

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
June 20, 2006 at 10:00 a.m.

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 June 20, 2006.

Meeting Attendance:

Board Members:

Armentrout, Mark		Unaffiliated; Board Chairman
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
Harder, Jim	Garland Power & Light	Municipal – Segment Alternate, until 3:05 p.m.
Hayslip, Darrell	Calpine Corporation	Independent Generator, until 2:10 p.m.; Bob Helton, Segment Alternate, after 2:10 p.m.
Helton, Bob	American National Power, Inc.	Segment Alternate for Darrell Hayslip, After 2:10 p.m.
Hudson, Paul	Public Utility Commission of Texas	PUCT Chairman; Left meeting at 10:10 a.m.
Houston, John	CenterPoint Energy	Investor-Owned Utilities; Proxy for Tom Standish
Jones, Sam	ERCOT Executive Vice President/COO and interim President/CEO	ERCOT
Manning, Bob	HEB	Consumer/Commercial; Board Vice Chairman
Pappas, Laurie	Office of Public Utility Counsel	Consumer/Residential; Proxy for Suzi McClellan

Staff and Guests:

Adits, Parviz	PUC
Ashley, Kristy	Exelon
Belk, Brad	LCRA
Bell, Wendell	TPPA
Brewster, Chris	Steering Committee of Tri Cities
Jeff Brown	Coral
Bruce, Mark	FPL Energy
Byone, Steve	Vice President & Chief Financial Officer
Capezzuti, Nancy	Vice President – Human Resources & Organizational Development

Clemenhausen, Barbara	Sempra
Connell, Robert	ERCOT Staff
Cutrer, Michelle	Green Mountain Energy
Day, Betty	ERCOT Staff
Delenda, Ann	ERCOT Staff
Donohoo, Ken	ERCOT Staff
Dreyfus, Mark	Austin Energy
Drost, Wendell	AREVA
Drew, Rachel	ERCOT Staff
Dumas, John	ERCOT Staff
Durrwachter, Henry	TXU Wholesale
Fourier, M.	Competitive Assets
Giuliani, Ray	Vice President & Chief of Market Operations
Grammer, Kent	ERCOT Staff
Grisham, Kevin	Reliant Energy
Hinsley, Ron	Vice President & Chief Information Officer
Hobbs, Kristi	ERCOT Staff
Jones, Randy	Calpine Corporation
Kolodziej, Eddie	Customized Energy Solutions
Lopez, Nieves	ERCOT Staff
Meek, Don	ERCOT Staff
Moore, John	John Moore
Morris, Sandy	LCRA
Oldham, Phillip	TLEC
Petoskey, Lisa	ERCOT Staff
Petterson, Michael	ERCOT Staff
Roark, Dottie	ERCOT Staff
Robinson, Lane	ERCOT Staff
Seely, Chad	ERCOT Staff
Seymour, Cesar	Suez Energy
Shellman, Carolyn E.	Vice President, General Counsel and Corporate Secretary
Shumate, Walt	Shumate Associates
Smallwood, Aaron	ERCOT Staff
Taylor, William	Calpine Corporation
Vincent, Susan	ERCOT – Assistant General Counsel
Walker, DeAnn	CenterPoint Energy
Mark Walker	NRG Texas
Wattles, Paul	ERCOT Staff
Wittmeyer, Bob	R. J. Covington – Denton
Yager, Cheryl	ERCOT Staff

Announcements

Mark Armentrout, Chairman of the ERCOT Board of Directors, called the meeting to order and determined that a quorum was present.

Consent Agenda

The items made part of the Consent Agenda included: (1) approval of the minutes of the Board Meeting on May 16, 2006; (2) approval of the minutes of the Board's June 8, 2006 special meeting; and (3) modifications to the 401K signature authorizations. Chairman Armentrout removed items 8(a) and 15(a),

(b) and (c) of the agenda from the consent agenda. **Bob Manning moved to approve the items on the Consent Agenda. Jim Harder seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Ratification of ERCOT Vice President – Human Resources

Sam Jones, ERCOT interim President and CEO, introduced Nancy Capezzuti as ERCOT's new Vice President of Human Resources. **Miguel Espinosa moved to ratify Ms. Capezzuti as ERCOT's new Vice President of Human Resources. Darrell Hayslip seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Executive Session (Part 1)

At 10:10 a.m., Chairman Armentrout adjourned the open session of the meeting to allow the Board of Directors to discuss the Regional Entity proposal. Chairman Hudson left the room and Commissioner Parsley participated in the Executive Session. Part One of the Executive Session adjourned at 10:45 a.m.

Chairman Armentrout summarized the discussions that took place in the Executive Session by stating that the Board of Directors supports the proposed arrangement for a Regional Entity in the ERCOT Region.

CEO Report

Mr. Jones provided an update on ERCOT's hurricane preparedness. Generally, he stated that ERCOT's functions do not change during a hurricane. The presentation is available on ERCOT's web site, <http://www.ercot.com/calendar/2006/06/20060620-BOARD.html>. Several Board members asked general questions regarding hurricane preparedness.

Mr. Jones stated that Board members need to receive training on Board fiduciary duties and ERCOT proposes providing the training during the lunch hour at next month's Board meeting.

Operating Reports

Ken Donohoo, ERCOT Manager of System Planning, presented ERCOT's 2006 "Report on Capacity, Demand & Resources in the ERCOT Region." The presentation appears on ERCOT's web site at <http://www.ercot.com/calendar/2006/06/20060620-BOARD.html>. Board members raised several questions regarding the report's methodology and assumptions.

Nodal Market Redesign Update

Ron Hinsley, ERCOT Vice President and Chief Information Officer, provided an update on the status of the Nodal market redesign effort. He stated that the program has about a 5% chance of making the January 1, 2009 date as ordered by the PUCT. He also stated that, by September, ERCOT should have an update on the proposed budget. The presentation is available on ERCOT's web site at <http://www.ercot.com/calendar/2006/06/20060620-BOARD.html>.

Mr. Hinsley stated that ERCOT will send out a Request for Information (RFP) for software integration because the nodal market will involve many different software packages that must communicate with each other.

In conclusion, he provided an update on spending to date. Total spending through May 2006 is approximately \$3 million. ERCOT hopes to have its Nodal fee surcharge approved by September.

Chairman Armentrout asked Carolyn Shellman, ERCOT Vice President and General Counsel, to update Board members on the Nodal fee case. She reported that ERCOT received Requests for Information (RFIs) from another party in the fee case and must file testimony tomorrow.

Technical Advisory Committee (TAC) Report

Chairman Armentrout invited Mark Dreyfus, Vice Chairman of TAC, to report on recent TAC activities. Mr. Dreyfus then discussed the Protocol Revision Requests (PRRs) and other matters set forth below.

Protocol Revision Requests

Mr. Dreyfus reported that TAC voted to recommend that the Board approve PRR650, PRR661 and PRR662. The PRRs are described as follows:

- **PRR650 – Balancing Energy Price Adjustment Due to Non-Spinning Reserve Service Energy Service Energy Deployment. Proposed effective date: July 1, 2006.** This PRR adjusts the Market Clearing Price of Energy (MCPE) when the deployment of Non-Spinning Reserve Service (NSRS) occurs to provide correct price signals via a post-deployment adjustment to separate the pricing solutions from the deployment on NSRS. ERCOT posted this PRR on 2/24/06. On 3/23/06 PRS voted to recommend approval of PRR650 as revised by selected ERCOT comments. The motion passed with nine yes votes (Electric Cooperative (Coop)(2), Municipally Owned Utility (MOU)(2), Investor Owned Utility (IOU)(1), Independent Generator (IG)(3) and Independent Power Marketer (IPM)(1) market segments); three no votes from (MOU, Consumers and Independent REP (IREP) market segments); and four abstentions (MOU (2), IOU (1), and IPM (1) segments). All Market Segments attended the vote. On 4/21/06 PRS reviewed the Impact Analysis and noted no impact to ERCOT systems. On 5/4/06, TAC voted to recommend approval as recommended by PRS. The motion passed with one opposing vote from the Consumers and seven abstentions (Consumers (2), Coop (2), MOU (2), and IOU (1) segments). All Market Segments attended the vote. ERCOT credit staff and the Credit Work Group (WG) have reviewed PRR650 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

Chairman Armentrout opened the floor to discussion regarding this PRR. Several Board members raised questions, particularly regarding the effect of this PRR on consumers. **John Houston moved to approve PRR650; Mr. Hayslip seconded the motion.** Mr. Harder stated that he would like to see a revision to the PRR to include a “claw back” feature. Mr. Manning recommended remanding the PRR to TAC. Chairman Armentrout called the original motion for a vote. **The motion failed, with four votes in favor; eight votes opposed and one abstention (Mr. Armentrout).**

Mr. Cox moved to remand this PRR to TAC for an analysis of how to ensure that consumers pay only one time for the Ancillary Services needed for reliability reasons and to ensure that PRR650 is the best way to ensure reliability. Mr. Harder seconded the motion. The motion passed by unanimous voice vote with no abstentions.

- **PRR661 – Performance Enforcement Criteria – URGENT. Proposed effective date: July 1, 2006.** This revision creates the criteria for Schedule Control Error (SCE) performance enforcement. ERCOT posted this PRR on 4/7/06. The submitter requested Urgent status stating that this “PRR replaces the current methodology for Schedule Control Error (SCE) Performance measurement. In order for this to be in place prior to the expiration of the six month delay for compliance enforcement, it will need to be considered at the April PRS meeting.” On 4/12/06, PRS granted urgent status to PRR661 via e-mail vote. On 4/21/06, PRS voted to table PRR661

with two abstentions (the IG and IPM segments). On 5/18/06, PRS voted to recommend approval of PRR661 as amended by PRS; all Market Segments attended. On 6/1/06, TAC voted to recommend approval of PRR661 as revised by ERCOT Staff comments and TAC. There was one abstention and one opposing vote, each from the IOU segment. ERCOT credit staff and the Credit WG reviewed PRR661 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

- **PRR662 – Modify Ancillary Service Deployment Performance Conditions – URGENT.** This PRR clarifies current language exempting the intervals following a Forced Outage from the SCE compliance measure and adds additional exemptions to address infeasible portfolio instructions, Responsive Reserve Service ramping, Resource testing and the scheduling of Uncontrollable Renewable Resources. ERCOT posted this PRR on 4/10/06. The submitter requested Urgent status so this PRR could be considered at the April PRS meeting along with the full package of SCE-related solutions to the frequency control issue. On 4/12/06, PRS granted Urgent status to PRR662 via e-mail vote. On 4/21/06, PRS voted to table PRR662 with two abstentions (the IG and IPM segments). On 5/18/06, PRS voted to recommend approval of PRR662 as amended by WMS comments; all Market Segments attended. On 6/1/06, TAC voted to recommend approval of PRR662 as revised by ERCOT Staff comments and TAC. There was one abstention and one opposing vote each from the IOU segment. ERCOT credit staff and the Credit WG reviewed PRR662 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

Mr. Manning moved to approve PRR661 and PRR662; Laurie Pappas seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Modification of Board Approvals

Mr. Dreyfus reported that the TAC proposes that the current PRR process should apply if a PRR requires no project for implementation. If a PRR requires a project, TAC would hold the PRR until its position on the project priority list allows for inclusion of the PRR in the current budget cycle. Once the project gets included in the current project list, TAC would release that PRR to the Board. If a project is needed for only part of a PRR, TAC would send to the Board (for approval) only the parts of the PRR not needing a project.

Additionally, TAC recommends that certain matters currently requiring Board approval in the Protocols could, instead, be formally approved by TAC and only reported to the Board. This list includes: (i) permanent exemptions from metering requirements (Section 10.14, Exemptions from Compliance to Metering Protocols); (ii) changes to the methodology for determining Load Profiles (Section 18.2, Methodology); and (iii) temporary changes to Load Profile ID assignment and validation processes (Section 18.4.3, Load Profile ID Assignment). Additionally, Mr. Dreyfus recommended that TAC formally review transmission system planning process and project recommendations prior to Board consideration. However, the Board took no formal action on this issue.

Mr. Dreyfus asked for direction from the Board regarding this recommendation. Without taking a formal vote, the Board encouraged the TAC to work with PRS to draft PRRs to implement the TAC recommendation.

Funding of PRRs and/or Projects

Mr. Dreyfus reported the “pros” and “cons” of allowing individual Market Participants to fund PRRs of particular interest to them even though the PRR’s position on the project priority list may not be above

the current “cut line” for projects. He stated that the list of “cons” greatly exceeds the “pros,” but TAC is not making a recommendation to the Board regarding this issue.

Miscellaneous Matters

Mr. Dreyfus reported the passage of RMGRR034 and SMOGRR005. He also reported on several Emergency Electric Curtailment Plan (EECP) event follow-up action items. Mr. Hayslip stated that he would like to see a comparison of Load forecasting under the old and new load forecasting tools. Mr. Jones stated that ERCOT is actively comparing load forecasts under the new and old tools. ERCOT has also contracted with an independent company out of Dallas to assist in load forecasting. Mr. Armentrout stated that, in his discussions with Kent Saathoff, he has learned that the old load forecasting tool continues to perform better than the new tool. Mr. Jones stated that at least one Public Utility Commission of Texas (PUCT) Commissioner is looking into these issues. Mr. Armentrout stated that accuracy of schedules is also an issue needing attention.

Mr. Dreyfus stated that, in response to concerns raised by Chairman Hudson, TAC leadership is going to review the number of committees and task forces to see if any streamlining can occur.

Finally, Mr. Dreyfus stated that Replacement Reserve Service (RPRS) has been in the Protocols since 2001, but did not become effective until March 2006. Market Participants have discovered a discrepancy between the wording of the Protocols and what Market Participants intended to include in the Protocols. TAC addressed this issue at its last meeting and passed a resolution setting forth TAC’s intent.

Clayton Greer of Constellation stated that his company has filed a number of settlement and billing disputes relating to this issue and will also file ADRs relating to this issue. Constellation believes ERCOT should settle RPRS in accordance with the Market Participants’ intent for the service, rather than the actual language in the Protocols.

Discussion of ERCOT Compliance Packet Template

Chad Seely, ERCOT Associate Corporate Counsel, presented information regarding the approval of Compliance templates. ERCOT staff recommends that TAC (and not the Board) approve the templates used by the Compliance Dept. Several questions and comments were raised regarding use of the templates. Kevin Gresham of Reliant stated that his company would prefer that the Board vote on Compliance templates. Chairman Armentrout suggested that the templates should go through a stakeholder review process with ultimate approval by the Board of Directors.

Finance & Audit (F&A) Committee Report

Mr. Hayslip, Vice Chairman of the F&A Committee, reported that the committee met this morning and, among other matters, addressed the PricewaterhouseCoopers audit and ERCOT’s response to address the few deficiencies remaining from the audit.

The committee also discussed ERCOT’s training on ethics and how to report ethics concerns or issues. The committee also approved the annual report.

The committee also heard a report from ERCOT’s enterprise risk management staff on the reduction of risk to Market Participants for financial defaults. It was noted that many of the revisions done to the Protocols have reduced potential risk to Market Participants.

The committee spent a great deal of time discussing collaboration between ERCOT and the PUCT in developing the budget each year. Lane Lanford and Paula Mueller (of the PUCT) met with the committee members to discuss this issue. The goals are: (i) early alignment of philosophy and (ii) earlier interface between ERCOT and the PUCT staff. The PUCT remains concerned about: (i) compensation levels, including staff and contract labor, (ii) debt financing, (iii) funding for projects and (iv) corporate events.

Cheryl Yager, ERCOT Treasurer, provided an update on Nodal funding issues. Depending on the proceedings at the PUCT on the Nodal surcharge, ERCOT funding of the Nodal market redesign could lead to liquidity issues for ERCOT by the end of this year.

The committee also considered the costs of a study for the integration of Entergy Texas into the ERCOT Region.

Chairman Armentrout mentioned that Mr. Hayslip has resigned from the Board and this is his last meeting. He commended Mr. Hayslip on his work and thanked him for his efforts. Mr. Hayslip then introduced William Taylor of Calpine, who will replace him.

H.R. & Governance Committee Report

Carolyn Lewis Gallagher, Vice Chairman of the H.R. & Governance Committee, reported that the committee discussed the PUCT's compensation workshop from earlier this month, in which the PUCT approved ERCOT salaries to be structured with small bonuses (2%) with the previous Variable Incentive Pay (VIP) amounts incorporated into the base salary of bonus-eligible employees. As a result, the H.R. Dept. presented a new compensation plan which incorporates the bonus amounts into base pay. Mr. Jones stated that bonuses paid in February 2006 were based on last year's VIP program and the actual payment was 115% of the target amount. To implement the new compensation strategy, ERCOT will take the "target" amount from the previous VIP and add that into the base pay for each employee. At the same time, ERCOT would ensure that an employee's compensation did not over- or under-compensate the particular employee. ERCOT will make a lump sum payment to bonus-eligible employees as well as building in the increased compensation for the rest of the year.

Ms. Gallagher also stated that ERCOT is considering revisions to its Ethics Agreement to more narrowly define a conflict of interest.

Other Business

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

Future Agenda Items

Chairman Armentrout inquired as to whether there were any future Board meeting topics to address over the next few months. Chairman Armentrout stated that representatives from NYMEX will attend next month's meeting to discuss futures contracts. He also stated that compensation matters should be on the July agenda, as well as a schedule for the remainder of the budget process. Mr. Byone stated that a preliminary budget will come to the Board at its July meeting.

Executive Session (Part 2)

Chairman Armentrout adjourned the open portion of the meeting at approximately 2:20 p.m. into a second Executive Session to handle contract, personnel and litigation matters.

After the second portion of the Executive Session (at approximately 3:40 p.m.), **Chairman Armentrout moved to approve the contract discussed during Executive Session; Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Mr. Cox moved to approve the compensation to the interim CEO in accordance with the structure discussed in Executive Session; Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Chairman Armentrout moved to approve the minutes of the May 16, 2006 Executive Session; Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Adjournment

Chairman Armentrout adjourned the meeting at approximately 3:45 p.m.

Board materials and presentations from the meeting are available on ERCOT's website at <http://www.ercot.com/calendar/2006/06/20060620-BOARD.html>.

James L. Thorne
Vice President, General Counsel & Corporate Secretary