

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  
July 18, 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 July 18, 2006.

Meeting Attendance:

Board Members:

Armentrout, Mark		Unaffiliated; Board Chairman; Proxy for M. Gent after 4:00 PM
Cox, Brad	Tenaska Power Services	Independent Power Marketer
Dalton, Andrew	Valero Energy Corp.	Consumer/Industrial
Espinosa, Miguel		Unaffiliated; Left at 4:00 PM
Gahn, Scott	Just Energy	Independent REP
Gent, Michehl		Unaffiliated; Left at 4:00 PM
Hudson, Paul	Public Utility Commission of Texas	PUCT Chairman
Jones, Sam	ERCOT Executive Vice President/COO and Interim President/CEO	ERCOT
Kahn, Bob	Austin Energy	Municipal
Karnei, Clifton	Brazos Electric Coop	Cooperatives
Manning, Bob	HEB	Consumer/Commercial; Board Vice Chairman; Proxy for M. Espinosa after 4:00 PM
Ogelman, Kenan	Office of Public Utility Counsel	Consumer/Residential; Proxy for Suzi McClellan
Standish, Tom	CenterPoint Energy	Investor-Owned Utilities
Taylor, William	Calpine Corporation	Independent Generator

Staff and Guests:

Adib, Parviz	PUCT
Anderson, Troy	ERCOT Staff
Ashley, Kristy	Exelon
Belk, Brad	LCRA
Bojorquez, Bill	ERCOT Staff
Brewster, Chris	Lloyd Gosselink – TXU Cities Steering Committee
Brown, Jeff	Coral Power
Bruce, Mark	FPL Energy
Byone, Steve	Vice President & Chief Financial Officer
Capezzuti, Nancy	Vice President of Human Resources & Organizational Development
Carroll, Marianne	Brown McCarroll LP
Clemenhausen, Barbara	Topaz Power Group
Coleman, Katie	TIEC

Connell, Robert	ERCOT Staff
Cutrer, Michelle	Green Mountain Energy
Day, Betty	ERCOT Staff
Dreyfus, Mark	Austin Energy
Drost, Wendell	AREVA
Dumas, John	ERCOT Staff
Fourier, M.	Competitive Assets
Giuliani, Ray	Vice President & Chief of Market Operations
Goff, Eric	Constellation NewEnergy
Gruber, Richard	ERCOT Staff
Harder, Jim	Garland Power & Light
Hassink, Paul	AEP
Hinsley, Ron	Vice President & Chief Information Officer
Hobbs, Kristi	ERCOT Staff
Hughes, Hal	R. J. Covington Consulting
Jones, Dan	CPS Energy
Jones, Randy	Calpine Corporation
Kolodziej, Eddie	Customized Energy Solutions
Leech, Bob	Citigroup Energy Inc.
Lopez, Nieves	ERCOT Staff
Lozano, Rafael	PSEG Texgen I
McAndrews, Neil	Neil McAndrews & Associates
Mickey, Joel	ERCOT Staff
Moore, John	John Moore Consulting
Moore, Scott	AEP
Oldham, Phillip	TIEC
Parsley, Julie	PUCT Commissioner
Pettersen, Michael	ERCOT Staff
Pieniazek, Adrian	NRG Texas
Priestley, Vanus	Constellation NewEnergy
Ryan, Bob	DB
Shumate, Walt	Shumate & Associates
Smallwood, Aaron	ERCOT Staff
Smitherman, Barry	PUCT Commissioner
Thorne, James	Vice President, General Counsel and Corporate Secretary
Troxell, David	ERCOT Staff
Twiggs, Thane Thomas	Direct Energy
Verret, R. P.	Independent
Wagner, Marguerite	Reliant
Walker, DeAnn	CenterPoint Energy
Yager, Cheryl	ERCOT Staff

### Announcements

Paul Hudson, Chairman of the Public Utility Commission of Texas (PUCT), called to order an open meeting of the PUCT. 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 include:

- Approval of June 20, 2006 Minutes
- Texas Regional Entity
- Ratification of ERCOT Vice President, General Counsel & Corporate Secretary
- AEPTCC/MEC Western Region Project
- Protocol Revision Requests (except PRR666)

**Bob Manning moved to approve the items on the Consent Agenda. Bob Kahn seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

### CEO Report

Sam Jones, ERCOT Executive Vice President, COO and Interim President, CEO, began by commenting on ERCOT's preparation in the event of an outbreak of "bird flu" pandemic. He stated that ERCOT's risk management team is addressing issues that may arise in the event of an outbreak. The Board suggested that ERCOT get appropriate state health agencies to participate in the bird flu conference ERCOT plans to put on for the market participants at a future date.

Mr. Jones then provided an update on the Texas Regional Entity (RE). ERCOT intends to file a proposed draft delegation agreement in August in compliance with the deadlines set forth by the North American Electric Reliability Council (NERC). ERCOT will prepare the document and will submit in the proposed draft delegation agreement to NERC. NERC and ERCOT will then negotiate a final delegation agreement that will be submitted to the Federal Energy Regulatory Commission. When a final delegation agreement is tentatively agreed to by NERC, ERCOT will present the final version to the Board and will submit the final document by October 1, 2006.

As of now, ERCOT proposes that a division of ERCOT will become the RE for the ERCOT Region. To be selected, ERCOT must show it can meet the established requirements, including:

- (1) a combination independent/stakeholder board;
- (2) having rules in place to assure the independence of users, owners and operators of the bulk power system while assuring fair stakeholder representation in the selection of its directors;
- (3) independence of the compliance group;
- (4) establishing rules that assure balanced decision-making in its committees and subordinate organization structures;
- (5) establishing rules providing reasonable notice and opportunity for public comment, due process, openness and balance of interests in exercising its duties; and
- (6) establishing rules that assure that no two industry sectors can control and no one industry sector can veto any action.

Mr. Jones also stated that regional standards would be developed in a manner resembling the Protocol Revision process currently used. He stated that employees for the Texas RE would be hired as needed and the RE should be functional by June 1, 2007. ERCOT submitted a \$5.5 million budget for the RE.

Mr. Jones invited Steve Byone, ERCOT Vice President and Chief Financial Officer, to present the 2007 budget assumptions. ERCOT anticipates leaving the administration fee at its current level and, due to a forecasted increase in energy usage of 3.5%, anticipates additional revenue of \$4.5 million. The base budget would not include costs associated with implementing the nodal market redesign or the costs of establishing and operating the Texas RE. It is assumed the costs of these initiatives would be recovered

through fees other than the ERCOT System Administration Fee. ERCOT staffing would remain at the current 589 employees with assumed wage growth of 3.5% on average for performance merit awards consistent with market trends and another 0.5% for employee promotions. Proposed Zonal projects total approximately \$36.4 million which would be funded 40% by revenue and 60% by debt. The list of projects and PPL cost estimates were the result of an analysis by stakeholders of the projects needed next year, coupled with ERCOT's Divisional Project Organizations input regarding expected resource availability to implement those projects. ERCOT management has not yet determined the feasibility of increasing Zonal projects to this level given the requirements of conducting base operations and nodal development. The costs associated with running the Texas RE are expected to be recovered primarily through NERC which in turn is expected to increase its assessment to ERCOT. ERCOT is still finalizing the overall cost necessary to support the Independent Market Monitor. Given the expected timing of receipt of new information regarding the forgoing items coupled with the expected impact on the overall ERCOT budget, ERCOT proposed delaying the 2007 budget presentation to the Finance and Audit (F&A) Committee until October, with the full Board review and approval scheduled for November. This differs from the current time line and would mean ERCOT could not implement a new fee before the second quarter of 2007. Mr. Byone indicated that ERCOT was on track to operate within the currently approved fee for that time period excluding Nodal and funding for the Texas RE. The PUCT proceeding on the Nodal fee surcharge is proceeding separately from any regular administration fee case and ERCOT will develop a proposal to fund the Texas RE later this year. Clifton Karnei stated that the F&A Committee supported this approach as long as the PUCT did not have concerns with the delay. Chairman Hudson indicated that the PUCT is comfortable with the proposed approach.

#### Operating Reports

##### Financial Summary

Chairman Armentrout inquired about why operating expenses increased dramatically in June. Mr. Byone stated that those expenses relate to the Nodal market redesign which was not included in the 2006 ERCOT budget but were being included in ERCOT's financials. Mr. Byone noted that ERCOT is accounting for Nodal costs separately and that a break-out of Nodal costs was included elsewhere in the Financial Summary package.

At that time, Mr. Jones stated that he had handed out to Board members (on CD) the presentations from the recent ISO/RTO council meeting.

##### AEPTCC/MEC Western Region Project

Andrew Dalton asked some questions about the assumptions that went into the project review. In response, Bill Bojorquez, ERCOT Director of System Planning, stated that ERCOT considered only generators with signed interconnection agreements when performing the study.

At that time, Commissioner Smitherman noted that the percentage of residential consumers who have switched away from the AREP has recently crossed the 40% level and he considered that percentage significant.

##### 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 began by pointing out the progress made during the past month. He stated that ERCOT still believes there is only a 5% probability of achieving the January 1, 2009 start date for the nodal market.

He also stated that staffing issues remain a concern. ERCOT is still having difficulty filling key positions. ERCOT staff will, in September, present scenarios regarding how ERCOT might be able to have parts of the nodal market ready by January 1, 2009.

He reported that, through the end of June, ERCOT has spent almost \$4.4 million in the nodal market redesign effort (\$900,000 of which was capitalized; the remainder was treated as expenses). Most contracts with vendors have been signed. ERCOT intends to present a new budget to the Board at the September meeting (current budget amount is \$125.6 million). On August 24<sup>th</sup> and 25<sup>th</sup>, ERCOT would like to hold some workshops and invites Board members to attend.

#### Technical Advisory Committee (TAC) Report

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

#### Nodal Protocol Revision Requests

The TAC recommends approval of the following NPRRs:

- ***NPRR001 – Section 1, Zonal PRR Synchronization and ERCOT Staff Clarifications.*** This NPRR incorporates into Section 1, Overview, relevant language from the following PRRs that the Board approved between April 2004 and February 2006: PRR573, Mothballed Generation Resource Definition and Time to Service Updates; PRR591, Switchable Unit Declaration; PRR593, Reporting of Net Generation and Load (FKA Behind the “Fence” Reporting of Load); and PRR611, Reporting of Operation Reserve Capability Under Severe Gas Curtailments. This NPRR also incorporates Texas Nodal Transition Plan Task Force (TPTF) determinations regarding ERCOT Staff clarification questions as discussed by TPTF and documented in the ERCOT Clarification Matrix for Section 1 (11/30/05) and discussed at the 3/28/06 and 3/29/06 TPTF meetings.
- ***NPRR004 – Section 8, Zonal PRR Synchronization and ERCOT Staff Clarifications.*** This NPRR incorporates into Section 8, Performance Monitoring and Compliance, relevant language from the following PRRs approved by the Board between April 2004 and February 2006: PRR468, Frequency Response Requirements and Monitoring; PRR487, Black Start Resources; PRR490, LaaR Annual Testing Description; PRR535, Reactive Testing; PRR542, Clarifying the LaaR Three-Hour Limit; PRR628, ERCOT Operation Performance – Non-Spinning Reserve Service Deployments; and PRR644, Ancillary Service Re-qualification. This NPRR also incorporates TPTF determinations regarding ERCOT Staff clarification questions as discussed by TPTF and documented in the ERCOT Clarification Matrix for Section 8 on and discussed at the TPTF meeting on 1/9/06.
- ***NPRR005 – Section 7 ERCOT Staff and TPTF Clarifications.*** This NPRR incorporates into Section 7, Congestion Revenue Rights, TPTF determinations regarding ERCOT Staff clarification questions as discussed by TPTF on 1/23/06 and 2/6/06. This NPRR also incorporates the consensus reached by TPTF during discussions on 4/10/06, 4/24/06, 5/8/06 and 5/23/06 regarding revisions to Sections 7.4.2, Preassigned Congestion Revenue Rights (PCRRs) Allocation Terms and Conditions, 7.5, Congestion Revenue Rights (CRRs) Auctions, 7.7.3, Allocation of

McCamey Flowgate Rights (MCFRIs) and 7.8, Bilateral Trades and ERCOT CRR Registration System.

- ***NPRR006 – Section 4 ERCOT Staff Clarifications.*** This NPRR incorporates into Section 4, Day-Ahead Operations, TPTF determinations regarding ERCOT Staff clarification questions as discussed by TPTF on 1/9/06, 5/22/06 and 6/5/06, and documented in the ERCOT Clarification Matrix for Section 4.
- ***NPRR007 – Section 9 Zonal PRR Synchronization and ERCOT Staff Clarifications.*** This NPRR incorporates into Section 9, Settlement and Billing, relevant language from: PRR638, Change Settlement Invoice Due Date from 16 Calendar Days to Five Bank Business Days, that the Board approved on 2/21/06; and PRR642, Lower Limit to Interval Data Recorder (IDR) Meters in Meter Reading Entity (MRE) for True-Up Settlement IDR Threshold, that the Board approved on 3/21/06. This NPRR also incorporates TPTF determinations regarding ERCOT Staff clarification questions as discussed by TPTF on 3/6/06, 4/10/06, 4/24/06, 5/8/06, and 6/5/06, and documented in the ERCOT Clarification Matrix for Section 9.

**Mr. Manning moved to approve the Nodal Protocol Revision Requests as submitted. Brad Cox seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

#### Protocol Revision Requests

Mr. Comstock reported that TAC voted to recommend that the Board approve PRR654, PRR655, PRR666, PRR669 and PRR670. The PRRs are described as follows:

- ***PRR654 – Remove Market Solution References. Proposed effective date: August 1, 2006.*** This PRR removes references to the term “Market Solution” from the Protocols. ERCOT posted this PRR on 3/14/06. On 4/21/06, Protocol Revisions Subcommittee (PRS) voted to recommend approval of PRR654 as submitted, with one abstention from the Independent Power Marketer segment. All Market Segments attended the vote. On 5/18/06, PRS noted that PRR654 has no impacts to ERCOT systems. On 6/1/06, TAC unanimously voted to recommend approval of PRR654 as submitted. ERCOT credit staff and the Credit WG have reviewed PRR654 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR655 – Approval of Temporary Modification to Annual Validation. Proposed effective date: August 1, 2006.*** This revision allows TAC to grant approval of a temporary modification to the Annual Validation process. ERCOT posted this PRR on 3/16/06. On 4/21/06, PRS unanimously voted to recommend approval of PRR655 as submitted. All Market Segments were present. On 5/18/06, PRS noted that PRR655 has no impacts to ERCOT systems. On 6/1/06, TAC unanimously voted to recommend approval of PRR655 as submitted. ERCOT credit staff and the Credit Work Group (WG) have reviewed PRR655 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR666 – Modification of RPRS Under-Scheduled Capacity Charge Calculation - URGENT. Proposed effective date: upon system implementation.*** This PRR modifies the calculation of the Replacement Reserve Service (RPRS) procurement under-schedule charge to assess an under-scheduled charge for system-wide RPRS to Qualified Scheduling Entities (QSEs) when they under-schedule on an ERCOT-wide basis, rather than on a zonal basis. ERCOT posted PRR666 on 5/22/06 and the submitter requested Urgent status. On 5/24/06, PRS, via email, did not grant Urgent status. At its meeting on 6/8/06, PRS unanimously voted to grant Urgent status to PRR666

and considered the PRR. On 6/22/06, PRS again considered PRR666 and voted to recommend approval as revised by American Electric Power (AEP) comments and PRS, with three abstentions from the MOU, Independent Power Market (IPM) and Investor Owned Utility (IOU) segments; all Market Segments were present for the vote. Also on 6/22/06, PRS voted to assign PRR666 a priority of 2 and a rank of 1.5, with two opposing votes from the MOU segment and one abstention from the Consumer segment. All Market Segments were present for the vote. On 7/6/06, TAC voted to recommend approval of PRR666 as submitted by PRS and to ask PRS to address the allocation issue for the distribution of the charges at its next meeting. The motion passed with five opposing votes and six abstentions; all Market Segments were present for the vote. ERCOT credit staff and the Credit WG have reviewed PRR666 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

- ***PRR669 – Timing of Calculation of RPRS under Scheduled Charges - URGENT. Proposed effective date: August 1, 2006.*** This PRR revises the timing of schedules that ERCOT uses for determining the quantity of under-scheduled energy and revises the timing of the Load forecast. ERCOT posted PRR669 on 5/24/06 and the submitter requested Urgent status. On 5/26/06, PRS, via email, did not grant Urgent status. At its meeting on 6/8/06, PRS unanimously voted to grant Urgent status to PRR669. Also on 6/8/06, PRS voted to recommend approval of PRR669 as revised by PRS, with one opposing vote from the MOU segment and one abstention from the Consumer segment. On 7/6/06, TAC voted unanimously to recommend approval of PRR669 as submitted by PRS. All Market Segments were present for the vote. ERCOT credit staff and the Credit WG have reviewed PRR669 and do not believe it requires changes to credit monitoring activity or the calculation of liability.
- ***PRR670 – First Available Switch Date (FASD) for Switch Requests – URGENT. Proposed effective date: August 1, 2006.*** This PRR adds language to reflect the First Available Switch Date for a Switch Request in situations where Customer notification is required, Customer notification has been waived or Drop to Affiliated Retail Electric Provider (AREP) requested. It also removes statements that are no longer accurate based upon current business and system processes and relocates some of the existing language. ERCOT posted PRR670 on 5/31/06 and the submitter requested Urgent status. On 6/2/06, PRS, via email, granted Urgent status. On 6/22/06, PRS unanimously voted to recommend approval of PRR670 as submitted. All Market Segments were present for the vote. On 7/6/06, TAC voted unanimously to recommend approval of PRR670 as submitted. All Market Segments were present for the vote. ERCOT credit staff and the Credit WG have reviewed PRR670 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

The Board approved all PRRs (other than PRR666) in the Consent Agenda. Chairman Armentrout opened the floor to discussion regarding PRR666. Mr. Comstock provided some background on the issues relating to PRR666. He stated that RPRS service has existed in the Protocols since 2001 but was not active (due to software limitations) until March 2006. When ERCOT began to use RPRS at that time, some issues arose regarding how the cost is assessed and allocated.

Chairman Armentrout invited Kevin Gresham of Reliant (who sponsored PRR666) to make a brief presentation regarding the need for the PRR. He explained that, as originally designed, the Protocols instructed ERCOT to assess under-schedule charges by zone, as opposed to on an ERCOT-wide basis. PRR666 proposes assessing under-schedule charges on an ERCOT-wide basis. Mr. Comstock then provided details of the TAC's consideration of PRR666.

Bob Helton of ANP asked whether the Board could order PRR666 implemented right away to avoid additional disputes. Ino Gonzales of ERCOT's settlements group stated that ERCOT is currently settling

RPRS pursuant to the Protocols. Mr. Helton stated that he does not dispute that ERCOT is following the Protocols as currently written, but that the Market Participants would prefer (and stated that it was the original intent) that ERCOT not assess under-schedule charges on a zonal basis and, instead, do so on an ERCOT-wide basis. Mr. Gonzales stated that ERCOT's settlements group could not implement PRR666 on a manual basis.

Before calling for a vote on PRR666, Chairman Armentrout invited Vanus Priestly of Constellation New Energy to present Constellation's appeal of the TAC recommendation to not approve a different RPRS-related Protocol Revision Request - PRR667. Mr. Priestly began by encouraging the Board members to pass PRR666 and stated that Constellation no longer wished to appeal the TAC's rejection of PRR667. He then described how ERCOT procures RPRS, pays RPRS providers and charges the under-schedule charge. He provided an example of how, Constellation's opinion, the current RPRS design creates the wrong incentive for Market Participants. He also provided examples of actual RPRS procurements for several dates in June 2006. He concluded by asking the Board to direct PRS to urgently consider a PRR that would uplift the cost of RPRS on a Load Ratio Share (instead of directly assessing it against those QSE who under-schedule) until a future PRR resolving the issues with RPRS is implemented.

At the conclusion of Mr. Priestly's presentation, **Mr. Cox moved to approve the PRR666 as submitted, with a recommendation that ERCOT staff implement it as soon as reasonably possible.** Mr. Dalton asked if ERCOT system operations could simply cease using RPRS and revert to sending OOMC instructions to Resources. John Dumas of ERCOT Staff stated that ERCOT staff could use the RPRS engine to determine which units ERCOT needs for reliability, but then send OOMC instructions. Joel Mickey, Manager of Market Operations Support, stated that ERCOT staff could run the first step of the RPRS engine and procure Resources on a cost basis and could implement such a change quickly. Andrew Gallo, ERCOT Assistant General Counsel, expressed concern about the ERCOT Board proposing any procedure that does not comply with the Protocols as currently written. Chairman Armentrout concurred. Mr. Dalton cautioned that the Board should not try to address RPRS issues "on the fly."

**Mr. Kahn seconded Mr. Cox's motion. The motion passed by unanimous voice vote with no abstentions.**

Chairman Hudson stated that he has concern if, as Mr. Priestly stated, there is a divergence between prices in real-time and the forward market. Mr. Cox stated that approving PRR666 is a good first step. He encouraged ERCOT staff, TAC and PRS to work with all deliberate speed in resolving the remaining open issues associated with RPRS. Mr. Kahn raised concern about uplifting RPRS costs on a Load Ratio Share basis. Dan Jones of City Public Service stated that Market Participants disagree with some of the issues raised and statements made during Mr. Priestly's presentation. Mr. Taylor asked whether TAC and PRS had an appreciation for the urgency of this matter. Mr. Comstock replied in the affirmative, but also pointed out that PRS cannot consider an issue until someone files a PRR. Commissioner Smitherman reminded Market Participants that they should pursue this matter expeditiously, even if it means not following the normal processes. Mr. Gresham, PRS Chair, stated that PRS would consider this an urgent matter.

Mr. Bob Ryan of Deutsche Bank - New York, commented on behalf of Market Participants who participate in trading activities. He stated that ERCOT's current Load forecasting approach (*i.e.* trying to not under-procure capacity) causes day-ahead prices to increase because Market Participants over-procure capacity to avoid having to pay the under-schedule charge. John Dumas of ERCOT staff stated that, even when being conservative in its forecast, ERCOT has under-forecasted versus actual Load several times. He stated that, even assuming a relatively small deviation of forecast versus actual Load (*e.g.* 3%) in a 60,000MW market means 1,800 MW of procured replacement capacity that is not ultimately needed. Mr. Dumas pointed out that ERCOT experienced more spinning reserves in June 2005 than in June 2006.



Chairman Armentrout recapped the highlights of the discussion and urged TAC and PRS to fully address the issues raised in the most expeditious manner reasonably possible.

At that time, Mr. Comstock stated that TAC approved the 2007 project priority list and has followed up on several EECF action items. He also stated that the TAC intends to bring PRR650 back to the Board in August. Finally, he stated that the TAC is considering the effectiveness and efficiency of its committees and sub-committee structure.

#### Finance & Audit Committee Report

Mr. Karnei, Chairman of the F&A Committee, reported that the committee met this morning and, among other matters, elected Mike Espinosa as Vice-Chairman. He also stated that the SAS 70 audit has begun. He then reviewed the Credit Working Group's (CWG) efforts to address credit issues and stated that he expects a PRR to be filed soon. This issue should come before the Board in August. However, he stated that the ERCOT Market Participants suffered \$5.8 million due to defaults last year and, if the changes which have been made to the Protocols since that time had been in place last year, that loss would have been only \$400,000. Mr. Kahn stated his concerns regarding the issues being considered by the CWG.

The Committee also reviewed the 2007 budget schedule and the nodal fee case. Additional financing to support the nodal market redesign will be needed. He also reported that PwC is assisting with on-going audits.

#### H.R. & Governance Committee Report

Bob Kahn, Chairman of the H.R. & Governance Committee, reported that the committee discussed the revised compensation strategy at its monthly meeting and, as a result, some minor changes were made to the information previously sent to the Board members. The group also considered external communications and the upcoming CEO search.

The revised compensation strategy was then disseminated to Board members and **Mr. Cox moved to approve the revised compensation strategy. Mr. Gent seconded the motion. The motion passed by unanimous voice with one abstention (Mr. Ogelman).**

#### NYMEX Trading in Futures Market

Ray Giuliani, ERCOT's Chief of Market Operations, made a brief presentation regarding new contracts (as of July 24, 2006) being offered on the NYMEX based on the ERCOT market. These contracts are similar to those currently traded on the NYMEX for PJM, NYISO and NEISO. The new contracts will be based on the North Hub, Houston Hub and the ERCOT Hub (meaning the ERCOT Region as a whole), based on on-peak hours (6:00 AM to 10:00 PM). He also stated that some financial organizations have become Level 1 QSEs in the ERCOT Region.

Mr. Karnei asked several questions about the structure of the contracts and market. Mr. Darren Hayes of NYMEX's Houston office stated that it will be a purely financial market. Chairman Armentrout asked about participants in the existing markets. Commissioner Smitherman stated that PURA, in its price-to-beat section, refers to a gas price index or an electric price index, if one exists. He questioned whether this new market would constitute an electric price index.

#### 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 stated that he would like to have the following items removed from the list because the Board has already addressed them: 2, 3, 4, 6, 7 and 8. He would like to add the following three items: (1) a joint presentation between ERCOT staff and TAC regarding the April 17<sup>th</sup> EECF event; (2) disaster recovery/risk management; and (3) a detailed list of the status of internal controls.

#### Executive Session

Chairman Armentrout adjourned the open portion of the meeting at approximately 3:30 p.m. into Executive Session to handle contract, personnel and litigation matters.

After the Executive Session (at approximately 4:45 p.m.), the following votes took place in open session:

- **Mr. Manning moved to approve the minutes of the executive session of the June 2006 Board meeting. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.**
- **Mr. Armentrout moved to approve ERCOT's entering into a contract with ABB as described in executive session, not to exceed \$1.4 million. Mr. Cox seconded the motion. The motion passed by unanimous voice vote with one abstention (Mr. Ogelman)**
- **Mr. Kahn moved to remove the word "interim" from Mr. Jones's current title. Mr. Cox seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

#### Adjournment

Chairman Armentrout adjourned the meeting at approximately 4:50 p.m.

Board materials and presentations from the meeting are available on ERCOT's website at:  
<http://www.ercot.com/calendar/2006/07/20060718-BOARD.html>.

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