodal market redesign (Nos. 5, 12) and two are under review (Nos. 9, 11). The QSE Project Managers and Reliability and Operations Subcommittee (ROS) decided not to adopt Recommendations Nos. 7 and 13 and ERCOT staff agreed with those decisions.

Richard Gruber, ERCOT Director of Market Services, discussed the history of the development of a Day-Ahead Market (DAM) in the ERCOT Region. Although the Board passed a resolution in March 2004 to establish a DAM, the issue was ultimately tabled and, in the interim, the development of a nodal market redesign took place. Consequently, there are no plans to pursue this matter further at this time.

Technical Advisory Committee (TAC) Report

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

Status of Project Review

Mr. Comstock invited Kevin Gresham, PRS Chairman, to discuss issues relating to project prioritization. Mr. Gresham stated that, at market open, there was no specific project prioritization process. In 2002, an annual prioritization and Impact Analyses were developed. Additionally, SCRs were created (for system changes without PRRs). In 2003, integration of the impact analysis into the annual prioritization took place. A rudimentary cost/benefit analysis also began at that time. In 2004, an intra-year review of the priority list began. In 2005, the cost/benefit analysis became more integral in the process and the prioritization has become a dynamic monthly review (as opposed to an annual review). The PRS prioritizes projects as “high,” “medium,” or “low” and then ranks them within those broad categories. Mr. Gresham also presented the “cut line” for 2006 projects.

Protocol Revision Requests (PRRs)

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 described below:

- ***PRR567 – Block Bidding of Ancillary Services. Proposed effective date: upon system implementation.*** Budgetary impact - \$1 to 3 million; minimal impact to ERCOT staffing; impact to Ancillary Service (AS) Clearing Engine to provide three-part bidding, Market Operations System (MOS), Market Operator Interface (MOI) and Market User Interface (MUI); minimal impact to ERCOT business functions; no impact to grid operations. This PRR creates a three part bidding structure for AS. The three parts are: (i) Startup cost; (ii) per megawatt capacity offer; and (iii) minimum operating cost. ERCOT posted this PRR on 1/19/05. PRS reviewed the PRR during its February meeting. The sponsor requested deferral until the March PRS meeting. PRS discussed additional information submitted by the sponsor and voted to refer PRR567 to a PRS task force for further development. On 5/2/05, PRS discussed comments submitted by the task force, and the sponsor agreed to call another meeting to address ERCOT staff’s questions and other outstanding issues. On 5/19/05, PRS considered comments submitted by the task force and decided to defer action to its June meeting. On 6/23/05, PRS voted (54.3% in favor, 45.7% opposed) to recommend approval of PRR567. On 7/21/05, PRS unanimously voted to defer consideration of the Impact Analysis for PRR567 until the August meeting; all segments were present for the vote. On 8/24/05, PRS voted to assign a priority of 3.3 with six opposing votes from the Municipal, IOU, Independent Generator (2), and IPM (2) segments. On 9/8/05, TAC voted unanimously to remand PRR567 to PRS for the development of a cost benefit analysis (CBA). All segments were present for the vote. On 9/29/05 PRS reviewed a cost benefit analysis (CBA) for PRR567. On 10/6/05, with all market segments present, TAC voted to recommend approval of PRR567 as submitted by PRS. The motion passed with one negative vote from the Municipal segment and two abstentions from the Consumer segment. TAC then voted to change the priority and ranking recommended by PRS from a priority of 3.3 to a priority of 1.2 with a ranking of 54.5. The motion passed with four nay votes from the

Cooperative (2) and REPs (2) segments and three abstentions from the Consumers (2) and REP (1) segments. ERCOT credit staff and the CWG have reviewed PRR567 and do not believe it requires changes to credit monitoring activity or the calculation of liability. On 10/18/05 and 10/20/05 respectively, TXU Wholesale submitted a revised CBA and an appeal to the TAC's decision to assign PRR567 a priority of 1.2 and a rank of 54.5.

At this time, Chairman Greene excused himself because TXU has appealed the priority and ranking of this item. Vice-Chairman, Bob Manning, took over leading the meeting and invited Mike Grim of TXU Wholesale, to present an appeal of the ranking of PRR567. Mr. Grim stated that TXU Wholesale disagrees with the TAC's decision to rank this PRR at 1.2 and give it a priority of 54.5. This ranking and priority will effectively result in this project failing to be funded in 2006 despite the net benefit to the Market Participants of \$39,407,363 as determined by the original CBA dated 9-14-2005 and the net benefit of \$41,216,024 determined by the updated CBA (dated 10-18-2005). At the October 6, 2005 TAC meeting, a motion to assign a ranking of 1.1 and a priority of 19.5 for PRR567 failed to achieve 67% majority by only two votes.

He stated that a review of the current list of projects that will be funded in 2006 (based on the current 2006 ERCOT Budget Project List) shows that all of the projects above the "cut line" (i.e. ranking of 1.1A and a priority of 0.21) have significantly lower net benefits than PRR567.

He stated further that TXU Wholesale recognizes that assigning a priority to PRR567 higher than the existing "cut line" will force other beneficial projects to move "below the line" and, therefore, TXU Wholesale proposes that the Board change the ranking of PRR567 as determined by TAC and re-assign it a ranking of 1.1B and a priority of 0.22, making it the first project below the "cut line" so that, if additional funds become available in 2006, PRR567 could move forward. In the alternative, given the Board's emphasis on enhancing market efficiency in a cost effective manner, TXU Wholesale would propose that the Board remand PRR567 back to TAC for reconsideration of its ranking and priority.

Vice-Chairman Manning opened the floor to discussion regarding this PRR and the appeal by TXU. Troy Anderson, ERCOT Manager of IT Impact Coordination and Analysis, described how the CBA was performed for this PRR. Mr. Clayton Greer of Constellation described how the savings apply. Additional discussion took place regarding the costs and benefits of this project.

Mr. Armentrout moved to remand this issue to TAC to develop a more detailed cost/benefit analysis and reconsider the prioritization of this PRR. Mr. Dalton seconded the motion. The motion passed by unanimous voice vote with no abstentions.

- PRR598 – Charge Against OOM Start Up (FKA Extension of Credit Against OOM Start Up). Proposed effective date: upon system implementation. Budgetary impact less than \$100,000; no staffing impact upon system implementation; minor coding changes to Lodestar; no impact to ERCOT business functions; no impact to grid operations. This PRR creates a charge against the Startup Cost if the Market Clearing Price of Energy (MCPE) is greater than Resource Category Generic Minimum Energy Cost for an Off-line Generation Resource that ERCOT has selected to provide Out of Merit Capacity (OOMC) Service. The charge will start three hours after the end of the final interval of the OOMC Dispatch Instruction and continue until the earlier of: a) the end of the calendar day; b) the time at which the charge has completely covered the startup payment; or c) the next Resource-specific Dispatch Instruction. ERCOT posted this PRR on 4/22/05. On 6/23/05, PRS voted (61.9% in favor, 38.1% opposed) to recommend approval of PRR598; all market segments were present for the vote. On 7/21/05, PRS reviewed and voted unanimously to accept ERCOT Staff's suggested revisions to the PRR. On 7/27/05, PRS unanimously voted to recommend priority of 1.1 and rank 32.3. On 8/4/05, TAC voted to

remand PRR598 to PRS for further language considerations. On 8/24/05, PRS voted to recommend approval of PRR598 as amended by AEP and ERCOT. There were two opposing votes from the IOU and Independent Generator segments and one abstention from the Independent Generator segment. All segments were present for the vote. On 9/8/05, TAC voted to approve PRR598 as recommended by PRS. There were six votes against and two abstentions; all market segments were present for the vote. On 10/20/05, PRS reviewed the cost benefit analysis (CBA) for PRR598 and voted to recommend its approval. The motion passed with one opposing vote from the Independent Power Marketer segment and one abstention from the Independent Generator segment. All segments were present for the vote. On 11/3/05, TAC voted to recommend approval of the PRR and its CBA to the Board with a comment that TAC believes that the 8% claw back will result in a positive net benefit. All market segments were present for the vote; there were two opposing votes from the IOU segment and six abstentions from the Independent Generator (3) and the Independent Power Marketer (3) segments. ERCOT credit staff and the Credit Work Group have reviewed PRR598 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

- ***PRR601 – 15 Minute Ramping for BES and Base Power Schedule. Proposed effective date: upon system implementation. Budgetary impact \$100,000-500,000; no impact to ERCOT staffing; no impact to grid operations. Existing ERCOT resources in Settlements, Market Operations, and System Operations will be used to implement this PRR. This PRR impacts Lodestar, Scheduling, Pricing, and Dispatch (SPD), and Automatic Generation Control (AGC) systems. ERCOT will create a coordinated testing plan to ensure successful deployment across the market. This PRR increases the ramping period for Balancing Energy Service (BES) deployment and for Base Power Schedule changes from 10 minutes to 15 minutes. PRR601 implements Potomac Economics Recommendation No. 9, elimination of the “plateau” during the interval. ERCOT posted this PRR on 5/4/05. On 6/23/05, PRS voted to recommend approval of PRR601, as modified by ERCOT comments and PRS, with one abstention from the Independent REP segment; all market segments were present for the vote. On 7/27/05, PRS unanimously voted to recommend a priority of 1.2 and rank 79.5. On 8/4/05, TAC voted unanimously to recommend approval of PRR601 as submitted by PRS. All market segments were present for the vote. On 9/20/05, the Board remanded PRR601 to TAC for development of a cost benefit analysis (CBA). On 10/6/05, TAC addressed the issue of the CBA and voted unanimously to remand PRR601 to PRS for the development of a CBA. All market segments were present for the vote. On 10/27/05, PRS modified the CBA for PRR601 and voted unanimously to send it to TAC for review. The Independent REP segment was not represented at the 10/27/05 meeting. On 11/3/05, TAC voted to recommend approval of PRR601 and the CBA as submitted by PRS. There was one abstention from the Consumer segment; all segments were present for the vote. ERCOT credit staff and the CWG have reviewed PRR601 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.***
- ***PRR611 – Reporting of Operation Reserve Capability under Severe Gas Curtailments. Proposed effective date December 1, 2005. No budgetary impact; minor impact to ERCOT staffing; no impact to ERCOT computer systems; added ERCOT business function to gather, compile and incorporate data into planning analysis; no impact to grid operations. This PRR adds a requirement that Resource Entities provide additional data describing their Resources’ alternative fuel capability during the winter months and adds that information to the list of items considered Protected Information in Section 1.3.1.1. ERCOT posted this PRR on 6/14/05. On 6/16/05, PRS did not approve the submitter’s request for urgency via email vote. The submitter requested reconsideration of urgent status during the 6/23/05 PRS meeting. PRS did not approve the motion to reconsider; therefore, the PRR is on a normal timeline. On 7/21/05, PRS unanimously voted to refer PRR611 to ROS to harmonize the PRR with***

OGR169, Reporting of Reserve Capability under Severe Gas Curtailments; all segments were present for the vote. On 8/24/05, PRS discussed the results from ROS and unanimously voted to recommend approval of PRR611 as amended by ERCOT. All segments were present for the vote. On 9/29/05 PRS noted that PRR611 does not impact ERCOT systems and does not require a project priority. On 10/6/05, TAC unanimously voted to recommend approval of PRR611 with all market segments present. ERCOT credit staff and the CWG have reviewed PRR611 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

- ***PRR617 – IDR Optional Removal Threshold – Modification. Proposed effective date December 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 alleviates conflicting language and provides clarity on the original intent of Sections 18.6.1(2), Interval Data Recorders (IDR) Installation and Use in Settlement and 18.6.7, IDR Optional Removal Threshold, as these sections relate to the process for an optional IDR removal and re-installation. This PRR also makes non-substantive changes to Sections 18.6.1 and 18.6.7. ERCOT posted this PRR on 7/28/05. On 8/24/05, PRS voted unanimously to recommend approval of PRR617 as submitted. On 9/29/05, PRS noted that PRR617 does not impact ERCOT systems and does not require a project priority. On 10/06/05, TAC unanimously voted to recommended approval of PRR617 as submitted with all market segments present. ERCOT credit staff and the CWG have reviewed PRR617 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR618 – Balancing Energy Up from a Specific LAAR Resource. Proposed effective date December 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. PRR618 provides an equation that describes the compensation a QSE representing a Load Acting as Resource (LaaR) receives when a LaaR it represents provides Balancing Energy Up and clarifies that only Generation Resources will be paid for Balancing Energy Down to resolve Local Congestion. ERCOT posted this PRR on 7/28/05. On 8/24/05, PRS voted to recommend approval of PRR618 as amended by PRS with four abstentions from the Independent Generator (2), IPM and Consumer segments. On 9/29/05, PRS noted that PRR618 does not impact ERCOT systems and does not require a project priority. On 10/6/05, TAC unanimously voted to recommend approval of PRR618 with all market segments present. ERCOT credit staff and the CWG have reviewed PRR618 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR636 – Texas SET 2.1 – Customer Registration - URGENT. Proposed effective date: upon system implementation.*** No budgetary impact because code changes are included in PR40034; no impact to ERCOT staffing; no new computer system impacts or business functions; no impact to grid operations. This PRR would update and add a new subsection to Section 15, Customer Registration, to comply with Texas SET Version 2.1 changes to transaction and business processing. ERCOT posted this PRR on 9/23/05. On 10/12/05, PRS granted urgent status to PRR636 through email vote. On 10/20/05, PRS unanimously voted to recommended approval of PRR636 as modified by joint TDSPs comments. All market segments were present. On 11/3/05, TAC unanimously voted to recommend approval of PRR636 with all market segments present. ERCOT credit staff and the CWG have reviewed PRR636 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

- ***PRR637 – Texas SET 2.1 – Retail Point to Point - URGENT. Proposed effective date: upon system implementation. No budgetary impact because code changes are included in PR40034; no impact to ERCOT staffing; no new computer system impacts or business functions; no impact to grid operations*** This PRR would update and add a new subsection to Section 24, Retail Point to Point Communications, to comply with Texas SET Version 2.1 changes to transaction and business processing. ERCOT posted this PRR on 9/23/05. On 10/12/05, PRS granted urgent status to PRR637 through email vote. On 10/20/05, PRS unanimously voted to recommend approval of PRR637 as modified by TXU comments. All market segments were present. On 11/3/05, TAC unanimously voted to recommend approval of PRR637 with all market segments present. ERCOT credit staff and the CWG have reviewed PRR637 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

Ms. McClellan moved to approve all the PRRs except PRR598 and PRR567 as submitted. Mr. Dalton seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Ms. McClellan then moved to approve PRR598 as submitted. Mr. Dalton seconded the motion. The motion passed by unanimous voice vote with one abstention (Mr. Helton).

TNT Transition Plan

Mr. Comstock made a brief presentation regarding the TAC's approval of a proposed transition plan for the nodal market redesign. He also stated that the next TPTF meetings are scheduled for November 30th and December 15th.

Other Business

No other business was raised.

Chairman Greene adjourned the open meeting into Executive Session at 3:30 p.m.

Executive Session

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

Adjournment

The meeting adjourned at approximately 4:00 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

Attachment A

**RESOLUTION OF
THE BOARD OF DIRECTORS OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

November 15, 2005

WHEREAS, the board of directors (the “Board”) of Electric Reliability Council of Texas, Inc., a Texas non-profit corporation, (the “Company”) deems it desirable and in the best interests of the Company, in order to provide sound financial guidance for its business;

NOW, THEREFORE, BE IT RESOLVED, that the Financial Policy, a draft of which is attached hereto as Exhibit A, is hereby authorized and approved in each and every respect;

RESOLVED, that each of the Secretary and each Assistant Secretary of the Company is hereby severally authorized and empowered to certify to the passage of the foregoing resolutions under the seal of the Company or otherwise.

Exhibit A to Attachment A

ERCOT CORPORATE STANDARD

Document Name:	Financial Policy
Document ID:	CS3.1
Effective Date:	
Owner:	Board of Directors, F&A Committee
Governs:	ERCOT Personnel

Approved: _____ Date: _____

PURPOSE

This financial policy is a framework from which ERCOT's financial integrity will be maintained while serving the long-term interests of market participants. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT's primary responsibilities.

FINANCIAL OBJECTIVES

In seeking to fulfill its corporate objectives, ERCOT will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

Strategic Financial Plan and Budget. Prior to or in conjunction with the submission of the annual Budget, the Chief Financial Officer will submit an update to the Strategic Financial Plan. Both the Strategic Financial Plan and the related Budget will be consistent with this financial policy. The Budget will be submitted to the Board within the timeframe contemplated by the flowchart attached as Exhibit A, which may be updated from time to time.

In developing the Strategic Financial Plan and Budget, ERCOT staff will work to ensure that financial ratios required for compliance with debt instruments are maintained.

ERCOT will pursue financial objectives that will allow it to maintain an investment grade debt rating with Standard & Poor's, Moody's or Fitch. If a rating below investment grade is received or expected to be received, staff will promptly recommend a plan for Board consideration to recover or maintain the targeted rating within 18 months.

Overall, the Strategic Financial Plan and the related Budget will seek to assure ERCOT's financial stability. They will be approved by the Board and will guide ERCOT's financial planning process.

Fees and Charges. ERCOT will assess fees consistent with the ERCOT Protocols. The fees and related rates will be set to recover the Board approved Operating and Maintenance Budget (excluding depreciation), Scheduled Debt Service (less any principal payments reasonably expected to be refinanced), and the portion of the Capital Budget that is to be financed with revenue. Fee adjustments, if necessary, will generally be developed and proposed in connection with ERCOT's annual Budget.

ERCOT's fees and charges are subject to approval by the Public Utility Commission of Texas.

ERCOT will use all reasonable means to operate within the approved Budget for the current year. When unforeseen events occur (e.g. MWh's are significantly over or under projected levels, functionality is added or removed, etc) and as a result, ERCOT experiences or expects to experience in the next 12 month period more than a 25% variance from 1) its Capital Budget 2) its Operating and Maintenance Budget (excluding depreciation and amortization) or 3) its projected revenue stream, staff will promptly recommend a plan for Board consideration, which may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.

Sources of Financing. ERCOT will use a combination of equity (revenue funding) and debt to finance capital additions. In determining the particular combination of equity and debt to be used in any particular year, ERCOT will consider the impact of the current year decision on future years.

The issuance of debt requires an affirmative vote of 67% of the Board.

Generally, ERCOT will structure debt issues such that the average maturity of the debt approximates the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified.

ERCOT may use variable-rate debt to provide flexibility in its overall financing program and to manage its overall interest rate exposure. However, in no event will ERCOT allow unhedged, variable rate debt to be more than 40% of total debt outstanding.

ERCOT will periodically evaluate the interest rate environment and review ways to manage interest rate exposure within that environment.

As appropriate, ERCOT will periodically evaluate mechanisms to restructure or refinance debt. ERCOT will regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this financial policy.

Liquidity. ERCOT will seek to maintain adequate liquidity to meet its business needs. Liquidity is the combination of available a) operating cash on hand, b) operating cash equivalents / short term investments and c) undrawn borrowing capacity under credit facilities.

ERCOT's targeted minimum level of liquidity will factor in: 1) six months of forecasted Scheduled Debt Service, other than principal payments reasonably expected to be refinanced, 2) two months of average Cash Operating and Maintenance Expenses, net of projected administrative fee receipts, 3) two months of budgeted capital expenditures and 4) two months of estimated transmission congestion rights (TCRs) expected to be paid, net of projected TCR receipts during the same period.

If at any time ERCOT's liquidity is less than or is expected to be less than the targeted minimum level set forth in this policy, staff will promptly recommend a plan for Board consideration to achieve the liquidity target within 6 months.

Funds received in conjunction with TCR auctions may be utilized to fund ERCOT working capital and capital expenditure needs so long as liquidity is at or above the target levels and ERCOT's issuer rating remains investment grade. These funds may be utilized in place of borrowing under short term credit facilities to meet liquidity needs.

RESPONSIBILITIES

It is the responsibility of the Chief Executive Officer and the Chief Financial Officer to ensure that this policy is implemented and to recommend changes in the policy as needed.

FINANCIAL POLICY ADOPTION

ERCOT's financial policy will be adopted by resolution of the Board of Directors. The policy will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.

DEFINITIONS

Budget – The budget consists of both the Capital Budget and the Operations and Maintenance Budget.

Capital Budget – The capital budget consists of the proposed capital expenditures to be made during ERCOT’s Fiscal Year and should be substantially consistent with the Strategic Financial Plan when proposed. Any significant capital project not included in the approved capital budget will be presented to ERCOT’s Board of Directors for approval.

Operations and Maintenance Budget - The operations and maintenance budget consists of operating costs expected to be incurred during ERCOT’s Fiscal Year and should be substantially consistent with the Strategic Financial Plan when proposed.

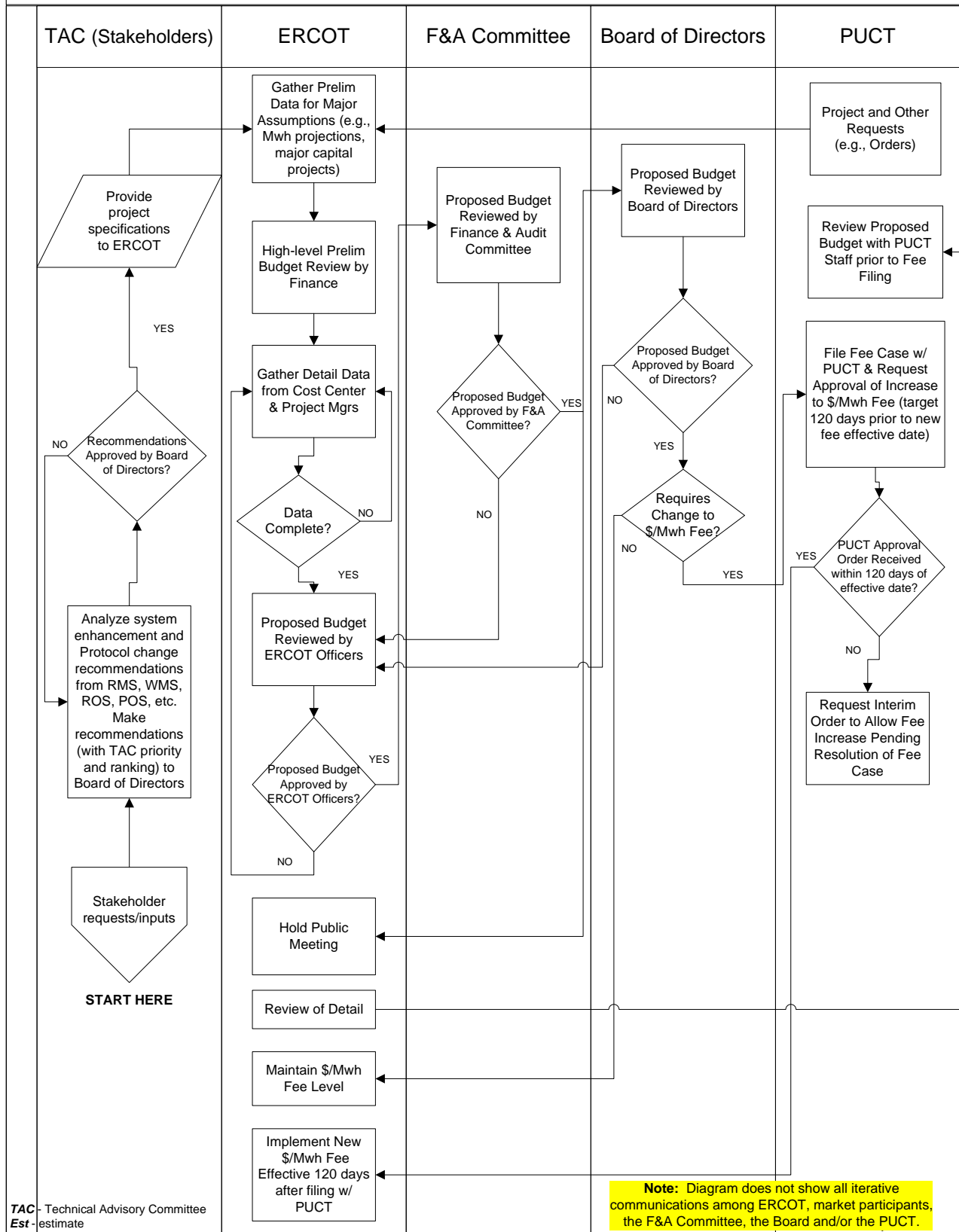
Cash Operating and Maintenance Expenses – All reasonable and necessary costs and expenses (excluding non-cash items such as depreciation and amortization) incurred in the operation and maintenance of the ERCOT’s facilities, equipment and systems.

Fiscal Year – ERCOT’s fiscal year is January 1st through December 31st.

Scheduled Debt Service – All interest and mandatory principal payments on ERCOT’s outstanding indebtedness (both long-term and short-term) for a stated period.

Strategic Financial Plan – The strategic financial plan will provide current financial information and a five-year projection, which addresses all sources of revenues, including any proposed fee adjustments. It will include projections of operating and maintenance expenses, capital expenditures, the funding sources of capital expenditures, and debt service requirements as well as the resulting capital structure.

ERCOT - ANNUAL BUDGET PROCESS



Attachment B

**RESOLUTION OF
THE BOARD OF DIRECTORS OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

November 15, 2005

WHEREAS, the board of directors (the “Board”) of Electric Reliability Council of Texas, Inc., a Texas non-profit corporation (the “Company”) deems it desirable and in the best interests of the Company, in order to set a sound investment standard (“Investment Standard”) for its business;

NOW, THEREFORE, BE IT RESOLVED, that the Investment Standard, a draft of which is attached hereto as Exhibit A, is hereby authorized and approved in each and every respect; and

RESOLVED, that the Chief Financial Officer and the Treasurer of ERCOT (the “Designated Investment Officers”) are authorized to enter into investment transactions in accordance with the Investment Standard; and

RESOLVED, that any two of the following individuals, with at least one being a Designated Investment Officer shall have authority to open and close investment and/or depository accounts with Qualified Institutions (as defined in the Investment Standard): Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Controller and Treasurer; and

RESOLVED, that the Designated Investment Officers be, and each of them singly hereby is, authorized and empowered in the name of and on behalf of the Company from time to time to do and perform such acts and deeds and to make, execute and deliver all such other agreements, certificates, instruments and documents on behalf of the Company as may be necessary and by them deemed appropriate to carry out the investments authorized under the Investment Standard, and all acts and things whether heretofore or hereafter done or performed by any of the Designated Investment Officers which are in conformity with the intents and purposes of these resolutions shall be and the same are hereby in all respects ratified, confirmed and approved; and further

RESOLVED, that each of the Secretary and each Assistant Secretary of the Company is hereby severally authorized and empowered to certify to the passage of the foregoing resolutions under the seal of the Company or otherwise.

Exhibit A to Attachment B

ERCOT CORPORATE STANDARD

Document Name:	Investment Standard
Document ID:	CS3.2
Effective Date:	
Owner:	Board of Directors, F&A Committee
Governs:	ERCOT Personnel

Approved: _____ Date: _____

PURPOSE

The purpose of the ERCOT Investment Standard is to document the guidelines and related activities approved by the ERCOT Board of Directors for the investment and management of funds held by ERCOT.

STANDARD

It is the standard of ERCOT to invest its funds in a manner that provides reasonable investment returns with adequate security while meeting daily cash flow demands and conforming to applicable laws, Bylaws, board resolutions and policies and debt covenants.

Scope. The standard applies to activity involving ERCOT funds, except for the ERCOT Money Purchase Plan and the ERCOT 401(k) Plan, which are managed separately.

ERCOT funds specifically include proceeds from:

- 1) the ERCOT system administration fee,
- 2) transmission congestion rights (TCRs) auctions,
- 3) market settlement operations,
- 4) security deposits,
- 5) debt issues, and
- 6) other miscellaneous cash received.

Standard of Care. ERCOT investments will be made with judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of principal as well as the probable income to be derived.

The standard of prudence to be used by the Designated Investment Officers (defined below) shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing an overall portfolio. The Designated Investment Officers of ERCOT acting in accordance with this standard and any other written procedures pertaining to the administration and management of ERCOT’s portfolio and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes.

Investment Objectives. The primary objectives, in priority order, of ERCOT’s investment activities shall be:

- 1) Safety – Safety of principal is the foremost objective of the investment program. Investment of ERCOT funds will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, ERCOT will diversify its investments by investing funds among a variety of securities offering independent returns and a variety of independent financial institutions.
- 2) Liquidity – ERCOT’s investment portfolio will remain sufficiently liquid to enable ERCOT to meet all operating requirements which might be reasonably anticipated.
- 3) Return on investment – ERCOT’s investment portfolio will be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, in line with ERCOT’s investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority. Responsibility for the investment program is hereby delegated to the Designated Investment Officers. The Chief Financial Officer and the Treasurer of ERCOT are the Designated Investment Officers of ERCOT and are authorized to enter into and are responsible for all investment transactions undertaken. They will establish a system of controls over the investment program.

The Designated Investment Officers will establish written investment procedures for the operation of the investment program consistent with this standard. No person may engage in an investment transaction except as provided under the terms of this standard and the procedures established by the Designated Investment Officers.

Any two of the following individuals, with at least one being a Designated Investment Officer shall have authority to open and close investment and / or depository accounts with Qualified Institutions (as defined below): Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Controller and Treasurer.

Qualified Institutions. A Designated Investment Officer will select banks and other financial institutions that are approved for investment and / or depository purposes ("Qualified Institutions"). Only firms meeting the requirements of the attached Appendix A will be eligible to serve as Qualified Institutions.

If an ERCOT Board member or member of his or her immediate family is an officer or director or owns or has a beneficial interest in more than 10 percent of the stock in a bank or other financial institution that would otherwise be a Qualified Institution, such Board member shall provide full disclosure of such stock holdings or relationship in documented form to be filed with permanent records of ERCOT. Any institutions so disclosed will be excluded from consideration as a Qualified Institution without 1) full disclosure to the Board of Directors of the relationship and 2) and approval of the Board to establish the relationship.

Authorized Instruments. ERCOT shall invest only in those types of instruments authorized under this standard and listed in Appendix C and subject to the restrictions included in Appendix C.

Safekeeping of Investments. Security transactions, including collateral for repurchase agreements, will be conducted on a "delivery-versus-payment" (DVP) basis. Securities, other than shares in money market mutual funds, will be held in safekeeping, in the name of ERCOT, by a custodian (an independent state or federally-chartered bank) designated by the Treasurer and evidenced by safekeeping receipts. Institutions that offer money market mutual funds are responsible for safeguarding their underlying securities.

Internal Control. The Treasurer shall ensure that the internal controls over investments are reviewed 1) periodically by ERCOT's internal auditor and 2) annually in conjunction with the fiscal audit by the external auditor. This review will test compliance with policies and procedures.

Reporting. A Designated Investment Officer will provide quarterly investment reports to the Board of Directors and Finance and Audit Committee which provide a clear picture of the status of the current investment portfolio.

Schedules in the quarterly report will, at a minimum, include the following:

- 1) A listing of individual securities held at the end of the reporting period by authorized investment category
- 2) Average life and final maturity of all investments listed
- 3) Coupon, discount or earnings rate

- 4) Par value, amortized book value and market value
- 5) Percentage of the portfolio represented by each investment category
- 6) Statement of compliance with the Investment Standard

Investment Standard Adoption. ERCOT's investment standard will be adopted by resolution of the Board of Directors. The standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.

APPENDIX A

Requirements of Qualified Institutions

Only entities meeting the following requirements will be eligible to serve as Qualified Institutions:

General Requirements

- 1) The entity has a senior debt rating which is at least the equivalent of A- by Standard & Poor's or A3 by Moody's Investor Service,
- 2) Has provided a current audited financial statement which is on file at ERCOT,
- 3) Has capital of not less than \$100 million, and
- 4) Has assets of not less than \$1 billion.

Additional Requirements for Depositories

- 1) The entity is a federal- or state-chartered bank, and
- 2) Deposits up to \$100,000 are insured by federal agencies

Additional Requirements for Security Dealers

- 1) The entity is a "primary" or regional dealer that qualifies under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule),
- 2) Is registered as a dealer under the Securities Exchange Act of 1934,
- 3) Is a member in good standing of the National Association of Securities Dealers (NASD),
- 4) The entity has been in business for at least five (5) years,
- 5) A representative of the entity has returned a signed certification (substantially in the form attached as Appendix B) that he/she has read and is familiar with ERCOT's Investment Standard, and
- 6) The entity has provided such other information as ERCOT requires from time to time.

APPENDIX B

**Investment Standard for
Electric Reliability Council of Texas**

Qualified Institution Certification for Security Dealers

Dealer / Investment Firm: _____

I hereby certify that I have received and thoroughly reviewed the ERCOT Investment Standard, and the firm I represent

- 1) meets all of ERCOT’s Requirements for Qualified Institutions; and
- 2) has implemented reasonable procedures and controls in an effort to preclude investment transactions between this firm and ERCOT that are not authorized by the ERCOT Investment Standard, except to the extent that this authorization is dependent on an analysis of the makeup of ERCOT’s entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative

Name

Title

Date

APPENDIX C
Authorized Instruments

<u>Description</u>	<u>Quality Limitation</u>	<u>Maturity Limitation</u> (Note 1)	<u>Limitation per issuer</u>	<u>Category limitation</u>
Obligations of or guaranteed by the US government	n/a	5 yrs or less	none	none
Obligations of or guaranteed by other US governmental entities (e.g. federal agencies, state or municipal, etc)	n/a	5 yr or less	\$ 5,000,000	50% of total
Certificates of deposit and share certificates	Note 2	1 yr or less	\$ 5,000,000	33% of total
Repurchase agreements in which the collateral is government or agency securities (1 or 2 above). (Note 3)	Note 2	7 days or less	\$ 5,000,000	33% of total
Commercial paper	A1/P1 or better	1 yr or less	\$ 5,000,000	33% of total
Banker's acceptances	Note 2	1 yr or less	\$ 5,000,000	33% of total
Money market mutual funds (MMMF)	Note 4	Note 4	Note 4	none

Note 1: To the extent possible, ERCOT will attempt to match its investments with anticipated cash flow requirements. A base level of cash may remain uninvested to meet the operating needs of ERCOT.

Note 2: Investments may be made with financial institutions with a corporate or senior debt credit rating of at least A- with S&P or A3 with Moody's. Investments in repurchase agreements must be subject to a Master Repurchase Agreement signed with the bank or dealer (e.g. a PSA Master Repurchase Agreement or equivalent).

Note 3: Collateral is required for all repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value and accrued interest. Collateral may consist only of other instruments approved above. Collateral will always be held by an independent third party with whom ERCOT has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to and retained by ERCOT. The right of collateral substitution is granted.

Note 4: There is no credit rating required given 1) the MMMFs stated objective to preserve capital, 2) the credit quality restrictions placed on MMMFs by the SEC (may hold no more than 5% of middle-rated securities - A2/P2 or equivalent), 3) the SEC restriction that no more than 5% of assets in a MMMF may be invested in any one security (requires diversification) and 4) the restriction that

MMMFs can only invest in instruments with maturities of less than 13 months and that the average maturity of all holdings in a MMMF cannot extend beyond 90 days. There is no maturity limitation or limitation per issuer for the reasons mentioned above.