

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

**ERCOT Met Center Offices**

**Austin, Texas**

**1:00 p.m.**

**December 13, 2005**

Pursuant to notice duly given, the meeting of the Board of Directors of Electric Reliability Council of Texas, Inc. convened at approximately 1:30 p.m. on December 13, 2005.

**Meeting Attendance:**

**Board Members:**

Armentrout, Mark		Unaffiliated
Cox, Brad	Tenaska Power Services	Independent Power Marketer
Espinosa, Miguel		Unaffiliated
Gahn, Scott	Just Energy	Independent REP
Gallagher, Carolyn Lewis		Unaffiliated
Hayslip, Darrell	Calpine	Independent Generator (until 3:50 p.m.); Bob Helton, Segment Alternate after 3:50 p.m.
Kahn, Bob	Austin Energy	Municipal
Karnei, Clifton	Brazos Electric Cooperative	Cooperative and proxy for Mr. Kahn after 2:15 p.m.
Manning, Bob	H-E-B Grocery Company	Consumer/Commercial; Board Vice- Chairman
McClellan, Suzi	Office of Public Utility Counsel	OPUC Residential & Small Commercial Consumers and proxy for Andrew Dalton, Industrial Consumer Segment and for Bob Manning, Commercial Consumer Segment, after 3:35 p.m.
Schrader, Tom	ERCOT President and CEO	ERCOT
Standish, Tom	CenterPoint Energy	IOU

**Staff and Guests:**

Barry, Sean	PricewaterhouseCoopers
Brenton, Jim	ERCOT Staff
Bruce, Mark	FPL Energy
Byone, Steve	ERCOT V.P. and Chief Financial Officer
Clemenhausen, Barbara	Sempra Texas
Clitherow, John	Areva
Cunningham, Mike	Exelon
Davis, J. Lynn	TXI
Day, Betty	ERCOT Staff
Dreyfus, Mark	Austin Energy
Drost, Wendell	Areva
Emery, Keith	Tenaska Power Services Co.
Fehrenbach, Nick	City of Dallas

Friesenhahn, Kenneth	Texas Legislative Service
Gedrich, Brian	BP Energy
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
Harrell, Patty	Mirant
Hinsley, Ron	ERCOT V.P. and Chief Information Officer
Hobbs, Kristi	ERCOT Staff
Jett, William	CG&E
Jones, Don	Andrews Kurth
Jones, Richard	Fortegra
Jones, Sam	ERCOT Exec. V.P. and Chief Operating Officer
Kamm, Bob	Brazos Electric Cooperative
Kebler, Curtis	Goldman Sachs
Kolodziej, Eddie	Customized Energy Solutions
Lopez, Nieves	ERCOT Staff
Marlett, Valerie	GDS Associates
McIntire, Nancy	ERCOT V.P. of Human Resources and Organization Development
McKeever, Deborah	TXU Electric Delivery
McRae, Russ	Areva
Morris, Sandy	LCRA
Moseley, Cheryl	ERCOT Staff
Payton, Tom	Oxy
Petosky, Lisa	ERCOT Staff
Petterson, Mike	ERCOT Staff
Pieniasek, Adrian	Texas Genco
Roark, Dottie	ERCOT Staff
Shellman, Carolyn	ERCOT V.P. and General Counsel
Shumate, Walt	Shumate & Associates
Smallwood, Aaron	ERCOT Staff
Smith, Mark	Chaparral Steel
Tamby, Jeyant	ERCOT Staff
Totten, Jess	PUCT
Trenary, Michelle	First Choice Power
Vincent, Susan	ERCOT Staff
Walker, DeAnn	CenterPoint Energy
Walker, Mark	Texas Genco
Weathersbee, Tom	TXU Electric Delivery
Yager, Cheryl	ERCOT Staff

### **Announcements**

Tom Schrader, ERCOT President and CEO, called the meeting to order and determined that a quorum was present.

### **Confirmation of Commercial Consumer Director**

Mr. Schrader stated that the first order of business was to confirm the Appointed Commercial Consumer Board Member. **Mr. Karnei moved to approve Mr. Bob Manning of H-E-B Grocery**

**Company as the appointed Commercial Consumer Board member; Mr. Cox seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

#### **Selection of Chair and Vice-Chair**

**Ms. McClellan nominated Mark Armentrout to serve as Chairman of the ERCOT Board of Directors. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.** Following this action, Mr. Armentrout chaired the remainder of the meeting.

**Mr. Karnei nominated Mr. Manning to serve as Vice-Chair of the Board of Directors. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

#### **Confirmation of TAC Representatives**

**Mr. Kahn moved to approve the slate of TAC representatives for 2006 set forth in Attachment A to these minutes. Mr. Cox seconded the motion. The motion passed by a unanimous voice vote with no abstentions.**

#### **Assignments to Standing Committees**

Chairman Armentrout stated that this matter will be deferred to next month's meeting. He also recommended that Mr. Karnei continue as Chair of the Finance & Audit Committee and Mr. Kahn continue as Chair of the H.R. & Governance Committee. The members of the Board agreed with that approach.

#### **Approval of Minutes**

Chairman Armentrout requested comments on and approval of the minutes of the November 15, 2005 Board of Directors meeting 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 briefly on the status of the Key Corporate Goals summarized in the monthly Dashboard report.

#### **Operations Update**

Sam Jones, ERCOT Executive Vice President and Chief Operations Officer, stated that the ERCOT Region experienced some minor gas curtailment last week during the cold weather experienced throughout the state. He also stated that ERCOT experienced higher Load levels than normally expected during cold weather.

#### **Market Operations Update**

Ray Giuliani, ERCOT Vice President and Chief of Market Operations, reported briefly on the market operations report previously circulated.

## Wholesale Market Redesign Update

Ron Hinsley, ERCOT Vice President and Chief Information Officer, stated that the Protocols review is progressing and the group is also developing the requirements for the network model project. He reported that the first Transmission Plan Task Force (TPTF) meeting took place on November 30, 2005.

Additionally, he stated that the search for an overall Program Director continues. A Request for Proposal (RFP) to search for outside Project Management services has been distributed. The IT Program Director will be Jeyant Tamby. Mr. Hinsley also stated that business lead interviews are underway and the process of constructing a budget has begun and the first budget should be presented to the Board in January.

Chairman Armentrout asked about the status of the funding decision. Mr. Schrader stated that he has discussed the issue with the PUCT Commissioners and would follow up with them.

## Human Resources & Governance Committee Report

Mr. Kahn, Chairman of the committee, addressed the following matters:

- The committee approved proxy guidelines, which they circulated in the Board packet. Board members should abide by these guidelines when giving or receiving proxies in the future.
- The proposed By-Laws have been submitted to the PUCT and comments have been submitted. The committee hopes to have the By-Laws approved on an interim basis.
- The Nominating Committee conducted an interview yesterday and will have another interview on Thursday for Unaffiliated Board Member candidates. A conference call among Board members will take place in the near future to review the candidates.
- He asked the Board members to review the Dashboard because the information will be used as part of ERCOT's incentive compensation program.
- The Board retreat will take place in February.
- A Board self-evaluation will take place soon. The committee would like to have it completed in time to allow compilation of scores for the Board retreat.
- The committee will review the new Board member orientation materials.

Mr. Kahn then reported that ERCOT management received the Mercer compensation study at the end of November and the committee is reviewing it. Generally, it shows that ERCOT salaries are on par with industry norms. The study also shows that ERCOT's incentive compensation plan is, generally speaking, at a level less than the plans in the study. The target incentives in the ERCOT plan are: 10% for managers; 15% for Directors and 25% for Officers. He stated that the Board had previously approved the ERCOT incentive compensation plan pending the results of the Mercer study and, as a result, **Mr. Kahn moved to approve the Resolution attached as Attachment B regarding the ERCOT Incentive Compensation Plan. Mr. Hayslip seconded the motion. The motion passed by unanimous voice vote with one abstention (Ms. McClellan).**

## **Financial Update**

Steve Byone, ERCOT Vice President and Chief Financial Officer, made a brief presentation of ERCOT's recent financial data. ERCOT anticipates ending the year approximately \$6 million under budget. With respect to capital projects, ERCOT expects to have spent between \$15 and \$16 million for the year. ERCOT will have approximately \$160 million of debt at year-end. ERCOT may use excess funds at the end of the year to pay down debt or fund nodal development work.

ERCOT has 520 employees as of the end of November. He also reported that ERCOT will begin using an automated time tracking system in January 2006 and ERCOT has implemented cost savings of more than \$2.2 million this year.

Mr. Byone presented a slide showing the progress on addressing outstanding audit points and stated that ERCOT hopes to have all open Internal Control Management Program projects finished by the end of the first quarter of 2006.

## **Finance & Audit Committee Report**

Mr. Karnei, Chairman of the committee, reported on the status and results of the SAS 70 and benefits plan audits. He stated that the benefits audit has not been completed and, therefore, will not be presented to the Board today. He also reported that the SAS 70 audit opinion was a qualified one. The Committee informed ERCOT management that it would like to receive an unqualified opinion next year. Nonetheless, Mr. Karnei stated that PricewaterhouseCoopers (PwC) reported that ERCOT staff cooperated fully with the auditors and PwC found no evidence of any inappropriate activity by any ERCOT Staff.

**Mr. Karnei moved to accept the results of the SAS 70 audit. Mr. Espinosa seconded the motion.** Chairman Armentrout asked Ray Giuliani to comment on the qualified portions of the audit. Mr. Giuliani stated that many audit areas received unqualified opinions (sixteen of eighteen). He also provided some comments regarding the other areas. Mr. Karnei stated that the committee intends to re-double its efforts in order to obtain an unqualified audit opinion next year and added that fifty percent of ISO audits are qualified due to the logical and physical security areas (the same areas on which ERCOT received qualified opinions). Mr. Giuliani stated that a telephone conference for Market Participants regarding the SAS 70 audit will take place tomorrow, December 14. **The motion passed by unanimous voice vote with no abstentions.**

Mr. Karnei also stated that the committee conducted an in-depth review of the Internal Control Management Program and received a report on activity-based costing. In an executive session, the committee reviewed the Enterprise Risk Management score card.

At its meeting this month, the committee approved the Internal Audit department's audit plan for 2006.

## **Technical Advisory Committee (TAC) Report**

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

## **Protocol Revision Requests (PRRs) and System Change Requests (SCRs)**

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

- ***PRR620 – Notifying QSEs of their DBES Percentages. Proposed effective date: January 1, 2006.*** *No budgetary impact; negligible impact to ERCOT staffing and computer systems; new task added to Control Room Operations procedures; no impact to grid operations.* This PRR would change the requirement for ERCOT to notify QSEs (via the web) concerning their mandatory Down Balancing Energy Service (DBES) percentages. ERCOT operators would instead send notifications to QSEs only if changes occur in the percentages of the mandatory Down Balancing Energy Service. This PRR would also require ERCOT to always post the QSEs' mandatory DBES percentages. ERCOT posted this PRR on 8/19/05. On 9/29/05, PRS voted unanimously to recommend approval of PRR620 as amended by comments submitted by ERCOT staff. All segments attended the vote. On 10/20/05, PRS reviewed the Impact Analysis for PRR620 and noted that it does not require a system project. On 11/3/05, TAC unanimously voted to recommend approval PRR620 as recommended by PRS. All market segments attended. ERCOT credit staff and the CWG reviewed PRR620 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR621 – QSE Qualification Using Renewable Resources. Proposed effective date: January 1, 2006.*** *No budgetary impact; no impact to ERCOT staffing, computer systems, business function or grid operations.* This PRR specifies that QSEs representing only Uncontrollable Renewable Resources may qualify to provide Down Balancing Energy Services (DBES) and clarifies that ERCOT may only request DBES in an amount actually deliverable from the Uncontrollable Renewable Resource based upon energy production at the time of the qualification. ERCOT posted this PRR on 8/25/05. On 9/29/05, PRS voted unanimously to recommend approval of PRR621 as amended by comments submitted by ERCOT staff. All segments attended the vote. On 10/20/05, PRS reviewed the Impact Analysis for PRR621 and noted that it does not require a system project. On 11/3/05, TAC unanimously voted to recommend approval of PRR621 as recommended by PRS. All market segments attended. ERCOT credit staff and the CWG have reviewed PRR621 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR622 – Calculation of Marginal Heat Rate for Resources Receiving OOME Up Instructions. Proposed effective date: January 1, 2006.*** *No budgetary impact; no impact to ERCOT staffing, computer systems, business function or grid operations.* This PRR removes a sentence inadvertently left in the Protocols during the drafting process for PRR540 (OOM Cost Recovery Process Clarification). ERCOT posted this PRR on 8/25/05. On 9/29/05, PRS voted to recommend approval of PRR622 as amended by comments submitted by ERCOT staff, with one abstention from the Independent Power Marketer segment; all segments attended the vote. On 10/20/05, PRS reviewed the Impact Analysis for PRR622 and noted that it does not require a system project. On 11/3/05, TAC voted unanimously to recommend approval of PRR622 as recommended by PRS. All market segments were present. ERCOT credit staff and the CWG have reviewed PRR622 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR623 – Resource Plan Use for OOME Instructed Deviation. Proposed effective date: January 1, 2006.*** *No budgetary impact; no impact to ERCOT staffing, computer systems, business function or grid operations.* This PRR would align the Protocols with current EMMS system functionality by specifying that ERCOT use the most current Resource Plan available at

the time of Real Time Balancing (RTB) Market Clearing for RTB calculations. ERCOT posted this PRR on 8/25/05. On 9/29/05, PRS voted unanimously to recommend approval of PRR623 as submitted. All segments attended the vote. On 10/20/05, PRS reviewed the Impact Analysis for PRR623 and noted that it does not require a system project. On 11/3/05, TAC unanimously voted to recommend approval of PRR623 as recommended by PRS. All market segments were present. ERCOT credit staff and the CWG have reviewed PRR623 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

- ***PRR624 – Clarification of Market Participant Default Language. Proposed effective date: January 1, 2006.*** *No budgetary impact; no impact to ERCOT staffing, computer systems, business functions or grid operations.* This PRR strengthens or clarifies Protocol provisions addressing default situations. ERCOT posted this PRR on 8/26/05. On 9/29/05, PRS voted to recommend approval of PRR624 as amended by PRS, with one abstention from the Cooperative segment; all segments attended the vote. On 10/20/05, PRS reviewed the Impact Analysis for PRR624 and noted that it does not require a system project. On 11/3/05, TAC voted unanimously to recommend approval of PRR624, as submitted by PRS, with all market segments present. ERCOT credit staff and the CWG have reviewed PRR624, support it and believe it has positive credit implications.
- ***PRR628 – ERCOT Operation Performance – Non-Spinning Reserve Service Deployments. Proposed effective date: January 1, 2006.*** *No budgetary impact; modification of manual reports can be accomplished with current staffing levels; no impact to computer systems, business function or grid operations.* This PRR adds: (i) a requirement for ERCOT to publish on the MIS the percentage of Balancing Energy Service (BES) bids awarded during every interval that includes deployment of Non-Spinning Reserve Service (NSRS); (ii) a requirement for ERCOT to publish a monthly report showing the average percentage of BES bids awarded when NSRS was deployed in the month; and (iii) a performance metric for ERCOT that reports when deployment of NSRS (in accordance with Section 6.7.4 (1)) leads to excessive replenishment of the BES Up Bid Stack (defined as 90% or less depleted). ERCOT posted this PRR on 8/26/05. On 9/29/05, PRS voted unanimously to recommend approval of PRR628 as amended by comments submitted by ERCOT staff. All segments attended the vote. On 10/20/05, PRS reviewed the Impact Analysis for PRR628 and noted that it does not require a system project. On 11/3/05, TAC voted unanimously to recommend approval of PRR628, as submitted by PRS, with all market segments present. ERCOT credit staff and the CWG have reviewed PRR628 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR641 – Clarifying RPRS Scheduling Language - URGENT. Proposed effective date: January 1, 2006.*** *No budgetary impact; no staffing impact; no impact to ERCOT systems; no impact to ERCOT business functions; no impact to grid operations.* This PRR aligns Section 6.7.5(2), Deployment of Replacement Reserve Service, with the existing language in Section 6.4.2(5), Determination of ERCOT Control Area Requirements, regarding procured Replacement Reserve Service (RPRS) and updating of Balancing Energy Service bids. ERCOT posted this PRR on 10/27/05. On 10/31/05, PRS granted urgent status via email vote so the alignment will be in place prior to implementation of the RPRS market. On 11/17/05, with all market segments present, PRS voted unanimously to recommend approval of PRR641. On 12/1/05, TAC unanimously voted to recommend approval of PRR641 as submitted by PRS. All segments attended the vote. ERCOT credit staff and the CWG have reviewed PRR641 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR643 – Shorten Payment Default Timelines – URGENT. Proposed effective date: January 1, 2006.*** *No budgetary impact; no staffing impact; no impact to ERCOT systems; no impact to*

*ERCOT business functions; no impact to grid operations.* This PRR proposes to: (1) reduce (from three Business Days to two Business Days) the number of days allowed to cure a breach before it becomes a Default under the LSE, QSE and TCR Agreements; and (2) make collateral payments due by 1500 on the second Bank Business Day after notification rather than by 1700 on that day, so long as ERCOT delivered the collateral call before 1500 on a Business Day. ERCOT posted this PRR on 11/14/05. PRS granted urgent status via email vote on 11/16/05 to allow for timely signing of the modified Agreements. On 11/17/05, PRS voted to recommend approval of PRR643 as amended by PRS, with one abstention from the Independent REP segment. On 12/1/05, TAC unanimously voted to recommend approval of PRR643 as submitted by PRS. All segments attended the vote. The Credit Working Group sponsored PRR643. ERCOT credit staff and the CWG believe PRR642 has positive credit implications.

- ***PRR644 – Ancillary Service Re-qualification – URGENT. Proposed effective date: January 1, 2006.*** *No budgetary impact; no staffing impact; no impact to ERCOT systems; no impact to ERCOT business functions; no impact to grid operations.* This PRR Allows QSEs to re-qualify as provider(s) of Responsive Reserve Service, Balancing Energy Service, Regulation Service or Non-Spinning Reserve Service based upon demonstrated historical performance in lieu of repeating the qualification test(s). ERCOT posted PRR644 on 11/14/05. On 11/16/05, PRS did not approve urgent status via email vote. On 11/17/05, PRS reconsidered that vote and granted urgent status for PRR644 because many QSEs are due for Ancillary Service re-qualification in 2006. Also on 11/17/05, with all segments present, PRS unanimously voted to recommend approval of PRR644 as modified by PRS. On 12/1/05, TAC unanimously voted to recommend approval of PRR644 as submitted by PRS. All segments attended the vote.
- ***SCR745 – Retail Market Outage Evaluation and Resolution – URGENT. Proposed effective date: upon system implementation.*** This SCR has been revised for implementation in two sub-projects: (1) Phase I, NAESB and Proxy Clustered, and Phase II, Paperfree Clustered Environment and (2) Phase III, All Retail (Database Clustered Environment). Each phase involves the purchase and installation of hardware to eliminate single points of failure by delivering system failover and redundancy capabilities. On 10/18/05, the Board voted to remand SCR745 to TAC. On 11/3/05, with all market segments present, TAC unanimously voted to remand SCR745 to RMS. On 11/9/05, RMS voted to recommend the approval of two sub-projects and a priority of 1.1 and rank of 8 for Sub-project One, priority of 1.2 and rank of 58.5 for Sub-project Two. The motion passed unanimously. All market segments attended. On 11/17/05, PRS voted unanimously to assign priority and rank as recommended by RMS. On 12/1/05, TAC voted unanimously to recommend approval of SCR745 as recommended by RMS.

***Phase I – NAESB/Proxy Clustered Environment. Proposed effective date: upon system implementation of Subproject One [priority of 1.1 and rank of 8].*** *Budgetary impact \$500,000 to 1 million; no impact to ERCOT staffing; impact to NAESB and Proxy environments; impact to ERCOT business functions requiring training, documentation and monitoring; no impact to grid operations.*

***Phase II – Paperfree Clustered Environment. Proposed effective date: upon system implementation of Subproject One [priority of 1.1 and rank of 8].*** *Budgetary impact less than \$100,000; no impact to ERCOT staffing; impact to Paperfree Clustered environment; impact to ERCOT business functions requiring training, documentation and monitoring; no impact to grid operations.*

***Phase III – All Retail (Database Clustered Environment). Proposed effective date: upon system implementation of Subproject Two [priority of 1.2 and rank of 58.5].***



*Budgetary impact \$1 to 3 million; requires two additional FTEs for on-going support of new hardware and monitoring capabilities; impact to All Retail (Database Clustered environment); impact to ERCOT business functions requiring training, documentation and monitoring; no impact to grid operations.*

- **SCR747 – Removal of Price Administration for Zonal Congestion. Proposed effective date: upon system implementation.** *Budgetary impact less than \$100,000; no impact on ERCOT staffing upon system implementation; minor code change to the Scheduling, Pricing, Dispatch (SPD) function; no impact to ERCOT business functions; no impact to grid operations.* This SCR will eliminate violations on Commercially Significant Constraints (CSCs) as a trigger for Price Administration in the Real Time Balancing Market Clearing Engine (SPD). Instead of triggering Price Administration when a CSC is violated, SPD should allow the Shadow Price to be equal to the Penalty Factor for OC1 congestion, currently \$2,500. ERCOT posted this SCR on 8/1/05. On 9/21/05, WMS voted to recommend approval of SCR747 with one vote (Independent REP) against the motion; all market segments attended the vote. On 10/27/05, PRS reviewed the impact analysis and CBA and assigned a priority of 1.1 and a rank of 9.25. On 11/3/05, TAC reviewed the SCR, its Impact Analysis and Cost Benefit Analysis (CBA) and voted unanimously to recommend approval of this SCR as recommended by WMS. All market segments attended the vote.

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

Mr. Comstock invited Ron Hinsley, ERCOT's CIO, to provide an overview of the systems impacted by SCR 745 and the work entailed to implement SCR 745. He stated that, for January through September 2005, server availability hovered around 99.4%. After implementation of Phases I and II of SCR 745, ERCOT hopes to have server availability at 99.9%. If that level is not accomplished or if Market Participants desire a higher level of availability, ERCOT would consider implementing Phase III (which would have to return to the Board because its cost exceeds \$1 million). A brief discussion took place regarding the history of SCR745 and options for implementing it.

**Ms. Gallagher move to approve Phases I and II. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

**Mr. Karnei proposed that the Board table voting on Phase III until after Phases I and II are implemented and ERCOT Staff and Market Participants provide additional information regarding the need to move forward on Phase III. Ms. Gallagher seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

**Mr. Manning moved to approve SCR747 as submitted. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

### **PRR 525 Implementation**

Larry Grimm, ERCOT Director of Compliance, provided an update regarding the implementation of PRR 525. He stated that ERCOT's overall performance on the NERC control performance standard (CPS) has steadily declined since 2001 (although remaining above acceptable levels). He also stated that most QSEs meet ERCOT's ten-minute Schedule Control Error (SCE) standard (SCPS2) and that ERCOT has provided SCE scores to QSEs since September 2004 and recent began providing real-time signals to QSEs regarding their SCE compliance. SCPS2 compliance trend has declined since September 2004.

The Compliance Department recommends using an enforcement matrix similar to the NERC enforcement matrix, which provides for increasing levels of severity for non-compliance. A Level 1 violation would cause ERCOT to call the QSE and send the QSE a letter (copied to PUCT). ERCOT would also report the non-compliance on the ERCOT web site and to NERC. For Level 2 (a second violation within six months), ERCOT would call the QSE's management and send a letter to the QSE (copied to the PUCT). The failing QSE would also have to make a presentation to the ROS to explain its performance. Again, ERCOT would post the violation on the ERCOT web site and report it to NERC. For Level 3, ERCOT would take the same steps mentioned above, except the QSE would have to make a presentation to TAC instead of the ROS.

If, after six months of enforcement, ERCOT does not achieve satisfactory results on SCE, the Compliance Department would return to the Board to consider additional or different enforcement steps.

Mr. Hayslip commended the Compliance Department staff regarding their work on this issue and provided some insight regarding the ten minute performance trend over recent years. He expressed a concern regarding whether implementing enforcement actions will encourage QSEs to refrain from bidding into the ancillary services markets. Mr. Hayslip recommended that ERCOT contact a QSE's senior management regarding non-compliance before the information is posted on the ERCOT web site. Mr. Grimm stated that ERCOT staff would provide a QSE's performance data to the QSE ten days before ERCOT finalizes the data. If the QSE has concerns about the data's accuracy, it could provide comments to ERCOT staff before ERCOT posted the data on its web site. Mr. Hayslip asked that the Board regularly receive more data regarding QSEs' participation in the ancillary service markets and their performance. Mr. Cox requested that an update on PRR 525 compliance be included as an agenda item for the January 2006 Board meeting.

A lengthy discussion took place regarding the characteristics of QSEs who typically fail or pass the compliance testing, how to handle disputes between ERCOT staff and a Market Participant regarding compliance performance and the posting of failing scores on the ERCOT and/or NERC web sites.

Mr. Clayton Greer of Constellation asked how ERCOT Staff developed its non-compliance levels. Mr. Grimm stated that they used the NERC format. Mr. Greer also pointed out that some of the information associated with a presentation to ROS by a failing QSE may be proprietary. Mr. Grimm stated that it would be possible to remove the proprietary information from a report to a subcommittee.

Chairman Armentrout stated that the requirement to report to ROS should be removed for the time being and ERCOT Compliance staff should provide a follow-up presentation regarding compliance early next year.

### **Other Business**

The Board members agreed upon the following schedule for 2006 Board meetings:

January 17, 2006	July 18, 2006
February 21, 2006	August 15, 2006
March 21, 2006	September 19, 2006
April 18, 2006	October 17, 2006
May 16, 2006	November 14, 2006
June 20, 2006	December 12, 2006

The April meeting will take place at ERCOT's Taylor office. Due to holidays, the November and December meetings will take place on the *second* Tuesday of the month instead of the normal third Tuesday.

### **Future Agenda Items**

Attached as Attachment C is a list of proposed future agenda items.

Chairman Armentrout adjourned the first part of the open meeting into Executive Session at 4:00 p.m.

### **Executive Session**

The Board met in Executive Session to discuss contract matters.

### **Adjournment**

After the Executive Session, Chairman Armentrout reconvened the Board meeting and announced that the Board had voted to award a three year security contract to Allied-Barton Security Services.

The meeting adjourned at approximately 4:20 p.m.

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

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

**Attachment A**

**2006 Technical Advisory Committee Members**

<b><u>Segment</u></b>	<b><u>Member</u></b>
<b>Cooperatives</b>	Hugh Lenox – Brazos Electric Power Cooperative Dudley Piland – Lower Colorado River Authority John L. Sims – Nueces Electric Cooperative Henry Wood – South Texas Electric Cooperative
<b>Consumers</b>	Industrial: Randall Bachman – Chevron Phillips Oscar Robinson – Austin White Lime Commercial: Nick Fehrenbach – City of Dallas Chris Hendrix – Wal-Mart OPUC: Laurie Pappas Residential: Shannon McClendon
<b>Independent Generators</b>	Barbara Clemenhausen – Sempra Bob Helton – American National Power Randy Jones – Calpine Corporation Mark Walker – Texas Genco
<b>Independent Power Marketers</b>	Kristy Ashley – Exelon Jeff Brown – Coral Power Brian Gedrich – BP Energy Clayton Greer – Constellation Energy
<b>Independent Retail Electric Providers</b>	Read Comstock – Strategic Energy Marty Downey – TriEagle Energy William Lewis – Cirro Energy Marcie Zlotnik – Star Electricity
<b>Investor Owned Utilities</b>	BJ Flowers – TXU Energy John Houston – CenterPoint Energy Richard Ross – AEP Service Corporation Michelle Trenary – First Choice Power
<b>Municipals</b>	Mark Dreyfus – Austin Energy Dan Jones – City Public Service Sharon Mays – Denton Municipal Electric Dan Wilkerson – Bryan Texas Utilities

**Attachment B**

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

December 13, 2005

WHEREAS, the Board of Directors (the "Board") of the Electric Reliability Council of Texas, Inc. (the "Company" or "ERCOT") deems it desirable and in the best interest of the Company that there be an incentive compensation plan for certain ERCOT employees; and

WHEREAS, in February 2005 the Board approved a proposed incentive compensation plan for 2005 subject to the findings of the Mercer compensation study and confirmation that the incentive plan would not be inconsistent with the Mercer study's findings; and

WHEREAS, the HR & Governance Committee has reviewed the Mercer incentive compensation analysis and has determined that the possible percentage awards in the 2005 incentive compensation plan are consistent with the Mercer study's findings.

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves the possible percentage awards in the 2005 incentive compensation plan that was previously approved by the Board in February 2005, which percentages shall be used by the HR & Governance Committee in administering the 2005 incentive compensation plan.

**Attachment C**

**Future Board Meeting Topics**

<b><u>TOPIC</u></b>		<b><u>MEETING</u></b>
1.	Status of Nodal readiness plan.	Standing agenda item
2.	ERCOT's future role as an RRO under the FERC rules and the Energy Policy Act of 2005.	<b>February</b> (or when known)
3.	Incentive Compensation plan for 2006.	<u>January</u>
4.	Cost/benefit analysis and the question of who pays.	<b>Unscheduled</b>
5.	Fee allocation and fee for service.	<b>Unscheduled</b>
6.	Transmission planning and competitive markets. Report due to PUC 1/31/06.	<b>February</b> (Preview in January if possible).
7.	Status of implementation of audit responses, internal controls and fraud prevention programs.	<b>January</b>
8.	Board meeting frequency and committee structure.	<u>Retreat Topic</u>
9.	Review of system operations performance in facilitating an efficient wholesale market	<u>Unscheduled</u>
10.	Review of TAC and sub-committee process, the PRR process and the question of what should come to the board.	<u>Retreat Topic</u>
11.	Independent Market Monitor scope and implementation schedule. ERCOT's role, funding and staffing requirements.	<u>February</u>
12.	Review protocol revision backlog.	<u>February</u>
13.	Summary and discussion of <u>2004 State of the Market Report</u> by Potomac Economics.	<u>Unscheduled</u>