



MEMO

Date: July 11, 2006
To: ERCOT Board of Directors
From: Sam Jones, Acting CEO & President
Subject: Texas Regional Entity Update

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: July 18, 2006

Agenda Item No.: 4a

Issue:

Should ERCOT prepare and submit a draft Delegation Agreement to NERC as ERO, to become the Regional Entity (“RE”) for the ERCOT Region?

Background/History:

The PUC and ERCOT have discussed with NERC and FERC the possibility of a functionally separate division of ERCOT as the RE for the ERCOT Region. The PUC prefers that a division of ERCOT be the RE that oversees reliability compliance and enforcement in the ERCOT region (“Texas RE), and NERC and FERC have indicated interest in this solution. ERCOT was allowed to submit a draft RE budget in response to the July 1, 2006 NERC deadline, but ERCOT must prepare and submit a draft Delegation Agreement to NERC by August 1, 2006 in order to be considered as the Texas RE. ERCOT will not execute a final Delegation Agreement with NERC without returning to the Board with more details.

Key Factors Influencing Issue:

No other entity has indicated an interest in becoming the RE for the ERCOT Region, and NERC is not familiar with the specifics and differences of the ERCOT system and market. The PUC has indicated that it prefers to have a functionally separate division of ERCOT as the Texas RE, and ERCOT would prefer to have reliability oversight by an entity that is familiar with the ERCOT electric system. The PUC has agreed to have involvement in the due process aspects of reliability compliance enforcement, by hosting hearings of contested matters and making recommendations to the Texas RE.

Alternatives:

Do nothing. If ERCOT does not submit a proposed Delegation Agreement to NERC, the reliability oversight for the ERCOT Region will be either by NERC or by a different RE.

Conclusion/Recommendation:

ERCOT requests permission to prepare and submit a draft Delegation Agreement to NERC by



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August 1, 2006, in accordance with the concepts presented to the Board at the July 18, 2006 meeting, and to negotiate a final Delegation Agreement by October 1, 2006. ERCOT will return to the Board with further information and to obtain approval before signing a final Delegation Agreement with NERC.



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

WHEREAS, the Electric Reliability Council of Texas, Inc. (“ERCOT”) seeks to prepare and submit a draft Delegation Agreement to North American Electric Reliability Council (“NERC”) to have a functionally separate division of ERCOT be considered as the Regional Entity for the ERCOT Region; and

WHEREAS, after review of the materials presented by ERCOT and full consideration and discussion thereof, ERCOT’s Board of Directors deems it desirable and in the best interests of ERCOT for ERCOT to submit a draft Delegation Agreement to NERC, proposing that a functionally separate division of ERCOT become the Regional Entity for the ERCOT Region.

THEREFORE, be it RESOLVED that:

1. ERCOT is hereby authorized and approved to prepare and submit a draft Delegation Agreement to NERC, proposing that a functionally separate division of ERCOT become the Regional Entity for the ERCOT Region, in accordance with the presentation to the Board and consistent with the directives given by the Board.
2. ERCOT staff should return to the Board for final approval before executing a Delegation Agreement with NERC.