

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
August 15, 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 August 15, 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; Proxy for C. Lewis Gallagher after 4:00 p.m.
Gahn, Scott	Just Energy	Independent REP
Gallagher, Carolyn Lewis		Unaffiliated
Gent, Michehl		Unaffiliated
Jones, Sam	ERCOT President/CEO	ERCOT
Kahn, Bob	Austin Energy	Municipal
Karnei, Clifton	Brazos Electric Coop	Cooperatives; Proxy for B. Kahn after 4:00 p.m.
Manning, Bob	HEB	Consumer/Commercial; Board Vice Chairman
McCall, Mike	TXU Wholesale	Investor-Owned Utilities
Ogelman, Kenan	Office of Public Utility Counsel	Consumer/Residential; Proxy for Suzi McClellan; Proxy for B. Manning after 3:00 p.m.
Parsley, Julie	Public Utility Commission of Texas	PUCT Commissioner
Taylor, William	Calpine Corporation	Independent Generator

Staff and Guests:

Adib, Parviz	PUCT
Ashley, Kristy	Exelon
Belk, Brad	LCRA
Bell, Wendell	TPPA
Berinsky, Carl	ERCOT Staff
Berry, Ron	ERCOT Staff
Bojorquez, Bill	ERCOT Staff
Brenton, Jim	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

Clemenhagen, Barbara	Topaz Power Group
Cutrer, Michelle	Green Mountain Energy
Davies, Morgan	Calpine
Davis, Don	ERCOT Staff
Day, Betty	ERCOT Staff
Dreyfus, Mark	Austin Energy
Drost, Wendell	AREVA
Fourier, M.	Competitive Assets
Frost, Shelly	Korn/Ferry International
Giuliani, Ray	Vice President & Chief of Market Operations
Gresham, Kevin	Reliant Energy
Grimm, Larry	ERCOT Staff
Gruber, Richard	ERCOT Staff
Hinsley, Ron	Vice President & Chief Information Officer
Hobbs, Kristi	ERCOT Staff
Jackson, Alice	Oxy
Jones, Dan	CPS Energy
Jones, Don	TIEC
Jones, Randy	Calpine Corporation
Lopez, Nieves	ERCOT Staff
Marlett, Valerie	GDS Associates
Meek, Don	ERCOT Staff
Moore, John	John Moore Consulting
Morris, Sandy	LCRA
Nielsen, Eric	Korn/Ferry International
Oldham, Phillip	TIEC
Packard, Michael	STEC
Parsley, Julie	PUCT Commissioner
Payton, Tom	Oxy
Petosky, Lisa	ERCOT Staff
Pfannenstiel, Darrin	Stream
Pieniazek, Adrian	NRG Texas
Preng, Richard	Korn/Ferry International
Saathoff, Kent	ERCOT Staff
Seely, Chad	ERCOT Staff
Smallwood, Aaron	ERCOT Staff
Smitherman, Barry	PUCT Commissioner
Solari, Mike	ERCOT Staff
Thorne, James	Vice President, General Counsel and Corporate Secretary
Troell, Mike	STEC
TroxteLL, David	ERCOT Staff
Uffelmann, Bernie	Deloitte & Touche
Vincent, Susan	ERCOT Staff
Wagner, Marguerite	Reliant Energy
Wattles, Paul	ERCOT Staff
Wilkerson, Dan	Bryan Texas Utilities
Wittmeyer, Bob	R. J. Covington
Wullenjohn, William	ERCOT Staff
Yager, Cheryl	ERCOT Staff
York, Johnny	Brazos Electric Power Cooperative

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 include:

- Approval of July 18, 2006 meeting minutes
- System Change Request - SCR748
- Nodal Protocol Revision Requests - NPRR002, NPRR009, NPRR010

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

CEO Report

Sam Jones, ERCOT President and CEO, began by pointing out that the weather has been very hot over the last month, but ERCOT has handled the demand well. ERCOT experienced a new all-time high earlier this year. ERCOT has been averaging about 61,000 MW of Load in recent days.

For information, Mr. Jones pointed out that Brazos Electric Cooperative, Inc. (BEC) plans to make a filing at the Federal Energy Regulatory Commission (FERC) regarding its Hugo #2 project in Oklahoma. Michehl Gent asked if this raised any jurisdictional issues. Mr. Jones indicated that the parties are requesting a FERC exemption. Mr. Jones then stated that, at 4:00 p.m. today, representatives of BEC will be available to answer any questions in a conference room at the ERCOT Austin offices.

At this time, Julie Parsley, one of the Public Utility Commission of Texas (PUCT) Commissioners, arrived and called to order an open meeting of the PUCT.

John Houston asked about the status of the creation of the Regional Entity (RE). Mr. Jones stated that ERCOT forwarded its application during the week of August 1, 2006. The North American Electric Reliability Council (NERC) is reviewing the filing. ERCOT representatives have a meeting with NERC staff on September 5, 2006 to discuss open issues. The goal is to have the RE functioning by June 2007. Mike McCall stated that the Edison Electric Institute has recommended that all the Regional Entities have a uniform structure. Commissioner Parsley stated that PUCT staff and FERC representatives have discussed this issue and she requested that Market Participants provide input in support of allowing the ERCOT RE to differ from the structure of the other Regional Entities.

Chairman Armentrout asked about the corporate goals regarding retail transaction processing which, according to the CEO report is in "red" status. Betty Day, ERCOT Director of Commercial Operations, stated that one Market Participant submitted a volume of transactions that exceeded the ability of ERCOT's systems to process, which adversely affected ERCOT's performance metrics.

Credit Briefing

Morgan Davies of Calpine, Chair of the Credit Working Group (CWG), provided an update of the CWG's efforts to mitigate credit risk in the ERCOT Region. The CWG will soon file a Protocol Revision Request (PRR) to recommend changes to further mitigate credit risk. He then presented information regarding historical financial losses due to defaults and how those costs would be affected in light of recent Protocol

changes. In response to a question from Mr. Kahn, Cheryl Yager, ERCOT Treasurer, stated that an update will be provided to the Finance & Audit (F&A) Committee in October regarding the possibility of obtaining credit insurance. Clifton Karnei, Chair of the F&A Committee, stated that ERCOT Market Participants have already shortened timelines related to defaults, which reduces credit exposure significantly. With the additional proposed changes, that exposure would decrease even further. Mr. Karnei asked for input from Board members. Chairman Armentrout stated that the Board appreciates the work of the CWG. Commissioner Parsley asked if the CWG had looked at how other Independent System Operators (ISOs) handle credit risk. Mr. Davies replied that the CWG has done so.

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 that the first nodal training classes have taken place and were a success. Also, the Transition Plan Task Force (TPTF) has approved the first two Commercial Operations Business Requirement documents.

Mr. Hinsley stated that the most serious issue ERCOT currently faces is finding subject matter experts for the Energy and Market Management Systems (EMMS).

He pointed out that, during the last month, ERCOT selected a contractor to conduct several audits over the next few years to assess ERCOT's compliance with the nodal implementation program controls.

He also reported that, year-to-date (through July), ERCOT has spent approximately \$5.9 million on the nodal project. The PUCT approved a nodal surcharge to be charged to Qualified Scheduling Entities (QSEs) based on generation levels, but the PUCT has not yet issued a final order.

Mr. Hinsley then presented an extensive overview of the nodal market design, much of which came from the previously-mentioned nodal training classes. He also described the most significant changes to the market design, network model and power operations systems, and the vendors ERCOT has retained to develop the various systems. A discussion then took place regarding load forecasting software and methodology.

Mr. Hinsley then commended the Project Managers for their exemplary work on the nodal market redesign project.

Technical Advisory Committee (TAC) Report

Chairman Armentrout invited Read Comstock, Chairman of TAC, to report on recent TAC activities. 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 PRR650 and PRR672. The PRRs are described as follows:

- ***PRR650 – Balancing Energy Price Adjustment Due to Non-Spinning Reserve Service Energy Deployment. Proposed effective date: September 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 of NSRS. ERCOT posted this PRR on 2/24/06. On 3/23/06, Protocol Revisions Subcommittee (PRS) voted to recommend approval of PRR650 as revised by selected

ERCOT comments. The motion passed with nine affirmative votes (Electric Cooperative (Coop) (2), Municipally Owned Utility (MOU) (2), Investor Owned Utility (IOU) (1), Independent Generator (3) and Independent Power Marketer (IPM) (1) Market Segments); three no votes (MOU, Consumers and Independent Retail Electric Provider (REP) Market Segments); and four abstentions (MOU (2), IOU (1) and IPM (1) Market 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 (Consumer (2), Coop (2), MOU (2) and IOU (1) Market Segments). All Market Segments were present for the vote. On 6/20/06, the Board voted to remand to TAC for further consideration of issues raised by Board discussion: review calculation of MCPE and prices paid for NSRS to keep consumers balanced; study double-dipping, clawback and economic fairness of payments; and complete economic analysis and to determine whether PRR650 is the best way to encourage new generation. On 8/3/06, TAC again considered PRR650 and voted to recommend approval of it as amended by ERCOT Staff comments. There were two opposing votes (Consumer) and one abstention (IOU); all Market Segments attended the vote. ERCOT credit staff and the CWG have reviewed PRR650 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

Mr. Comstock invited Larry Gurley of TXU to make the same presentation he made to TAC regarding PRR650.

Chairman Armentrout opened the floor to discussion. Several Board members asked questions about deployment of NSRS. **Mr. McCall moved to approve PRR650 with a requirement that ERCOT provide a report to the Board on its affect on prices at the end of the third quarter of 2006 and the end of this year. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

- ***PRR672 – Retail Market Timing Necessary for PUCT Project 29637 – URGENT. Proposed effective date: upon system implementation.*** PRR672 revises the transaction timings in Section 15, Customer Registration, for retail processes to reflect PUCT Project 29637, Rulemaking to Amend P.U.C. Subst. R. 25.214 and Pro-Forma Retail Delivery Tariff, and Mass Customer Transition Requirements. PRR672 will be implemented in three phases. ERCOT posted this PRR on 6/19/06. The submitter requested Urgent status because of the ERCOT deadlines for identifying requirements for Texas Standard Electronic Transaction (TX SET) 3.0. On 6/29/06, PRS granted Urgent status to PRR672 via email vote. On 7/20/06, PRS voted to recommend approval of PRR672 as submitted by the Retail Market Subcommittee (RMS). Revised language will be placed in a grey box until system implementation. ERCOT will be directed to implement priority Move-Ins within two (2) Retail Business Hours with the TX SET 3.0 implementation. Remaining grey box language will be implemented with future system functionality. ERCOT and Market Participants will have a collaborative analysis of Retail Business Processes (RBP) associated with PRR672 transaction timing changes. Results of the analysis will be presented to RMS no later than the November 2006 RMS meeting. PRS also determined that the two Retail Business Hours processing and sorting of priority Move-In is to be included with TX SET 3.0 (PR 40038_01) and that all other changes for PRR672 will be included in Project 60008_01 (priority 1.1; rank 10). The motion passed with one abstention (Municipal Segment). All Market Segments attended the vote. On 8/3/06, TAC voted to recommend approval of PRR672 as submitted (with two opposing votes from the Consumer Segment); all Market Segments were present for the vote. ERCOT credit staff and the CWG have reviewed PRR672 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

Chairman Armentrout opened the floor to discussion. Kenan Ogelman described the reasons for the “no”

votes from the Consumer segment at the TAC level.

Mr. Gahn moved to approve PRR652; Mr. Ogelman seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Nodal Protocol Revision Requests (NPRR)

The TAC recommends approval of the following Nodal Protocol Revision Requests:

- ***NPRR008 – PRR 307 Inclusion in Nodal.*** This NPRR was posted on 7/17/06. It revises the necessary sections of the Nodal Protocols to ensure that PRR307, Load Providing Regulation Services (Controllable Resources), has been included in the Nodal Protocols. PRR307, approved by the Board on 3/19/02, made changes to the definition of Load that can provide Regulation Service. On 7/20/06, PRS voted to recommend approval of NPRR008 as submitted. There was one abstention (Municipal Segment); all Market Segments were present for the vote. On 8/3/06, TAC voted to recommend approval of NPRR008 as recommended by PRS; TAC also asked the Reliability and Operations Subcommittee (ROS) to develop the comparable and appropriate standards and criteria to ensure performance of Loads providing these services. There were two abstentions (Independent Generator Segment); all Market Segments were present for the vote.

Chairman Armentrout opened the floor to discussion. A discussion took place regarding implementation timing. Tom Payton of Oxy provided responses to several questions. Mr. Payton also provided comments in favor of this NPRR.

Mr. Dalton moved to approve NPRR008 as submitted. Brad Cox seconded the motion. The motion passed by unanimous voice vote with no abstentions.

System Change Requests (SCR)

The Board approved SCR748 as part of the consent agenda.

Replacement Reserve Service (RPRS) Update

Mr. Comstock provided a report on the status of the Market Participants' review of issues surrounding RPRS. He stated that a special task force has had several meetings and additional PRRs have been filed by various Market Participants.

H.R. & Governance Committee Report

Bob Kahn, Chairman of the H.R. & Governance Committee, reported that the committee discussed a succession plan for the independent members of the Board of Directors. They also considered information from ERCOT's Human Resources Department (HR Dept.) regarding hiring additional staff. Several candidates have raised questions regarding ERCOT's providing financial support for continued education. ERCOT's HR Dept. will continue investigate this issue. Finally, the committee discussed ERCOT's external communications plan and strategy.

Chairman Armentrout stated that the Board has made progress on hiring a firm to assist in the CEO search. He also stated that the Board will not interview any additional candidates for the open "unaffiliated" Board member and the Board is close to making a decision on that position.

CenterPoint Energy Houston Dynamic Reactive Support Project

Bill Bojorquez, ERCOT's Director of System Planning, reported that CenterPoint Energy Houston presented this project in March 2006. The project will provide dynamic reactive support to the ERCOT System (through devices installed at two substations in the Houston area – Bellaire and Crosby) and would cost between \$20M and \$25M. The project would maintain voltage at acceptable limits following a severe contingency. The regional planning group has considered this project and received no negative feedback. **Mr. Karnei moved to endorse the project. Mr. McCall seconded the motion.** Mr. Dalton asked if this project was more cost-effective than a Reliability Must Run (RMR) unit. Mr. Bojorquez stated that no RMR alternative exists. **The motion passed by unanimous voice vote with no abstentions.**

Finance & Audit Committee Report

Mr. Karnei, Chairman of the F&A Committee, reported that the committee met this morning and, among other matters, discussed ERCOT's fees/expenses estimates. The committee will review the proposed 2007 budget next month and the Board will consider it in October with a vote on the 2007 budget scheduled for the November meeting. The PUCT approved the nodal interim surcharge. The committee reviewed the TAC recommended project funding level of \$36M for projects in 2007. If the Board approves that funding level for projects an increase of approximately \$0.015/MWh in the system administration fee would be necessary unless the Board changes the acceptable debt/funding ratio to 72/28.

He also reported that the committee met with the internal audit staff in executive session.

Audit, Compliance, Incident Response & Enterprise Risk Management (ERM) Update

Steve Byone, ERCOT's Chief Financial Officer, provided an update regarding the status of internal control development and compliance. He reported that, over the last eighteen months, ERCOT has undergone thirty-four audits (twelve external and twenty-two internal). Additionally, ERCOT's internal audit department undertakes continuous fraud prevention and testing. Mr. Byone presented a graph showing that, of the 400+ audit points raised during those audits, less than thirty audit points (*i.e.* less than 8%) remain open. Currently, ERCOT management has asked each officer to identify the compliance requirements within his/her organization and whether his/her organization is in compliance. Of ninety-eight areas identified, no areas were deemed "not in compliance" and twelve were considered "substantially in compliance." By the end of 2006, ERCOT hopes to be able to report full compliance with all areas. ERCOT will also begin requiring that officers sign quarterly compliance certification reports.

Additionally, Mr. Byone reported that ERCOT is updating its incident response preparedness plans. He also stated that ERCOT has a Crisis Management Plan that was last updated in February 2004. Under that plan, ERCOT has an emergency response plan, crisis communications plan, emergency reporting and response policy, disaster recovery plan and a business continuity plan.

Mr. Byone then reported on the new NERC cyber-security protocols and ERCOT's efforts to comply with them. He also stated that ERCOT is in the process of adopting the NERC guidelines on the bird flu.

Finally, Mr. Byone reported on ERCOT's ERM effort.

Other Business

Chairman Armentrout inquired as to whether there was any other business to address before adjourning to Executive Session. At that time, Mr. Karnei commended Mr. Byone for his exemplary performance.

Future Agenda Items

Chairman Armentrout asked for any suggestions regarding items to add or delete from this list and suggested the removal of items 1, 2 and 3 as completed and the addition of a request for a full report on all action items relating to the April 17, 2006 Emergency Electric Curtailment Plan (EECP) event.

Executive Session

Chairman Armentrout adjourned the open portion of the meeting at approximately 3:00 p.m. into Executive Session to handle contract, personnel and litigation matters.

After the Executive Session (at approximately 4:30 p.m.), the following votes took place:

- To hire the Korn/Ferry International search firm to assist in the CEO search. **Mike Espinosa moved to approve Korn/Ferry; Mr. McCall seconded the motion. The motion passed by unanimous voice vote with one abstention (Chairman Armentrout).**
- To approve the contract set forth in the Board packet for hardware development costs. **Mr. McCall moved to approve the contract; Chairman Armentrout seconded the motion. The motion passed by unanimous voice vote with one abstention (Mr. Ogelman).**

Adjournment

Chairman Armentrout adjourned the meeting at approximately 4:35 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