

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

ERCOT Austin Offices
7620 Metro Center Drive
Austin, Texas 78744
10:00 a.m.
May 16, 2006

Pursuant to notice duly given, the meeting of the Board of Directors of Electric Reliability Council of Texas, Inc. (ERCOT) convened at approximately 10:05 a.m. on May 16, 2006.

Meeting Attendance:

Board Members:

Armentrout, Mark		Unaffiliated; Board Chairman; Proxy for Bob Manning, Consumer/Commercial
Cox, Brad	Tenaska Power Services	Independent Power Marketer
Dalton, Andrew	Valero Energy Corp.	Consumer/Industrial
Espinosa, Miguel		Unaffiliated
Gahn, Scott	Just Energy	Independent REP
Gallagher, Carolyn Lewis		Unaffiliated
Gent, Michehl		Unaffiliated
Hayslip, Darrell	Calpine Corporation	Independent Generator
Kahn, Bob	Austin Energy	Municipal
Karnei, Clifton	Brazos Electric Power Cooperative	Cooperative
McClellan, Suzi	Office of Public Utility Counsel	Consumer/Residential; proxy for Andrew Dalton after 3:30 p.m.
Schrader, Tom	ERCOT President and CEO	ERCOT; in attendance only through approximately 11:24 a.m.
Standish, Tom	CenterPoint Energy	IOU

Staff and Guests:

Adib, Parviz	PUCT
Bell, Wendell	TPPA
Bojorquez, Bill	ERCOT Staff
Brenton, Jim	ERCOT Staff
Byone, Steve	ERCOT Vice President and Chief Financial Officer
Drew, Rachel	ERCOT Staff
Drost, Wendell	Areva
Fisher, Pam	ERCOT Acting Vice President of Human Resources
Fournier, M.	Competitive Assets
Giuliani, Ray	ERCOT Vice President and Chief of Market Operations
Grimm, Larry	ERCOT Staff
Hinsley, Ron	ERCOT Vice President and Chief Information Officer
Jones, Sam	ERCOT Executive Vice President and Chief Operating Officer
Kolodziej, Eddie	Customized Energy Solutions

Marlett, Valerie	GDS Associates
Moore, John	John Moore
Roark, Dottie	ERCOT Staff
Ryall, Jean	Constellation
Saathoff, Kent	ERCOT Staff
Seely, Chad	ERCOT Staff
Seymour, Cesar	Suez Energy
Shellman, Carolyn	ERCOT Vice President and General Counsel
Trayers, Barry	Sempra Energy Trading Corp.
Twiggs, Thane	Direct Energy
Vincent, Susan	ERCOT Staff
Wattles, Paul	ERCOT Staff
Wullenjohn, William	ERCOT Staff
Young, Mark	Deloitte & Touche

Announcements

Mark Armentrout, Chairman of the ERCOT Board of Directors, called the meeting to order and determined that a quorum was present. Paul Hudson, Chairman of the Public Utility Commission of Texas (PUCT) called to order an open meeting of the PUCT.

Consent Agenda

The items made part of the Consent Agenda included: (1) approval of the minutes of the Board's Executive Session on April 18, 2006; (2) approval of April 18, 2006 Board meeting minutes; (3) Protocol Revisions Requests (PRR648, PRR657, PRR659 and PRR660); and (4) approval of the 2005 audited Financial Statements. **Bob Kahn moved to approve the items on the Consent Agenda. Michehl Gent seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Executive Session

At approximately 10:08 a.m., the Board of Directors adjourned into Executive Session to discuss a personnel matter. At approximately 11:15 a.m., Chairman Armentrout re-opened the meeting to the public.

Personnel Matter

Chairman Armentrout announced that Tom Schrader, ERCOT President and Chief Executive Officer (CEO), had submitted his resignation to the Board of Directors. **Mr. Kahn moved to accept the resignation. Darrell Hayslip seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Mr. Gent moved to appoint Sam Jones, ERCOT Executive Vice President and Chief Operation Officer (COO), the interim President and CEO. Clifton Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Schrader then made a statement recapping the accomplishments during his tenure. He thanked the Market Participants for their work during his time with ERCOT. He stressed the importance of ERCOT

defining and delineating its relationship with the PUCT in the future. He thanked ERCOT employees for their hard work and dedication.

Operations Report

Kent Saathoff, ERCOT Director of System Operations, provided a presentation regarding the April 17, 2006 Emergency Electric Curtailment Plan (EECP) event. Mr. Karnei raised a question regarding how ERCOT would handle a significant winter weather event if one occurred and requested a report from ERCOT staff regarding reliability issues relating to a significant winter weather event. Further discussion took place regarding: (i) how much capacity remains on planned outage at the present time, (ii) the testing of the new load forecast model and (iii) communication of EECP events.

Bill Bojorquez, ERCOT Director of Transmission Services, made a brief presentation regarding ERCOT's 2006 summer readiness report. A discussion took place regarding the need to ensure Resource adequacy and ERCOT's ability to respond to higher-than-normal Load levels.

Richard Gruber, ERCOT Director of Market Services, provided information regarding revisions to ERCOT's communication procedures in the event of an emergency or other event. He also stated that ERCOT has created a task force to identify events requiring communication and the best way to communicate with Market Participants, the PUCT, the Legislature and the general public. Several Board members made comments and posed questions about the communication processes.

Market Participant Survey

Mr. Gruber then introduced Messrs. Brad Kates and Bill Norton of Opinion Dynamics Corporation, to present the results of the Market Participant survey. Mr. Kates reported that his company sent surveys to 920 ERCOT Market Participants and experienced a 31% response rate. The survey responses indicated significant improvement in virtually all areas of ERCOT performance. Questions relating to the Program Management Office (PMO) were the only ones receiving relatively low scores.

H.R. & Governance Committee Report

Mr. Kahn, Chairman of the Human Resources (H. R.) & Governance Committee, stated that the committee is focused on compensation issues in light of the upcoming PUCT workshop. He asked Carolyn Lewis Gallagher to describe the work of the committee's compensation task force. Ms. Gallagher stated that the task force is focusing on implementation of the Mercer study along with the structure of ERCOT's total compensation package. She stated that ERCOT has a critical mission and, as a result, needs a stable work environment that can reward individual performance. Through work with Mercer, the committee has reached the conclusion that the best compensation structure for ERCOT employees is one with increased base pay and no (or little) incentive compensation. The committee recommends a compensation package targeted to the median of the market for total compensation, with no incentive pay, although small bonuses (one percent or so) should be available for exemplary performance.

A discussion took place regarding the correct compensation structure. Several Board members recommended retaining incentive compensation.

Operating Reports (Q & A Only)

Chairman Armentrout asked whether anyone had questions regarding the Financial Summary, Market Operations, IT and Compliance Reports distributed in the Board Packet. Chairman Hudson asked a question regarding the recent fail-over problem on the Energy Management and Market System (EMMS). Ron Hinsley, ERCOT Vice President and Chief Information Officer (CIO), explained the circumstances of that event.

Nodal Status Report

Mr. Hinsley gave an update regarding the nodal market redesign. He indicated that the program is in a “red” status and there is a great deal of concern about implementing the redesign by January 1, 2009. Several parts of the design are unique to Texas and, therefore, ERCOT cannot borrow from systems of other markets. Additionally, Mr. Hinsley stated that ERCOT is having significant difficulties in hiring employees to perform the needed work and that using contractors is the most viable staffing model. More specifically, ERCOT has targeted ninety-two positions for nodal support but has filled only forty-five positions (primarily with current ERCOT employees). Additionally, however, those people cannot dedicate all their time to the nodal project until ERCOT “back fills” their current jobs with a new employee. Therefore, functionally, ERCOT has filled only approximately twenty positions of the ninety-two nodal positions.

He also reported that, on May 10th, ERCOT received the bids on the nodal Request for Proposals (RFPs) and hopes to have the workers in place by June 30, 2006. ERCOT filed its request for the administration fee surcharge for the nodal redesign on May 5, 2006.

2007 Budget Planning

Steve Byone, ERCOT Vice President and Chief Financial Officer (CFO), invited Mike Petterson, ERCOT Controller, to present information regarding the budget planning process for the 2007 ERCOT budget. Among other things, Mr. Petterson invited input from Board members and the public regarding the upcoming budget process.

Chairman Armentrout asked that the Technical Advisory Committee (TAC) study the total amount of money allocated to fund projects next year in order to ensure that next year's total capital spending level is appropriate in the view of TAC and the market participants. Mr. Gent raised a question regarding funding enhanced communications tools and staff. Mr. Karnei stated that the Finance and Audit (F&A) Committee discussed these issues this morning and that, to add additional communications staff, ERCOT would have to cut other staff positions.

Capital Projects Update

Mr. Byone invited David Troxtell, acting Director of the PMO, to make a presentation regarding how the PMO operates and the status of the project priority list. Among other things, Mr. Troxtell described how ERCOT recently reorganized the PMO. He also discussed the number of projects currently underway.

TAC Report

Chairman Armentrout invited Read Comstock, Chairman of TAC, to report on recent TAC activities. In turn, Mr. Comstock asked Kevin Gresham, Chairman of the Protocol Revision Subcommittee (PRS), to present information regarding his committee's work on the project priority list.

Mr. Comstock then discussed the PRRs and other matters set forth below.

Protocol Revision Requests

Mr. Comstock reported that TAC voted to recommend that the Board approve PRR648, PRR657, PRR659 and PRR660. Mr. Comstock indicated there was no need to discuss these PRRs in detail because the Board previously approved them in the Consent Agenda. The PRRs are described as follows:

- **PRR648 – Prevent IDR Removal from Customers Served at Transmission Voltage. Proposed effective date: June 1, 2006.** This PRR clarifies that Interval Data Recorders (IDRs) may not be removed from premises served at transmission voltage, regardless of the level of a customer's demand. ERCOT posted PRR648 on 1/16/06. On 2/23/06, PRS unanimously voted to recommend approval of PRR648 as submitted. All segments attended the vote. On 3/23/06, PRS noted that PRR648 has no system impacts. On 4/7/06, TAC unanimously voted to recommend approval of PRR648 as submitted. All segments participated in the vote. ERCOT credit staff and the Credit Work Group (CWG) have reviewed PRR648 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- **PRR657 – Process for Protocol Revisions during the Transition to a Nodal Market – URGENT. Proposed effective date: June 1, 2006.** This PRR introduces a streamlined procedure for processing revision requests relating the Nodal Protocols during the period prior to implementation of the Nodal market design. ERCOT posted this PRR on 3/24/06. On 4/21/06, PRS unanimously voted to recommend approval of PRR657 as revised by TXU comments and PRS. PRS also unanimously voted to grant urgency so that pending Nodal PRRs can be processed on an accelerated timeframe. All market segments attended the votes. On 5/4/06, with all segments present, TAC unanimously voted to recommend approval of PRR657, as amended by TAC. ERCOT credit staff and the CWG have reviewed PRR657 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- **PRR659 – Reporting of ERCOT Replacement Reserve Service Procurements – URGENT. Proposed effective date: June 1, 2006.** This PRR has no staffing impacts upon automated reporting, but has interim staffing impact for manual workaround of approximately two hours daily; the EMMS and the Data Delivery Module will be used to deliver both daily and monthly public report extracts and ERCOT will post the extracts to the ERCOT Texas Market Link (TML). This PRR requires reporting on the classification and amounts of ERCOT's procured Replacement Reserve Service (RPRS), as well as a comparison of actual procurements of RPRS for system capacity to a theoretical amount of RPRS procurement for system capacity. ERCOT posted this PRR on 4/3/06. The submitter requested urgent status, stating that additional reporting requirements would improve market transparency and provide a better understanding on the need for all types of RPRS deployments. On 4/5/06, PRS did not grant urgent status. On 4/21/06, the submitter again requested urgent status. PRS voted unanimously to grant urgent status and recommend approval of PRR659, as revised by PRS. All market segments attended the votes. On 5/4/06, with all segments present, TAC unanimously voted to recommend approval of PRR659, as amended. TAC directed PRS to consider a rank and priority for the project at its meeting scheduled for 5/9/06 in order to automate PRR659. On 5/9/06, PRS voted unanimously to recommend a priority of 1.1 and a rank of 20.5 for PRR569. TAC will conduct an e-mail vote regarding PRS's recommended rank and priority. ERCOT credit staff and the CWG have reviewed PRR659 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

- **PRR660 – Texas SET Transactional Solution for a Mass Transition Event – URGENT.** **Proposed effective date: Upon system implementation.** This PRR introduces a transactional solution for reducing mass transition timelines and documents the process for parties involved in a Mass Transition event. ERCOT posted this PRR on 4/6/06. On 4/13/06, the Retail Market Subcommittee (RMS) requested urgent status due to the critical need to address credit risk in the market. On 4/18/06 PRS voted to grant urgent status via e-mail vote. On 4/18/06, the ERCOT Board concurred that ERCOT staff should begin working on the project to implement PRR660, acknowledging that the work is outside the normal PRR process. On 4/21/06, PRS unanimously voted to recommend approval of PRR660, as revised by RMS comments and to assign the PRR a priority of 1.1 and a rank of 7.5. All market segments attended the votes. On 5/4/06, with all market segments present, TAC unanimously voted to recommend approval of PRR660 as submitted. The CWG has reviewed PRR 660 and believes this PRR has **positive** credit implications for ERCOT Market Participants by reducing the time it takes to remove a defaulting Market Participant from the market (by moving its customers to another REP more timely), thereby reducing credit risk to ERCOT Market Participants related to that entity and ultimately reducing the losses uplifted to ERCOT Market Participants.

Mr. Comstock then reported on the status of the action items given to TAC after the Board retreat earlier this year. A final report regarding which PRRs to send the Board will be presented in the near future. Also, PRS has discussed the possibility of allowing Market Participants to directly fund PRRs of particular interest to them.

TAC has also focused on streamlining the Mass Transition process in order to lower the credit risk on Market Participants. TAC has also looked at issues related to development of the 2007 budget and reviewed the April EECF event. Mr. Comstock set forth the issues that Market Participants would like reviewed in more detail, including forecasting, Resource Plans, communications and LaaR performance during the event.

F&A Committee Report

Mr. Karnei, Chairman of the F&A Committee, reported that the committee met this morning and, among other matters, received a credit update. The committee also received an update from the Internal Audit department.

Other Business

Chairman Armentrout inquired as to whether there was any other business to address before adjourning to Executive Session. There was none.

Board Yearly Schedule

Chairman Armentrout asked members to provide to him or Carolyn Shellman any items they would like added to this list.

Future Agenda Items

Chairman Armentrout inquired as to whether there were any future Board meeting topics to address over the next couple of months. No items were raised.

Executive Session (Part 2)

Chairman Armentrout adjourned the open portion of the meeting at approximately 2:55 p.m. into Executive Session to handle contract and litigation matters.

After the second portion of the Executive Session (at approximately 4:50 p.m.), **Mr. Gent moved to approve the four contracts discussed during Executive Session. Mr. Cox seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Adjournment

Chairman Armentrout adjourned the meeting at approximately 5:00 p.m.

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

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