

**MINUTES OF THE BOARD OF DIRECTORS MEETING OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**
Electric Reliability Council of Texas, Inc. Offices
Austin, Texas
10:00 a.m.
January 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 January 18, 2005.

Meeting Attendance:

Board Members:

| | | |
|------------------|------------------------------------|-----------------------------------------------------------------------|
| Armentrout, Mark | | Unaffiliated |
| Cox, Brad | Tenaska Power Services | Independent Power Marketer |
| Espinosa, Miguel | | Unaffiliated |
| Hayslip, Darrell | Calpine Corp. | Independent Generator |
| Jones, Brad | TXU Power | IOU; Proxy for Mike Greene |
| 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 |
| Parsley, Julie | Public Utility Commission of Texas | PUCT; Proxy for Paul Hudson |
| Payton, Tom | Occidental Chemical Corp. | Consumer/Industrial |
| Schrader, Tom | ERCOT President and CEO | ERCOT |
| Striedel, James | Entergy Solutions | Independent REP; Segment Alternate |

Staff and Guests:

| | |
|-------------------|-----------------------------------------------------|
| Barry Smitherman | PUCT Commissioner |
| Betty Day | ERCOT Staff |
| Bill Bojorquez | ERCOT Staff |
| Bob Helton | ANP; WMS Chairman |
| Brad Belk | LCRA |
| Cheryl Yager | ERCOT Staff |
| Dan Jones | City Public Service of San Antonio |
| David Kasper | ERCOT Staff |
| Jeyant Tamby | ERCOT Staff |
| Jim Galvin | ERCOT Staff |
| Kevin Gresham | Reliant |
| Michael Petterson | ERCOT Staff |
| Parviz Adib | PUCT Staff |
| Richard Gruber | ERCOT Staff |
| Robert Connell | ERCOT Staff |
| Steve Grendel | ERCOT Staff |
| Roy Bowman | ERCOT Vice President and Chief Financial Officer |
| Ray Giuliani | ERCOT Vice President and Chief of Market Operations |

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|--------------------|---------------------------------------------------------------|
| Sam Jones | ERCOT Executive Vice President and Chief Operating Officer |
| Margaret Pemberton | ERCOT Vice President, General Counsel and Corporate Secretary |
| Cesar Seymour | Tractebel Energy Marketing, Inc. |
| Garry Waters | Competitive Assets |
| Mark Dreyfus | Austin Energy |
| Randy Jones | Calpine |
| John Meyer | Reliant |
| Terri Eaton | Green Mountain Energy |
| David McMillan | |
| Ned Ross | FPL Energy |
| Walt Shumate | Shumate & Associates |
| Wendell Bell | TPPA |
| John Moore | |
| Barry Smith | AEP |
| Mark W. Smith | TXI |
| Sean Barry | PricewaterhouseCoopers |
| David Louw | PricewaterhouseCoopers |
| Bob Peck | LCRA |
| Henry Durrwachter | TXU |
| John Houston | CenterPoint Energy |
| DeAnn Walker | CenterPoint Energy |
| Liz Jones | TXU |
| Adrian Pieniazek | Texas Genco |
| Susan Vincent | ERCOT Staff |
| Mark Walker | ERCOT Staff |
| Kristy Ashley | Exelon |
| John Rainey | R. J. Covington |
| Cheryl Moseley | ERCOT Staff |
| Phillip G. Oldham | TIEC |
| Dottie Roark | ERCOT Staff |
| Evan Rowe | PUCT Staff |
| Carrie Morgan | ERCOT Staff |
| Marita Mingote | ERCOT Staff |
| Estrellita Doolin | ERCOT Staff |

Announcements

Mr. Manning called the meeting to order and determined that a quorum was present. Mr. Schrader introduced the new ERCOT Interim CFO, Roy Bowman.

Approval of Minutes

Mr. Manning requested comments on and approval of the minutes of the December 2004 Board of Directors meeting. **Mr. Armentrout moved to approve the minutes of the December Board meeting as circulated. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Ratification of ERCOT Officers

Mr. Manning requested a motion to pass the Resolution ratifying the following ERCOT Officers for 2005:

Thomas F. Schrader - President and Chief Executive Officer
Sam Jones - Executive Vice-President and Chief Operating Officer
Margaret Pemberton - Vice-President, General Counsel and Corporate Secretary
Ray Giuliani - Vice-President and Chief of Market Operations
Roy P. Bowman - Vice-President and Chief Financial Officer

Mr. Espinosa moved to pass the Resolution (attached hereto as Exhibit "A") ratifying the slate of Officers. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Confirmation of TAC Representatives, Chair and Vice-Chair

The membership of the Technical Advisory Committee (TAC) and the proposed TAC Chair and Vice-Chair were previously circulated to the Board members. **Mr. Brad Jones moved to approve the TAC Representatives as presented in the Board packet, with Mr. Read Comstock serving as TAC Chair and Mr. Mark Dreyfus as TAC Vice-Chair; Mr. Kenan Ogelman seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

CEO Report

Mr. Schrader reported on ERCOT's new interim CFO, Roy Bowman, and the matters currently on the CFO's agenda, including responding to audit recommendations and focusing on fiscal management (cost reductions, time tracking, expense tracking, activity based budgeting and justification requirements). Mr. Bowman will also review the compensation and benefit study currently being performed and work on the annual financial audit.

At approximately 10:20 a.m., Mr. Barry Smitherman, one of the Commissioners on the Public Utility Commission of Texas (PUCT), announced the beginning of an open meeting of the PUCT.

Mr. Schrader reported that ERCOT has received four proposals for an internal control management program. Work should begin in early February 2005. He also reported that Chander Ahuja asked to terminate his contract with ERCOT. ERCOT will begin looking for a permanent Security Director.

Mr. Schrader made a brief presentation regarding the major ERCOT accomplishments for the year 2004, including system reliability record, energy management system upgrades, retail transaction enhancements, timely and accurate data services, and transmission planning milestones. He also described the challenges in 2005, including the management action plan, the Texas Nodal/Market Design, legislative oversight and system operations issues (including congestion management, transmission planning and resource adequacy).

At this time, Mr. Schrader invited Sam Jones, ERCOT Executive Vice-President and COO, to make a brief presentation regarding resource adequacy in light of recent applications to remove certain Resources from service. Mr. Jones reported that there are currently 8,386 MW of generation mothballed in the ERCOT Region. An additional 1,628 MW may be mothballed in the near future. Commissioner Parsley asked how many MW are currently under an RMR contract. Bill Bojorquez, ERCOT Director of Transmission Services, reported that approximately 1,340 MW are currently under RMR contract.

Mr. Jones stated that the calculation of reserve margins depends on how ERCOT defines whether

a unit is available if needed for reliability reasons. Under the TAC-approved definition, the reserve margin projections are: 17.4% for 2005, 28.8% for 2006 and 25.8% for 2007. If ERCOT removed mothballed units from the calculation, the reserve margin projections are: 17.4% in 2005, 13.8% in 2006 and 11.1% in 2007. If an additional 1,628 MWs of capacity is also retired (as recently requested), the reserve projections are: 14.8% in 2005, 11.2% in 2006 and 8.6% in 2007. ERCOT is in the process of determining if the units most recently proposed for retirement will be needed for RMR service.

Commissioner Smitherman asked whether, after a period of time, a mothballed unit is deemed “retired.” Mr. Jones stated that such a decision lies with the unit’s owner. Commissioner Smitherman asked if, from an operational standpoint, a mothballed unit cannot be relied on to provide energy due to deterioration. Mr. Jones replied that each situation must be looked at individually because some owners perform periodic maintenance on mothballed units to keep them ready for later operation; some owners do not.

Financial Update

Mr. Roy Bowman, ERCOT’s Interim Chief Financial Officer, provided a brief update of the Reliability Council’s finances as previously circulated to the Board members. Revenue for 2004 was slightly less than budgeted due to lower energy usage. ERCOT’s operating expenses for 2004 were 8.7% less than budgeted. For 2004, ERCOT budgeted 530 employees and actual employment stood at 476 employees at year-end. In March 2004, ERCOT had a total of 175 contractors and consultants; by December 2004, that number had decreased to 77.

Mr. Ray Giuliani presented a report regarding adjustments to the budget in order to facilitate the settlement in which the Reliability Council’s administration fee was reduced from \$0.44/MW to \$0.42/MW by the PUCT. ERCOT must accomplish \$8 million in budget reductions to comply with the fee reduction and to fund additional efforts relating to the audits performed during 2004. ERCOT management has identified reductions of approximately \$4.56 million in operating expenses and \$3.0 million in capital expenses to reach this target. The reduction in capital expenses will not affect any projects approved by PRS.

Mr. Armentrout stated that the membership of TAC should not bring a proposal to the Board of Directors unless they can ensure that the cost will be covered by the \$0.42/MW administration fee, unless they have an extremely strong business case that it is needed for reliability, customer choice, an open market, or other very compelling justification. Mr. Armentrout stated that he would like the Board to remand to TAC all *previously approved* PRRs which will not be implemented due to budget constraints in order to give TAC and PRS an opportunity to re-prioritize the projects, if necessary.

Mr. Manning commended ERCOT’s management on its work, presentation of financial issues and making transparent the effects of the budget reductions.

Finance & Audit Committee Report

Clifton Karnei, Chairman of the Finance & Audit (F&A) Committee also commended ERCOT management on its presentation of financial matters. He referred the Board members to results of the KEMA report comparing ERCOT’s operating costs to those of the other ISOs in North America. He stated that ERCOT’s fee is one of the lowest in North America and that ERCOT’s debt is consistent with the other ISOs.

Mr. Karnei also reported on the following matters set forth on the meeting agenda:

(1) **Accept SAS 70 Audit**

Mr. Karnei invited Mr. Sean Barry of PricewaterhouseCoopers (PwC) to make a presentation regarding the results of this audit. Mr. Barry reported that work on the SAS70 report began on May 1, 2004, and PwC issued the report on December 20, 2004. Fourteen Control Objectives had unqualified opinions, two areas had qualified opinions for part of the test period and only one area had a qualified opinion for the entire test period. Mr. Barry commended ERCOT Staff for its assistance during a very busy time (when ERCOT had several audits taking place at the same time). Mr. Barry also reported that PwC never encountered any integrity issues while performing its work and that ERCOT has many “best practices” in place relating to its operations. Mr. Barry concluded by informing the Board members that another phase of the SAS 70 audit will take place next year.

Mr. Karnei moved to accept the SAS70 report submitted by PwC. Mr. Hayslip seconded the motion. The motion passed by unanimous voice vote with no abstentions.

(2) **Amendments to F&A Committee Charter**

Mr. Karnei described some proposed changes to the F&A Committee Charter, as set forth in Exhibit “B” attached hereto. One change involves having the Sr. Internal Auditor report directly to the F&A Committee. Additionally, Ms. Pemberton pointed out that the “Membership” section of the Charter should be revised to provide that the committee will consist of “at least five members....” **Mr. Karnei moved to approve the F&A Committee Charter as amended during this meeting and as set forth in Exhibit “B” attached hereto. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

TAC Report

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

(1) **Protocol Revision Requests**

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.

- ***PRR542 – Clarifying the LaaR Three Hour Limit.*** Proposed effective date: February 1, 2005. No budgetary impact; no impact to ERCOT staffing; no impacts to ERCOT computer systems; no impact to ERCOT business functions; no impact to grid operations. This PRR clarifies the Protocols to allow QSEs to replace LaaR Responsive Reserve with Responsive Reserve from a Generating Resource or other uncommitted LaaR following a deployment of Responsive Reserve Service. PRS completed initial review of the PRR at its October 2004 meeting and voted unanimously to recommend approval of PRR542. There were no abstentions and all market segments were present. PRS reviewed the impact analysis at its November meeting. TAC unanimously recommended approval of PRR 542 with all segments present. ERCOT credit staff and the CWG have reviewed PRR542 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR544 – Twelve Month Window for Scaling NIDR to IDR ESI IDs.*** Proposed effective date: Upon system implementation (must follow Lodestar 3.7 upgrade). No budgetary impact; the Lodestar code change will be completed in conjunction with changes approved by the Board in PRR514 (Twelve Month Window for Non-IDR Scaling); no impact to ERCOT staffing; no

impact to ERCOT business functions; no impact to grid operations. PRR544 modifies the window for Non-Weather Sensitive Proxy Day selection from six months to twelve months. This revision will make the profile scaling methodology for ESI IDs that have changed from non-Interval Data Recorder (NIDR) to IDR meters the same as the methodology used for all other profiled ESI IDs. PRS completed initial review of the PRR at its October meeting and voted unanimously to recommend approval of PRR544. There were no abstentions and all market segments were present. PRS reviewed the impact analysis at its November meeting. TAC unanimously recommended approval of PRR 544. All segments were present. ERCOT credit staff and the CWG have reviewed PRR544 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

- ***PRR545 – Retail Market Extracts.*** Proposed effective date: February 1, 2005. No budgetary impact; no impact to ERCOT staffing; no impacts to ERCOT computer systems; no impact to ERCOT business functions; no impact to grid operations. PRR545 creates new Section 11.3 addressing ESI ID-level extract information provided to LSEs. This revision will incorporate the information surrounding the current process for providing ESI ID-level information to LSEs and for correcting errors in this ESI ID-level information into the Protocols. PRS completed initial review of the PRR at its October meeting and voted unanimously to recommend approval of PRR545. There were no abstentions and all market segments were present. PRS confirmed the impact analysis at its November meeting. TAC unanimously recommended approval of PRR 545. All segments were present. ERCOT credit staff and the CWG have reviewed PRR545 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR562 – Permanent Elimination of Market Solution for Local Congestion.*** Proposed effective date: February 1, 2005. No budgetary impact; no impact to ERCOT staffing; no impacts to ERCOT computer systems; no impact to ERCOT business functions; no impact to grid operations. PRR562 was approved on an urgent basis. The PRR would maintain the current methodology of settling Local Congestion costs by eliminating the February 1, 2005, sunset date set forth in Protocol Section 7.4.3, Settlement of local Congestion Costs. If the February 1 sunset date were to be maintained, the Market Solution Test (MST) concept adopted in Docket No. 24770 would be applied in some circumstances in determining payment for Local Congestion management. This methodology has been demonstrated to not function properly on a consistent basis and, on occasion, has resulted in high costs to resolve congestion. Currently, this type of congestion is paid as OOME, pending the sunset date now in place. PUCT Staff concurs in the permanent elimination of the market solution test given that the test has not worked in an acceptable manner and believes that eliminating this provision from the Protocols would be consistent with the Order in Docket No. 24770. In addition, this PRR directs that upon system implementation of PRR485 (Revision to Unit-Specific Deployment Based on Generic Cost), Net Local Congestions will be settled in the Balancing Energy settlement process, thus eliminating the need for the MST for Local Congestion management. Due to the impending sunset date, this PRR was designated urgent and considered at a special meeting called by the PRS. A motion to recommend approval passed (six votes against the measure from the Independent Generators and Independent Power Marketers and two abstentions from the Independent Generator segments). All market segments were present. TAC members recommended approval of this PRR by email vote on 1/10/05. There were 19 yes votes, five no votes and three abstentions (with three abstentions, 19 affirmative votes suffices for approval). Members of the Independent Power Marketer, Independent Generators, and IOU segments voted against the motion; members of the Independent Power Marketers and Independent Generator abstained. All market segments participated in the vote. ERCOT credit staff and the CWG have reviewed PRR562 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

Mr. Hayslip asked if any consideration had been given to continuing suspension of the MST (in PRR562) as opposed to eliminating it. Mr. Dreyfus stated that consideration was given to that approach but the decision was made to eliminate the MST. **Mr. Karnei moved to approve all of the PRRs; Mr. Kahn seconded the motion. The motion passed by a unanimous voice vote with no abstentions.**

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

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

(2) Appeal of TAC's Rejection of PRR 556

Mr. Dreyfus stated that PRR556 would have changed the uplift for Local Congestion from ERCOT-wide to zone-by-zone (based on zonal Load Ratio Share). TAC rejected Reliant's appeal by a vote of 21 – 7. Mr. Manning invited John Meyer, representative of Reliant Energy, to present his company's position regarding TAC's rejection of PRR556.

Mr. Meyer stated that Reliant Energy is asking the Board to over-turn the TAC's rejection of PRR556. He stated that the PUCT, in Docket No. 23220, required local uplift of Local Congestion costs after \$20 million was uplifted ERCOT-wide. That threshold was met in February 2002. He also stated that Potomac Economics recommended either the creation of a DFW Zone or allocation of Local Congestion costs to Load in the constrained area in its 2003 "State of the Market" report on the ERCOT Region market. Meyer stated that he spoke with Dr. David Patton regarding PRR556 and Dr. Patton agreed that Reliant's proposal, while not as transparent as a more granular allocation, was a significant improvement from the current market design and would benefit the market.

Commissioner Smitherman asked about the voting structure at the TAC and asked if the ERCOT-wide uplift of Local Congestion costs includes NOIE areas. Mr. Meyer replied in the affirmative. Mr. Brad Jones of TXU stated that Local Congestion costs have declined by more than one-third in the last year.

Mr. Payton stated that one of the flaws in the assumptions made in this debate is that Local Congestion is attributable to Loads. Mr. Payton pointed out that much of the Local Congestion costs result from OOME Down Dispatch Instructions in generation pockets. Mr. Payton recommends remanding the issue to sub-committees to have costs allocated more directly to those who create the Local Congestion. Mr. Armentrout agreed with Mr. Payton's position. **Mr. Armentrout moved to deny the appeal.** Commissioner Smitherman asked whether Reliant could appeal a remand to TAC. Ms. Pemberton stated that Reliant could appeal the Board's decision to the PUCT because if the Board denied the appeal, the board action would amount to a rejection of the appeal.

In conclusion, Mr. Meyer asked that the Board overturn TAC's rejection of PRR556. **Mr. Kahn seconded Mr. Armentrout's motion.** Commissioner Parsley asked if this PRR had come up for vote in the past. Mr. Meyer stated that this is the first official PRR relating to this issue. Mr. Ogelman suggested that this issue may require a more in-depth analysis. **Mr. Armentrout amended his motion to require that the Congestion Management Working Group report to the Board on this issue at the March Board meeting. Mr. Kahn seconded the amended motion. The motion passed by unanimous voice vote with one abstention (Mr. Hayslip).**

At this time, Mr. Armentrout asked ERCOT Staff to deliver a report on the nature of the CMWG report on PRR556 in order to get the opinion of an objective third-party. Mr. Armentrout would like ERCOT Staff's opinion of the merit of the proposal set forth in PRR556.

(3) Annual Load Profile Validation

Mr. Dreyfus reported that, in September 2004, the Board voted to suspend for one year the annual validation of Load profiles. Subsequently, TAC and RMS adopted a set of procedures designed to improve the accuracy of the validation process for 2006; these include:

- Do not replace a prior year non-default assignment with a default assignment
- Apply dead-bands around the specified Residential Segment trigger point
- Apply a kWh minimum for Residential High Winter Ratio profile assignment
- Review use of more stable Residential Winter Ratio formula.

He also reported that the 2006 validation process should proceed on schedule in the fourth quarter of 2005.

(4) Operating Guide Revision Requests

Mr. Dreyfus reported on the Operating Guide Revision Requests that have been implemented:

- **OGRR157** – This OGRR removed the unit-specific non-spin test form from the Operating guides.
- **OGRR158** – This OGRR revised Operating Guide §2.9.1 (Automatic Firm Load Shedding) to be consistent with approved OGRR150 (Clarification of UF Relay Trip Time for Load Shedding), which was a revision of Operating Guide §1.5.9 (Conformance to NERC Policies and Procedures).

(5) Retail Market Guide Revision Requests

Mr. Dreyfus reported on the Retail Market Guide Revision Requests that were implemented in the last month:

- **RMGRR017** – This RMGRR updates the Transaction Timing Matrix to reflect implementation of PRR518, Clarification of Requirements Relating to Retail Transactions.
- **RMGRR016** – Replaces the word “Oncor” with “TXU Electric Delivery” each time it appears in the Retail Market Guide.

(6) Other Issues

TAC continues working on the alternative fuel survey. TAC has also established COPs as a full TAC subcommittee and that group will continue working on various ADR issues. TAC is also looking at the implications of the ERCOT fee settlement and its affect on ERCOT operations. TAC will have a retreat with ERCOT Staff at an LCRA facility to consider these issues. Finally, Mr. Dreyfus reported that TAC and PRS will continue to discuss setting priorities for PRRs in light of the newly imposed budget constraints.

Texas Nodal Team (TNT) Report

Mr. Manning invited Trip Doggett, the Independent Facilitator for the Texas Nodal project, to present the TNT Report.

Mr. Doggett reported that the second round of protocols development which began on November 1, 2004 has concluded. Round 2 addressed all sections of the Protocols not affected by the economists' reports. Round 1b of Protocols development (to review sections impacted by the economists' reports) began on December 7, 2004. Many of the economist issues were discussed at the December 12, 2004 TNT meeting. Mr. Doggett briefly discussed those issues.

Mr. Jim Galvin, ERCOT Director of Market Operations, discussed the agenda for the TNT presentation at the February Board meeting. Mr. Espinosa asked that the TNT members send any meeting materials to the Board members seven to ten days before the February Board meeting. Mr. Payton asked for a presentation demonstrating whether an "off the shelf" nodal design could be implemented in the ERCOT Region.

Human Resources & Governance Committee Report

Mr. Kahn, H.R. and Governance Committee Chair, provided the following report:

(1) **Amendment of Board Action on PRR 532 – Must Run Alternatives**

Mr. Kahn stated that, because the Protocols provide guidance to ERCOT Staff on when to implement a Must-Run Alternative (MRA) agreement, the Board should not appoint a subcommittee to consider MRA agreements and, instead, ERCOT Staff should make the decision regarding whether to enter into an MRA. **Mr. Kahn moved to remove the requirement to appoint a Board subcommittee to consider MRA agreements and, instead, to allow ERCOT Staff to determine whether to enter an MRA agreement. Mr. Armentrout seconded the motion. The motion passed by unanimous voice vote with one abstention (Mr. Ogelman).**

(2) **By-Laws Working Committee**

Mr. Kahn solicited input from other Board members on any changes they may want to make to ERCOT's By-Laws because the Committee will consider making changes starting in April 2005.

(3) **Calendar of Meetings**

Mr. Kahn moved to approve the calendar of meetings, including the annual meeting, attached hereto as Exhibit "C". Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Special Committee Report

Mr. Espinosa stated that he had no report this month.

Other Business

(1) **Board Committee Assignments**

Mr. Hayslip moved to approve the Board committee assignments as set forth in Exhibit "D" attached hereto. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

(2) **Upcoming FERC Meetings**

The FERC Commissioners have informed us that they are inviting ISO Board members and General Counsel to attend a retreat in Washington, D.C. in early March. Board members may want to consider attending. Ms. Pemberton will provide more information when it is received.

Adjournment

Mr. Manning adjourned the open portion of the meeting at approximately 2:57 p.m. At that time, Commissioner Smitherman adjourned the PUCT open meeting.

Executive Session

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

The next Board meeting will take place on February 16, 2005 at ERCOT's Met Center office in Austin, Texas.

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

Margaret Uhlig Pemberton, Corporate Secretary

Exhibit "A" to January 18, 2005 Board of Director Meeting Minutes

Resolution Ratifying Officers

WHEREAS, pursuant to the ERCOT Bylaws effective December 16, 2003, the ERCOT Board of Directors shall annually elect or appoint the officers of the corporation;

WHEREAS, the ERCOT Board of Directors recognizes the continued service of Thomas F. Schrader, Sam Jones, Ray Giuliani, and Margaret Uhlig Pemberton;

WHEREAS, the ERCOT Board of Directors acknowledges and approves of ERCOT contracting with Roy Bowman as the interim Vice President and Chief Financial Officer, whose contract may continue until a permanent Vice President and Chief Financial Officer is hired;

THEREFORE, BE IT RESOLVED, that the ERCOT Board of Directors hereby ratifies the appointment of the following officers of ERCOT for the Year 2005:

| | |
|--------------------------|------------------------------------------------------|
| Thomas F. Schrader | President and Chief Executive Officer |
| Sam R. Jones | Executive Vice President and Chief Operating Officer |
| Roy P. Bowman | Vice President and Chief Financial Officer |
| Ray Giuliani | Vice President and Chief of Market Operations |
| Margaret Uhlig Pemberton | Vice President, General Counsel and Secretary |

Exhibit “B” to January 18, 2005 Board of Director Meeting Minutes

THE ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. FINANCE & AUDIT COMMITTEE CHARTER

Purpose

The Finance and Audit committee of the Board of Directors of ERCOT shall:

1. oversee the Company’s budget process and adherence to budget, and providing recommendations to the Board of Directors for establishing levels of financing and in setting the Company’s fees, including its administrative fee;
2. review the Company’s credit policies and make recommendations to the Board of Directors re same;
3. ensure that the Company’s financial statements are properly and effectively audited by qualified accountants who are independent;
4. assist the Board of Directors in fulfilling its oversight responsibility with respect to the Company’s maintenance of an effective internal audit function;
5. perform such other duties and responsibilities enumerated in and consistent with this Charter.

The Committee’s function is one of oversight, recognizing that the Company’s management is responsible for preparing the Company’s financial statements, and the independent auditor is responsible for auditing those statements. In adopting this Charter, the Board of Directors acknowledges that the Committee members are not employees of the Company and are not providing any expert or special assurance as to the Company’s financial statements or any professional certification as to the external auditor’s work or auditing standards. Each member of the Committee shall be entitled to rely on the integrity of staff and external auditors to provide accurate, complete financial and other information to the Committee, absent actual knowledge to the contrary.

While the Committee has the responsibilities, duties and powers set forth in this Charter, it shall be the responsibility and duty of the Company’s management and independent auditor, and not the responsibility or duty of the Committee, to plan or conduct audits or to make any determination that the Company’s financial statements are complete and accurate and in accordance with generally accepted accounting principles, and it shall not be the responsibility or duty of the Committee to conduct investigations, resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations or the Company’s ethics policies.

The Committee shall provide assistance to the Board in fulfilling its oversight responsibility relating to the Company’s financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company’s financial statements and the legal compliance and ethics programs as established by management and the Board. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee and the Company’s independent auditors, internal accounting personnel and management.

Membership

The Finance and Audit Committee of the Board of Directors of ERCOT (the “Committee”) shall be comprised of at least five Board members, one or more of which must be an Independent Board members of ERCOT (the “Company”). Each Member must be able to read and understand fundamental financial statements, including the balance sheet, income statement and cash flow statement. At least one Member must have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which ensures the individual’s financial sophistication, including a past or current position as a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

The board members shall decide from among themselves who shall participate in the Committee. The term shall be for one year.

The Chair of the Committee shall be selected through a majority vote of the Committee members. The Committee Chair shall not be the Chief Executive Officer of the Company and shall have accounting or related financial management expertise.

The Committee may request that any officers or employees of ERCOT, or any other person, whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

Board members (other than Committee members) may attend and participate in Committee meetings but may not participate in Committee voting.

Non-Committee members may attend Committee meetings at the discretion of the Committee. The Committee may exclude any persons who are not Directors, the Segment Alternate or the Director's Designated Representative from any meeting or portion of any Committee meeting that the Committee determines, in its discretion, needs to be held in closed session to discuss personnel issues, confidential legal matters, negotiations or other business of the Committee involving confidential information.

Qualifications

Each member of the Committee shall also meet any experience requirements as may be established from time to time by the Board of Directors. The Board of Directors shall endeavor to appoint at least one member to the committee who is a financial expert as such term may be defined from time to time by the Board of Directors, the accounting industry or other regulatory authorities.

Authority

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain outside counsel or other experts for this purpose. All employees are directed to cooperate as requested by the Committee or any of its Members for Committee purposes. The Committee may request any officer or employee of the Company, the Company's outside counsel or the Company's independent auditor to attend a meeting of the Committee or to meet with any Member or any consultants to the Committee.

| The Company's senior internal auditor shall report directly to the ~~Chair of the~~ Committee. For administrative purposes, the senior internal auditor shall report to the CEO. The Committee shall approve an Annual Audit Plan prepared by the senior internal auditor. The senior internal auditor shall (1) manage the execution of the Annual Audit Plan, (2) conduct investigations at the direction of the Chair and the Committee, and (3) make periodic reports to the Committee at regularly scheduled Committee meetings and as otherwise directed by the Chair and the Committee.

The Committee may appoint workgroups or task forces to investigate issues defined by the Committee. Members of such workgroups or task forces need not be Directors. Such workgroups or task forces shall have no authority to bind the Committee or the Company.

Structure

Three members of the Committee shall constitute a quorum. At any meeting at which a quorum exists, the act of a majority of the members present at a meeting shall be the act of the Committee.

The Chair, in consultation with the Chief Financial Officer, shall develop the agenda, the frequency, and length of meetings and shall have unlimited access to management and

information for purposes of carrying out functions of the Committee. The Chair shall establish such other rules, as may from time to time be necessary and proper for the conduct of the Committee.

Duties and Responsibilities

The following shall be the prominent recurring duties and responsibilities of the Committee in carrying out its oversight functions. The duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, and by the Company's Articles of Incorporation and Bylaws:

With respect to budget oversight and financing:

1. Annually, on a schedule to be established by the Board of Directors, the Committee shall review staff's proposed budget for the following year, including proposed staffing levels, proposed capital expenditures, and other proposed expenditures.
2. The Committee shall review the staff's estimate of revenues to support all proposed expenditures, including staff's recommendations for fee levels for the following year.
3. The Committee shall review the staff's recommendation of the amount and type of financing that may be needed to support the proposed budget, including the staff's proposed financial performance measures (e.g. ratios).
4. Following the Committee's review of the above items, the Committee shall recommend to the Board of Directors a staffing level, a proposed budget, proposed fees, and proposed financial performance measures for the following year.

With respect to the Company's credit policy:

1. The Committee shall review staff's recommendations concerning changes to the credit policy established to ensure creditworthiness of market participants.
2. Following the Committee's review of staff's recommendations, the Committee shall recommend to the Board of Directors any proposed changes to the previously approved credit policy.

With respect to the independent auditors:

1. Annually, the Committee shall recommend to the Board of Directors the selection and employment of the Company's independent auditor. The Committee shall fulfill the oversight responsibility of the Board of Directors with respect to the independent auditors' audit of the books and accounts of the Company and for the fiscal year for which it is appointed.
2. The Committee shall approve the provision of all auditing and non-audit services by the independent auditor to the Company in advance of the provision of those services and shall also approve the fees for all non-audit services provided by the independent auditor.
3. In connection with the Committee's approval of non-audit services, the Committee shall consider whether the independent auditor's performance of any non-audit services is compatible with the external auditor's independence.
4. At least annually, the Committee shall obtain and review a report by the independent auditor describing:
 - a. the independent auditor's internal quality control procedures;
 - b. all relationships between the independent auditor and the Company, in order to assess the auditor's independence
5. The Committee shall also review any report by the independent auditor describing:
 - a. significant accounting policies and practices used by the Company;
 - b. alternative treatments of financial information as required to be discussed by the independent auditors with the Committee; and
 - c. any other material written communication between the independent auditors firm and the Company's management.
6. Establish the Company's hiring policies for employees who are former employees of the Company's independent auditors

With respect to the Company's financial statements:

1. The Committee shall discuss the annual audited financial statements with management and the independent auditor, including the Company's disclosures.
2. The Committee shall review disclosures made to the Committee by the Company's CEO and CFO about any significant deficiencies in the design or operation of the internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
3. In connection with its review of the Company's financial statements, the Committee shall review and discuss with the independent auditor the matters relating to the conduct of the audit as they may be modified or supplemented, including, but not limited to, significant judgments, significant estimates, critical accounting policies, and unadjusted differences.
4. Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
5. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.
6. Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
7. Review any and all press stories that relate to the Company's accounting and disclosure, require that management or the auditor explain any negative comments and determine whether these comments necessitate a change in the accounting structure of the Company.
8. Based on its review and discussions with management, the internal auditors and the independent auditor, the Committee shall provide a recommendation to the Board of Directors whether the Company's financial statements should be accepted.

With respect to periodic reviews and reports:

1. Periodically, the committee shall meet separately with senior management, internal auditors and the independent auditors.
2. The Committee shall review with the independent auditor any audit problems or difficulties and management's response to them.
3. The Committee shall review the Company's policies with respect to risk assessment and risk management.
4. The Committee shall communicate to the Board of Directors the matters discussed at each meeting of the Committee, including any issues with respect to the quality or integrity of the Company's financial statements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.
5. The Committee shall discuss with the Board of Directors the matters discussed at each meeting of the Committee.
6. The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors.

With respect to the other matters:

1. The Committee shall inquire of management and the independent auditors about significant risks or exposures to the Company and the ERCOT market and assess the steps management has taken to minimize such risks.
2. The Committee shall establish procedures for:
 - a. The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - b. The confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.
3. The Committee shall review, based on the recommendations of the independent auditors and the CFO, the scope and plan of the work to be done by the Company's internal auditor, and the results of such work.
4. The Committee shall establish the Company's hiring policies for employees who are former employees of the Company's independent auditor's review the appointment and replacement of the senior internal auditing executive, the scope of the internal audit plan and the significant reports to management prepared by the internal auditing department and management's responses.

5. Meet at least biannually with the independent auditor, the chief financial officer and the senior internal auditing executive in separate executive sessions.

Meetings

The Committee shall meet at least once during each fiscal quarter, and as many additional times as the Committee shall deem necessary or appropriate.

Minutes

The Committee shall designate a secretary, who shall prepare or cause to be prepared the minutes of each meeting and file such minutes with the corporate records of the Company. The secretary shall send, or cause to be sent, copies of such minutes to each of the Members.

Evaluation

The Committee shall undertake an annual evaluation assessing its performance and, in light of this, consider changes in its membership, charter or procedures. The Committee shall report to the Board the results of its evaluation, including recommended charter, membership and other changes, if any.

Exhibit “C” to January 18, 2005 Board of Director Meeting Minutes



**Board of Directors
2005 Calendar**

| | | |
|--------------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| January 18 Board Meeting 7620 Metro Center Drive Austin, Texas | February 16 Board Meeting 7620 Metro Center Drive Austin, Texas | March 15 Board Meeting 7620 Metro Center Drive Austin, Texas |
| April 19 Board Meeting 7620 Metro Center Drive Austin, Texas | May 17 Board Meeting 7620 Metro Center Drive Austin, Texas | June 21 Board Meeting 7620 Metro Center Drive Austin, Texas |
| July 19 Board Meeting 7620 Metro Center Drive Austin, Texas | August 16 Board Meeting 7620 Metro Center Drive Austin, Texas | September 20 Board Meeting 7620 Metro Center Drive Austin, Texas |
| October 18 Board Meeting 7620 Metro Center Drive Austin, Texas | November 15 Board Meeting 7620 Metro Center Drive Austin, Texas | December 13 Board Meeting location TBD Austin, Texas |

The ERCOT Annual Membership meeting will take place on December 13, 2005 at a location to be determined.

Exhibit “D” to January 18, 2005 Board of Director Meeting Minutes

| Finance & Audit Committee | H.R. & Governance Committee |
|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| Clifton Karnei (Chair) Miguel Espinosa Darrell Hayslip Bob Manning David Veiseh | Bob Kahn (Chair) Mark Armentrout Brad Cox Mike Greene Suzi McClellan Tom Payton |