

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

ERCOT Austin Offices
7620 Metro Center Drive
Austin, Texas 78744
November 14, 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 10:10 a.m. on the above-referenced date.

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 Carolyn Lewis Gallagher
Gahn, Scott	Just Energy	Independent REP
Gent, Michehl		Unaffiliated
Jones, Sam	ERCOT President/Chief Executive Officer	ERCOT
Kahn, Bob	Austin Energy	Municipal
Karnei, Clifton	Brazos Electric Coop	Cooperatives
Manning, Bob	HEB	Consumer/Commercial
McCall, Mike	TXU Energy	Investor-Owned Utilities Segment Alternate
McClellan, Suzi	Office of Public Utility Counsel	Consumer/Residential
Newton, Jan		Unaffiliated
Taylor, William	Calpine Corporation	Independent Generator

Staff and Guests:

Ashley, Kristi	Exelon
Bell, Wendell	TPPA
Berinsky, Carl	ERCOT Staff
Bojorquez, Bill	ERCOT Staff
Brenton, Jim	ERCOT Staff
Brewster, Chris	Steering Committee of Cities Served by TXU
Byone, Steve	Vice President, Chief Financial Officer
Capezzuti, Nancy	Vice President, Human Resources and Organizational Development
Carlson, Trent	BP Energy
Clemenhausen, Barbara	Topaz Power
Cutrer, Michelle	Green Mountain Energy
Day, Betty	ERCOT Staff
Drost, Wendell	AREVA
Forfia, David	ERCOT Staff
Fouriner, Margarita	Competitive Assets
Giuliani, Ray	Vice President, Chief of Market Operations

Goff, Eric	Constellation NewEnergy
Greer, Clayton	Constellation
Gresham, Kevin	Reliant Energy
Grimm, Larry	ERCOT Staff
Gruber, Richard	ERCOT Staff
Gurley, Larry	TXU
Hancock, Misti	ERCOT Staff
Hinsley, Ron	Vice President, Chief Information Officer
Hobbs, Kristi	ERCOT Staff
Huerta, Miguel	Smith Trostle LLP
Jones, Dan	Potomac Economics
Jones, Liz	TXU
Jones, Randy	Calpine
Koebrich, Lisa	KPMG
Kolodziej, Eddie	Customized Energy Solutions
Leech, Bob	Citigroup
Lopez, Nieves	ERCOT Staff
McMahill, Rovey	PUCT
McRae, Russ	AREVA
Meek, Don	ERCOT Staff
Morris, Sandy	LCRA
Moseley, Cheryl	ERCOT Staff
Mueller, Paula	PUCT
Packard, Michael	STEC
Pare, Tim	PA Consulting
Parsley, Julie	Commissioner, Public Utility Commission of Texas
Petterson, Michael	ERCOT Staff
Pfannenstiel, Darrin	Stream Energy
Pieniazek, Adrian	NRG Texas
Raspberry, Justin	ERCOT Staff
Roark, Dottie	ERCOT Staff
Rowe, Evan	PUCT
Ryall, Jean	Constellation Energy
Seymour, Cesar	SUEZ
Shumate, Walt	Shumate & Associates
Smitherman, Barry	Commissioner, Public Utility Commission of Texas
Thorne, James	Vice President, General Counsel and Corporate Secretary
Troxell, David	ERCOT Staff
Twiggs, Thane	Direct Energy
Walker, Mark	NRG Texas
Wittmeyer, Bob	RJ Covington
Wullenjohn, William	ERCOT Staff
Yager, Cheryl	ERCOT Staff
Zake, Diana	ERCOT Staff

Announcements

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

Commissioner Julie Parsley of the Public Utility Commission of Texas (PUCT) called to order a PUCT Open Meeting.

Consent Agenda

This month's consent agenda contains the following items:

- Approval of October 17, 2006 Minutes
- Protocol Revision Requests (PRRs) - PRR673 and PRR675

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

CEO Report

Sam Jones, ERCOT President and Chief Executive Officer (CEO), reported on several matters, including the following:

- October 2006 Bryan-College Station Load Shedding Event
- 2007 Ancillary Services Requirements
- CREZ Study Update

October 2006 Bryan-College Station Load Shedding Event

Kent Saathoff, ERCOT Director of System Operations, reported that a relay failure at the Gibbons Creek substation led to an explosion at a Coupling Capacitor Voltage Transformer and tripping of three 345/138 KV transformers and clearing of both 345 KV busses. This occurred on a major 345 KV path for North Zone to Houston Zone and reduced the import limit from Houston. The loss of the Gibbons Creek 345/138 KV transformers, area generation and other lines left only one 138 KV line to supply the Bryan-College Station area. Additional loss of generation (1,200 MW total) triggered a North American Electric Reliability Council (NERC) Disturbance Compliance Standard (DCS) event and the shedding of Loads acting as Resources (LaaRs). Additionally, a line overload and difficulty maintaining voltage in the area necessitated shedding approximately 339 MW of Load to prevent a complete collapse of the area.

Mr. Saathoff then described some design improvements which should be implemented in the future to avoid a repeat of such an event. A discussion then took place regarding various issues associated with this event. Chairman Armentrout asked that ERCOT staff report back to the Board after more of the analysis of this event has taken place.

2007 Ancillary Services Requirements

Mr. Saathoff distributed a revised version of the Ancillary Services methodology document for 2007. ERCOT Staff and Technical Advisory Committee (TAC) recommended revised requirements to be effective in 2007, as described in the methodology document distributed at today's meeting.

Mr. Saathoff described the methodology for 2007, as follows:

- Some non-substantive editing was done to improve readability and clarity of the document;
- Changing references of "Regulation Reserve" to "Regulation Service";
- Determination of the Balancing Energy Down energy requirement will be based on the prior

month and corresponding month of the previous year actual usage instead of the average of the prior three months;

- Eliminated an unnecessary and unused method for determining Regulation requirements during periods of large schedule changes;
- Added flexibility to obtain Non-Spinning Reserve Service in excess of capacity of the largest generation unit for Load forecast uncertainty; and
- Determination of the need for Non-Spinning Reserve Service for the next day due to not having a large amount of spinning reserves will be based on projected Resource Plans for the next day rather than historical day-before levels (the definition of a “large amount” of spinning reserve was reduced from 4,600 MW to 3,300 MW).

Mr. Kahn moved to approve the Ancillary Services methodology document as submitted. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.

CREZ Study Update

Bill Bojorquez, ERCOT Director of System Planning, made a presentation regarding ERCOT’s work on Competitive Renewable Energy Zones (CREZs). Mr. Bojorquez stated that the Legislature mandated the study of potential CREZs and ERCOT hired a consultant to identify the best areas with wind resource potential. They identified sites into twenty-five areas, with a focus on areas with greater than a 35% capacity factor. The study identified 4,000 MW of the highest capacity factor sites. The capacity factor is defined as the annual kilowatt-hour produced by a plant divided by the product of the total hours in a year and the rated capacity of the plant. The consultant ranked the areas from one to twenty-five.

From this data, ERCOT established four CREZ areas for network upgrades: (1) Coastal, (2) McCamey, (3) Abilene and (4) Panhandle. Mr. Bojorquez then provided a summary of the financial cost of transmission improvements needed to import electricity from the various areas. Mr. Karnei stated that the cost of transmission upgrades is very high for a small amount of Load serving generation.

A lengthy discussion then took place regarding the various issues related to wind generation and transmission upgrades necessary to support them.

Chairman Armentrout requested that ERCOT staff present a more holistic analysis of the economic impact of these proposals in the future. In conclusion, he stated that ERCOT embraces and supports wind generation in the ERCOT Region.

Operating Reports

Chairman Armentrout invited questions about the following reports (previously circulated):

- Financial Summary Report
- Market Operations Report
- I.T. Report
- Compliance Report
- Critical Infrastructure Protection Advisory Group

No one posed any questions about the reports.

Nodal Market Redesign Status Report and Budget Acceptance

Ron Hinsley, ERCOT Vice President and Chief Information Officer (CIO), provided an update on the status of the Nodal market redesign effort. He included the following matters in his presentation:

- Monthly progress report (program status remains red)
- IBM audit of program controls
- Interviews of candidates for the Executive Director position
- Year-to-date budget numbers
- Procurement practices
- Audit (internal and external) plans for 2006 and 2007 and audit results to date

Mr. Hinsley stated that one critical deadline is approaching (at the end of December) and if that deadline is not met, it would greatly affect the overall project's timing.

Commissioner Smitherman asked about the break down of costs between goods and services in the nodal budget. Mr. Hinsley provided that information.

Mr. Hinsley then introduced Tim Pare of PA Consulting to present an updated budget for the entire program. Mr. Pare has worked on the program since February 2006. He stated that the Nodal Protocols and Nodal Transition Plan serve as the principal binding documents in program development. He continued by reviewing actions taken to date and assumptions that went into the budget creation, including a comparison of the current budget to prior budgets. He pointed out that the weighted average cost of labor is approximately \$100/hour, an amount virtually the same as the amount assumed in the December 2005 budget. He stated also that, although the hourly rate has not changed much, the amount of labor has increased.

Chairman Armentrout stated that the next step is to prepare a filing for an updated Nodal fee surcharge at the PUCT. Mr. McCall pointed out that Market Participants will incur costs in addition to those incurred by ERCOT.

Finance & Audit (F&A) Committee Report

Clifton Karnei, the committee chair, reported on the following matters discussed at the committee's monthly meeting:

- A report from ERCOT's internal audit staff
- Approval of the 2007 internal audit plan

2007 Strategic Financial Plan & Budget

The committee considered two alternatives for a 2007 budget (previously circulated to Directors).

Alternative #1: Adopt the proposed 2007 Budget which includes a base operations budget of \$120.1 million, a project budget of \$44.0 million, and \$1.65 million for market monitoring activities and authorize a temporary project funding ratio of 27% revenue and 73% debt in 2007 and require management to reinstate the standard ratio of 40% revenue and 60% debt by 2009.

OR

Alternative #2: Adopt the proposed 2007 Budget which includes a base operations budget of \$120.1 million, a project budget of \$44.0 million, and \$1.65 million for market monitoring activities, adjusted by reducing the project budget from \$44 million to \$30 million if the critical-path Zonal/Nodal dependent projects will remain in the Texas Nodal Market Implementation Plan

budget.

Mr. Karnei stated that the committee recommends Alternative #1.

Steve Byone, ERCOT Chief Financial Officer, presented the background of the budget's development and stated that the project expenditures are approximately \$14 million more than the \$30 million initially anticipated. Funding this additional amount will temporarily change ERCOT's targeted debt/revenue ratio for funding of capital expenditures (from 60/40 to 73/27). ERCOT has not proposed an increase in the System Administration Fee for 2007. ERCOT does, however, expect to seek an increase in the Nodal Implementation Surcharge. Additionally, the costs associated with the new Electric Reliability Organization and Regional Entity are assumed by management to be collected from sources other than the System Administration Fee.

Mr. Byone addressed Commissioner Smitherman's question from last month regarding Load growth assumptions in the budget. He stated that the projected Load growth numbers come from ERCOT's Capacity, Demand and Reserves report. He also showed a slide demonstrating ERCOT's performance in forecasting Load in the past.

In addition to the foregoing, he mentioned the budget contains no line item for contingencies. In summary, he pointed out that Alternative #1 contemplates temporarily changing the debt/revenue ratio for project funding. Alternative #2 maintains a 60/40 Debt/Revenue ratio, but would require an additional \$37 million be proposed to be recovered through ERCOT's Nodal Implementation Surcharge.

Mr. Karnei moved to approve the budget as set forth in Alternative #1. Mr. Manning seconded the motion. Chairman Armentrout opened the floor to discussion.

Mr. Dalton stated that he prefers Alternative #2 and provided his reasons for doing so. Mr. Karnei stated that the committee thoroughly considered the issues raised by Mr. Dalton and concluded that Alternative #1 was the preferred approach, but noted that Mr. Dalton's comments were well taken.

Commissioner Smitherman stated that he recommends that the PUCT enter an order requiring that ERCOT restore the Debt/Revenue ratio to 60/40 by December 31, 2008.

Chairman Armentrout called the question. **The motion passed by voice vote with two Directors opposed (Ms. McClellan and Mr. Dalton).**

Financial Institution Market Participants

Mr. Karnei described a resolution allowing ERCOT to do business with affiliates of financial institutions (and other types of vendors) that are Market Participants, so long as the Market Participant and its affiliate agree to acceptable confidentiality provisions.

Mr. Karnei moved to approve the Resolution attached hereto as Attachment A. Mr. Espinosa seconded the motion.

A discussion took place regarding the issues related to this resolution. Chairman Armentrout proposed an amendment to the motion which would require that ERCOT staff disclose to the F&A committee any time ERCOT enters into a relationship with a Market Participant.

Messrs. Karnei and Espinosa accepted the amendment. As amended, the motion passed by unanimous voice vote with no abstentions. The final version of the Resolution is attached hereto as

Attachment A.

2004 and 2005 Audited Financial Statements for ERCOT's 401(k) Savings Plans and Money Purchase Plan

Mr. Karnei moved to accept the Audited Financial Statements for 2004 and 2005 of ERCOT's 401(k) and Money Purchase Plans as set forth in the Resolution attached hereto as Attachment B. Mr. Manning seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Financial & Investment Standard Updates

Mr. Karnei moved to approve the Resolution attached hereto as Attachment C regarding ERCOT's Financial and Investment Standards. Mr. McCall seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Credit Update & Next Steps

Cheryl Yager, ERCOT Treasurer, made a presentation regarding recent credit issues and the Finance Department's philosophy and approach to those issues. Among other things, she pointed out that Protocol revisions have led to a 37% decrease in credit exposure and that, by second quarter of 2007, credit exposure will have been reduced by approximately 62%.

Ms. Yager indicated that Market Participants defeated PRR683 (proposed by the Credit Working Group). ERCOT staff interprets that defeat as stakeholders' desire to cease the tightening of credit standards. She then proposed seeking an independent review of ERCOT's credit-related Protocols and comparing them to the rules in place at other Independent System Operators (ISOs). She stated that the Credit Working Group continues to discuss the possibility of obtaining catastrophic credit insurance coverage. She will report to the Board when that analysis ends.

Mr. Karnei stated that the F&A committee has not reached consensus on credit-related issues. He hopes to have a workshop of committee members to consider the status of credit protection. He also intends to look into having an independent third-party review the Protocols as Ms. Yager described.

Mr. Taylor pointed out that most of the work done so far has involved decreasing timelines as opposed to increasing credit requirements. PRR683, on the other hand, would have tightened credit requirements. Mr. Kahn stated that ERCOT should take appropriate steps to reduce credit risk to Market Participants. Mr. Cox cautioned the Board to ensure it does not circumvent the stakeholder process as it considers credit-related matters. Mr. Gahn agreed with Mr. Cox's comments.

Other Items

Mr. Karnei stated that Deloitte & Touche audited the controls implemented after their previous audit. They have completed their fieldwork and are now drafting a final report to be completed this month. Overall, they gave a favorable report, indicating the internal control program is "working as designed" and that the design was found to be "100% appropriate." Of 152 controls they tested, 145 were deemed effective; yielding a pass rate over 95%.

Mr. Karnei then reported that the committee received update on the SAS70 Audit with preliminary findings from a representative of PricewaterhouseCooper (PwC). He stated that no exceptions will be reported in seventeen of eighteen control objectives which represent a significant achievement for 95% of

the areas tested, including Physical Security which had significant exceptions last year. However, ERCOT expects to receive a qualification in the Logical Security area. ERCOT will receive a full report in December.

He then reported that ERCOT will soon implement FAS 71 accounting standards which are “fact-based” standards and which will be employed for transactions relating the to the Texas Nodal Market Implementation Project.

Mr. Karnei then stated that ERCOT staff updated the Committee on the interest rate swap the Board approved last year. Everything is working as planned. He reported that the Committee is considering alternatives to ensure ERCOT remains in compliance with the requirement to limit unhedged variable rate debt to a maximum of 40% of total debt outstanding.

Last month, the committee received notice of the cancellation of the Outage Scheduler capital project. As a result, at this month’s meeting Mr. Saathoff presented the background regarding why the project was cancelled.

After the lunch break, Chairman Armentrout mentioned that Messrs. Kahn and Manning will be leaving the Board next month. He thanked them for their service as Directors through the years. **Mr. Karnei proposed a resolution of appreciation of their service. Chairman Armentrout seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Replacement Reserve Service (RPRS) Project Update

Richard Gruber, ERCOT Director of Market Services, made a presentation regarding the status of the project to implement the PRRs relating to RPRS. He stated that the project is on schedule and on budget.

Technical Advisory Committee Report

Chairman Armentrout then invited Read Comstock, Chairman of TAC, to report on recent TAC activities. Mr. Comstock then discussed the matters set forth below.

Protocol Revision Requests

Mr. Comstock reported that TAC voted to recommend that the Board approve the following PRR, described as follows:

- ***PRR682 – Emergency Electric Curtailment Plan (EECP) Event Realignment.*** This PRR has a proposed effective date of December 1, 2006 and revises the necessary sequence for ERCOT to process EECP-related items, thereby allowing ERCOT to be more proactive in communicating system conditions during certain events. This PRR was posted on August 14, 2006. On August 16, 2006, Protocol Revisions Subcommittee (PRS) granted Urgent status through an email vote. On August 17, 2006, PRS voted to recommend approval of PRR682 as revised by the PRS. The motion passed with one abstention from the Independent Power Marketer (IPM) segment. All Market Segments attended the vote. On September 6, 2006, with all Market Segments present, TAC voted unanimously to recommend approval of PRR682 as revised by comments from ERCOT Staff. On September 19, 2006, the ERCOT Board remanded PRR682 to TAC to address ERCOT Staff concerns. On October 6, 2006, the TAC unanimously voted to remand PRR682 to the Reliability Operations Subcommittee (ROS) to consider the timing of the public media appeal and any related processes and report to TAC at its November 2006 meeting. All Market Segments attended the vote. On November 2, 2006, TAC voted to recommend approval of PRR682 as

revised by comments from ROS. There were two abstentions from the Consumer and Independent Generator segments. All Market Segments attended the vote. ERCOT credit staff and the Credit Work Group (WG) have reviewed PRR682 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

Mr. Kahn moved to approve PRR682. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Closely Related Elements (CREs)

Mr. Comstock stated that this item is related to Board approval of the 2007 Congestion Management Zones and Commercially Significant Constraints. The Protocols define CREs as “those transmission facilities that have shift factor impacts similar to those associated with a particular Commercially Significant Constraint (CSC), and for which there exists a limited amount of Boundary Generation Resources between it and the particular CSC, so that the zonal deployment of Balancing Energy Service is effective in mitigating Zonal Congestion.” When facility outages prevent the normal method for monitoring CSCs for zonal congestion management, ERCOT uses CREs instead of CSCs. Pursuant to the ERCOT Protocols, ERCOT Staff has identified the appropriate CREs and presented the results to the Wholesale Market Subcommittee (WMS) and TAC. TAC recommends approval of the 2007 CREs as presented by ERCOT Staff.

Mr. Dalton raised a question about the increase in the number of CREs this year.

Mr. Karnei moved to approve the CREs as submitted by TAC. Mr. Gent seconded the motion. The motion passed by unanimous voice vote with one abstention (Mr. Dalton).

Guide Revisions

Mr. Comstock reported that the TAC approved RMGRR041 – *Safety-Net Revisions Necessary for PUC Project 29637* and OGRR187 – *Conforming EECOP Operating Guide Language with Protocol Language*.

Other Items

Mr. Comstock reported that the Transition Plan Task Force (TPTF) asked PRS to consider a date-certain moratorium on PRR/System Change Request (SCR) changes related to the zonal market. PRS discussed the issue and concluded that it is uncomfortable with a PRR/SCR moratorium and would rather rely on existing tools such as a decision tree that considers the impact on nodal resources and a schedule to conduct a more disciplined review of PRRs that require system changes. Chairman Armentrout stated that, from now on, TAC should do a cost/benefit analysis of changes to the zonal market, the impact on the nodal program and whether the change will carry forward into the nodal market design. Kevin Gresham, PRS Chairman, stated that the PRS has had a similar discussion and the PRS has agreed to take these factors into consideration as new PRRs arise.

Emergency Interruptible Load Program

Mr. Comstock reported on the status of implementing an Emergency Interruptible Load Program (EILP). WMS established a task force to look into this issue. The task force has had two meetings and developed some EILP concepts. The task force will present the EILP concepts and draft PRRs at the December ROS and WMS meetings. The PRRs will probably go to PRS in January and to the Directors in February.

Rejection of PRR692

Mr. Comstock stated that, in September, the Board approved PRR676 – *RPRS Solution with Nodal RUC-Type Procurement and Cost Allocation* and directed ERCOT Staff to implement it as soon as possible. In September, the Board also approved the appeal of PRR 674 – *Temporary Alteration of Settlement Equations Related to the RPRS Under-scheduled Charge* (with a sunset date of February 1, 2007 or upon implementation of PRR676). The Board decision in September resulted from several months of discussion regarding RPRS, including the creation of a separate RPRS Task Force. In September, Constellation NewEnergy (CNE) submitted PRR692, which the PRS rejected in October. CNE appealed PRS’s rejection of PRR692 to the TAC. In October, the TAC rejected the Appeal of PRR692, with twenty-seven TAC members voting in favor of rejection and three abstentions (Independent Retail Electric Provider (REP), Investor Owned Utility (IOU) and Consumer Segment). He concluded by stating that passage of PRR692 would jeopardize implementation of PRR676 as approved by the Board.

Mr. Comstock presented the following factors that the TAC considered in rejecting the appeal:

- Procedural Concerns
 - Market Participants have fully discussed RPRS modifications and this process culminated in Board approval of PRR676
 - PRR676 resolves issues related to RPRS
 - Implementation of PRR692 would nullify efforts to implement PRR676 and could compromise implementation of PRR666 related to RPRS
 - ERCOT Staff has not fully reviewed PRR692 and the ROS has not reviewed this PRR
 - Implementation of PRR692 would likely take many months and would not be part of the Nodal market design
- Substantive Concerns:
 - Implementation of this PRR will financially benefit some Market Participants
 - The PRR could create an incentive to over-schedule
 - Requirements in the PRR requiring certain units to bid in the RPRS market would be difficult to monitor

PRR692 Appeal

Vanus Priestly, a representative of Constellation NewEnergy, then presented his company’s appeal of the TAC’s refusal to recommend passage of PRR692. He explained the perceived benefits of PRR692. He stated that PRR676 charges 100% of the costs of RPRS to Qualified Scheduling Entities (QSEs) that under-schedule. PRR692 attempts to isolate and directly assign RPRS costs to those who under-schedule. The costs would be assigned at marginal cost. PRR692 requires a ten Heat Rate bid minimum which makes it less economic for profitable Resources to schedule in a way that would induce the opening of an RPRS market. Mr. Priestly conceded that it will be difficult to enforce the ten heat-rate bid requirement due to data limitations in the ERCOT computer systems.

Additionally, Mr. Priestly asserts that only two percent of RPRS procured results from under-scheduling. He also presented a slide showing an increase in BES-Down deployments after September 1, 2006. He asserts that phenomenon results from Market Participants beginning to over-schedule because they are “afraid” of RPRS. He also provided a slide showing that, since Sept. 2, 2006, Balancing Energy Service (BES) costs have decreased dramatically. He asserts that the drop in prices results from the fact that more QSEs are over-scheduling. In conclusion, he asked the Board to remand PRR692 to PRS for additional work.

Chairman Armentrout stated that, pursuant to the Protocols, remand is not an option and the Board can: (a) grant the appeal, (b) take no action on the appeal or (c) reject the appeal.

Mr. Dalton stated that he would support rejection of the appeal and would prefer to see a solution that could be rolled into the Nodal market design. Mr. Gent stated that, in his opinion, the current behavior of Market Participants creates a more reliable grid.

Mr. Gahn stated that the Board was expecting an update of the impact of PRR674 on BES. Chairman Armentrout stated that ERCOT should perform the requested analysis and provide an update and send the results of that work to Directors by email as soon as the work is completed.

No Director moved to approve the appeal of PRR692 and, consequently, the appeal was denied.

H.R. & Governance Committee

Bob Kahn, the committee chair, reported on the following matters discussed at the committee's monthly meeting:

- Directors should review and sign the recently-approved Ethics Agreement
- The hiring of an employee to focus on external communication
- Texas Regional Entity (RE) Delegation Agreement & By-Laws Changes

A question arose regarding PUCT input on hiring and other employment decisions relating to the Chief Compliance Officer (CCO). Mr. Kahn stated that, rather than obtaining "approval" from the PUCT, some proposed revisions would provide for collaboration with the Commissioners and approval from the PUCT Executive Director before hiring or taking other employment actions regarding the CCO.

Mr. Kahn moved to approve the Resolution attached as Attachment D, approving the documents as revised. Ms. Newton seconded the motion. Commissioner Parsley then explained the reasons for including the language requiring PUCT input and expressed general agreement with the proposed revisions. Sam Jones expressed his appreciation to all the people who have contributed to the development of the documents relating to the new Electric Reliability Organization and Regional Entity. **The motion passed by unanimous voice vote with no abstentions.**

Other Business

Chairman Armentrout opened the floor to discussion of other business. None was raised.

Future Agenda Items

Chairman Armentrout asked for elimination of items 1, 2, 3 and 5 on the current "future agenda items" list. He stated he would like to see: (i) an EECF update on the "lessons learned" from the April blackout event, (ii) a final report regarding the lessons learned from the Bryan/College Station outage, and (iii) a presentation regarding how ERCOT staff reaches its assumptions for future Load growth.

Mr. Karnei stated that the F&A committee would have a workshop regarding credit issues and make a presentation to the Board at its February meeting.

Chairman Armentrout then recommended the following items for the agenda of the February 21, 2007 Board retreat:

- Strategy update
- Committee structure (led by committee chairs)
- Nodal update (including, perhaps, having the IBM representative)
- Capacity (led by Mr. Saathoff)
- Update on external relations (led by Mr. Thorne and Ms. Newton)

Executive Session

Chairman Armentrout adjourned the open portion of the meeting into Executive Session at approximately 3:05 p.m. to handle contract, personnel and litigation matters.

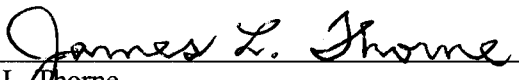
After the Executive Session (at approximately 4:00 p.m.), the following votes took place in open session:

- **Chairman Armentrout moved to approve the six contracts discussed in the Executive Session and the Resolutions attached to the Executive Session minutes as Attachments A through F. Mr. Taylor seconded the motion. The motion passed by unanimous voice vote with no abstentions.**
- **Mr. Kahn moved that ERCOT appeal the court ruling in the *May/TCE v. ERCOT* lawsuit. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.**
- **Mr. Kahn moved that ERCOT appeal the court ruling in the *TPS/APX v. ERCOT* lawsuit. Chairman Armentrout seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Adjournment

Chairman Armentrout adjourned the meeting at approximately 4:05 p.m.

Board materials and presentations from the meeting are available on ERCOT's website at <http://www.ercot.com/calendar/2006/11/20061114-BOARD.html>.


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

ATTACHMENT A

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

WHEREAS, the board of directors (the "Board") of Electric Reliability Council of Texas, Inc., a Texas non-profit corporation ("ERCOT") deems it desirable to permit ERCOT to use financial institutions that are affiliates of market participants for ERCOT financing, banking, and other administrative services (for example, benefits administration and transfer agent services) and ERCOT and market participant fund investments, so long as the market participant and its financial institution affiliate agree to acceptable confidentiality provisions, in order to provide ERCOT with competitive options;

NOW, THEREFORE, BE IT RESOLVED, that ERCOT is hereby permitted to use financial institutions that are affiliates of market participants for ERCOT debt financing, banking, other administrative services, and investments, so long as the financial institution and the market participant execute an acceptable confidentiality agreement with ERCOT.

ATTACHMENT B

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

WHEREAS, the board of directors (the “Board”) of Electric Reliability Council of Texas (“ERCOT”), Inc., a non-profit corporation (the “Company”) deems it desirable and in the best interest of ERCOT to accept the 2004 and 2005 financial statements and audit reports by PricewaterhouseCoopers for the ERCOT 401(k) Savings Plan and Money Purchase Plan.

IT IS HEREBY RESOLVED, that the Board hereby accepts the Financial Statements and Supplemental Schedule with Report of Independent Auditors for the years ending December 31, 2004 and 2005, for the ERCOT 401(k) Savings Plan and Money Purchase Plan.

ATTACHMENT C

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

WHEREAS, the board of directors (the “Board”) of Electric Reliability Council of Texas, Inc., a Texas non-profit corporation (the “Company”) deems it desirable and in the best interests of the Company, in order to provide sound financial guidance for its business;

NOW, THEREFORE, BE IT RESOLVED, that the Investment Standard, a copy of which is attached as EXHIBIT A and the Financial Standard, a draft of which is attached hereto as EXHIBIT B, is hereby authorized and approved in each and every respect.

ATTACHMENT D

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

WHEREAS, the board of directors (the “Board”) of Electric Reliability Council of Texas, Inc., a Texas non-profit corporation (“ERCOT”) deems it desirable for ERCOT to create a functionally separate division (“TRE”) that will contract for and become the regional entity for the ERCOT Region pursuant to the Energy Policy Act of 2005;

NOW, THEREFORE, BE IT RESOLVED, that ERCOT staff is hereby permitted to negotiate with NERC regarding a Delegation Agreement, on terms similar to those in the October 19, 2006 draft Delegation Agreement, understanding that before ERCOT can sign a final Delegation Agreement with NERC:

- NERC and FERC must approve the Delegation Agreement and all Exhibits;
- ERCOT membership and the PUCT must approve all required modifications to the Bylaws; and
- The Board must formally approve the final Delegation Agreement, including Exhibits.

ATTACHMENT C, EXHIBIT A

ERCOT CORPORATE STANDARD

Document Name:	Investment Standard
Document ID:	CS3.2
Effective Date:	Upon Approval
Owner:	Board of Directors, F&A Committee
Governs:	ERCOT Personnel
Approved:	

1.0 PURPOSE

The purpose of the ERCOT Investment Standard is to document the guidelines and related activities approved by the ERCOT Board of Directors for the investment and management of funds held by ERCOT.

It is ERCOT's policy to invest its funds in a manner that provides reasonable investment returns with adequate security while meeting daily cash flow demands and conforming to applicable laws, Bylaws, board resolutions and policies and debt covenants.

The standard applies to activity involving ERCOT funds, except for the Electric Reliability Council of Texas, Inc. 401(k) Savings Plan, which is managed separately.

ERCOT funds specifically include proceeds from:

- 1) the ERCOT System Administration Fee, Nodal Surcharge, NERC funding under a Delegation Agreement, and other fees collected from time to time,
- 2) transmission congestion rights (TCR) auctions,
- 3) market settlement operations,
- 4) security deposits,
- 5) debt issues, and
- 6) other miscellaneous cash received.

2.0 STANDARDS

Standard of Care. ERCOT investments will be made with judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of principal as well as the probable income to be derived.

The standard of prudence to be used by the Designated Investment Officers (defined below) shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. The Designated Investment Officers of ERCOT, acting in accordance with this standard and any other written procedures pertaining to the administration and management of ERCOT's portfolio and who exercise the proper due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

Investment Objectives. The primary objectives, in priority order, of ERCOT's investment activities shall be:

- 1) **Safety** – Safety of principal is the foremost objective of the investment program. Investment of ERCOT funds will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, ERCOT will diversify its investments by investing funds among a variety of securities offering independent returns and a variety of independent financial institutions.
- 2) **Liquidity** – ERCOT's investment portfolio will remain sufficiently liquid to enable ERCOT to meet all operating requirements which might be reasonably anticipated.
- 3) **Return on investment** – ERCOT's investment portfolio will be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, in line with ERCOT's investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority. Responsibility for the investment program is hereby delegated to the Designated Investment Officers. The Chief Financial Officer and the Treasurer of ERCOT are the Designated Investment Officers of ERCOT and are authorized to enter into and are responsible for all investment transactions undertaken. They will establish a system of controls over the investment program.

The Designated Investment Officers will establish written investment procedures for the operation of the investment program consistent with this standard. No person may engage in an investment transaction except as provided under the terms of this standard and the procedures established by the Designated Investment Officers.

Any two of the following individuals, with at least one being a Designated Investment Officer shall have authority to open and close investment and / or depository accounts with Qualified Institutions (as defined below): Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Controller and Treasurer.

Qualified Institutions. A Designated Investment Officer will select banks and other financial institutions that are approved for investment and / or depository purposes ("Qualified Institutions"). Only firms meeting the requirements of the attached Appendix A will be eligible to serve as Qualified Institutions.

If an ERCOT Board member or member of his or her immediate family is an officer or director, is employed by, or owns or has a beneficial interest in more than 10 percent of the stock in a bank or other financial institution that would otherwise be a Qualified Institution, such Board member shall provide full disclosure of such stock holdings or relationship in documented form to be filed with permanent records of ERCOT. Any institutions so disclosed will be excluded from consideration as a Qualified Institution without 1) full disclosure to the Board of Directors of the relationship and 2) approval of the Board to establish the relationship.

Authorized Instruments. ERCOT shall invest only in those types of instruments authorized under this standard and listed in Appendix C and subject to the restrictions included in Appendix C.

Safekeeping of Investments. Security transactions, including collateral for repurchase agreements, will be conducted on a "delivery-versus-payment" (DVP) basis. Securities, other than shares in money market mutual funds, will be held in safekeeping, in the name of ERCOT, by a custodian (an independent state or federally-chartered bank) designated by the Treasurer and evidenced by safekeeping receipts. Institutions that offer money market mutual funds are responsible for safeguarding their underlying securities.

Internal Control. The Treasurer shall ensure that the internal controls over investments are reviewed 1) periodically by ERCOT's internal auditor, and 2) annually in conjunction with the fiscal audit by the external auditor. This review will test compliance with policies and procedures.

Reporting. A Designated Investment Officer will provide quarterly investment reports to the Board of Directors and Finance and Audit Committee which provide a clear picture of the status of the current investment portfolio.

Schedules in the quarterly report will, at a minimum, include the following:

- 1) A listing of individual securities held at the end of the reporting period by authorized investment category
- 2) Average life and final maturity of all investments listed
- 3) Coupon, discount or earnings rate
- 4) Par value, amortized book value and market value
- 5) Percentage of the portfolio represented by each investment category
- 6) Statement of compliance with the Investment Standard

Investment Standard Adoption. ERCOT's investment standard will be adopted by resolution of the Board of Directors. The standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.

APPENDIX A

Requirements of Qualified Institutions

Only entities meeting the following requirements will be eligible to serve as Qualified Institutions:

General Requirements

- 1) The entity has a senior debt rating which is at least the equivalent of A- by Standard & Poor's or A3 by Moody's Investor Service,
- 2) Has provided a current audited financial statement which is on file at ERCOT,
- 3) Has capital of not less than \$100 million, and
- 4) Has assets of not less than \$1 billion.

Additional Requirements for Depositories

- 1) The entity is a federal- or state-chartered bank, and
- 2) Deposits up to \$100,000 are insured by federal agencies

Additional Requirements for Security Dealers

- 1) The entity is a "primary" or regional dealer that qualifies under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule),
- 2) Is registered as a dealer under the Securities Exchange Act of 1934,
- 3) Is a member in good standing of the National Association of Securities Dealers (NASD),
- 4) The entity has been in business for at least five (5) years,
- 5) A representative of the entity has returned a signed certification (substantially in the form attached as Appendix B) that he/she has read and is familiar with ERCOT's Investment Standard, and
- 6) The entity has provided such other information as ERCOT requires from time to time.

APPENDIX B

**Investment Standard for
Electric Reliability Council of Texas**

Qualified Institution Certification for Security Dealers

Dealer / Investment Firm: _____

I hereby certify that I have received and thoroughly reviewed the ERCOT Investment Standard, and the firm I represent

- 1) meets all of ERCOT's Requirements for Qualified Institutions; and
- 2) has implemented reasonable procedures and controls in an effort to preclude investment transactions between this firm and ERCOT that are not authorized by the ERCOT Investment Standard, except to the extent that this authorization is dependent on an analysis of the makeup of ERCOT's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative

Name

Title

Date

APPENDIX C
Authorized Instruments

<u>Description</u>	<u>Quality Limitation</u>	<u>Maturity Limitation (Note 1)</u>	<u>Limitation per issuer</u>	<u>Category limitation</u>
1. Obligations of or guaranteed by the US government	n/a	5 yrs or less	none	none
2. Obligations of or guaranteed by other US governmental entities (e.g. federal agencies, state or municipal, etc)	n/a	5 yr or less	\$ 5,000,000	50% of total
3. Certificates of deposit and share certificates	Note 2	1 yr or less	\$ 5,000,000	33% of total
4. Repurchase agreements in which the collateral is government or agency securities (1 or 2 above). (Note 3)	Note 2	7 days or less	\$ 5,000,000	33% of total
5. Commercial paper	A1/P1 or better	1 yr or less	\$ 5,000,000	33% of total
6. Banker's acceptances	Note 2	1 yr or less	\$ 5,000,000	33% of total
7. Money market mutual funds (MMMF)	Note 4	Note 4	Note 4	none

Note 1: To the extent possible, ERCOT will attempt to match its investments with anticipated cash flow requirements. A base level of cash may remain uninvested to meet the operating needs of ERCOT.

Note 2: Investments may be made with financial institutions with a corporate or senior debt credit rating of at least A- with S&P or A3 with Moody's. Investments in repurchase agreements must be subject to a Master Repurchase Agreement signed with the bank or dealer (e.g. a PSA Master Repurchase Agreement or equivalent).

Note 3: Collateral is required for all repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value and accrued interest. Collateral may consist only of other instruments approved above. Collateral will always be held by an independent third party with whom ERCOT has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to and retained by ERCOT. The right of collateral substitution is granted.

Note 4: There is no credit rating required given 1) the MMMFs stated objective to preserve capital, 2) the credit quality restrictions placed on MMMFs by the SEC (may hold no more than 5% of middle-rated securities - A2/P2 or equivalent), 3) the SEC restriction that no more than 5% of assets in a MMMF may be invested in any one security (requires diversification) and 4) the restriction that MMMFs can only invest in instruments with maturities of less than 13 months and that the average maturity of all holdings in a MMMF cannot extend beyond 90 days. There is no maturity limitation or limitation per issuer for the reasons mentioned above.

ATTACHMENT C, EXHIBIT B
ERCOT CORPORATE STANDARD

Document Name:	Financial Standard
Document ID:	CS3.1
Effective Date:	Upon Approval
Owner:	Board of Directors, F&A Committee
Approved:	

1.0 PURPOSE

This financial standard is a framework from which ERCOT's financial integrity will be maintained while serving the long-term interests of the company and the ERCOT market. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT's primary responsibilities.

2.0 DEFINITIONS

TERM	DEFINITION
Budget	The Budget consists of Project Budgets and an Operating and Maintenance Budget and will include the TRE Budget as a component, if and when ERCOT signs a Delegation Agreement with North American Electric Reliability Corporation (NERC).
Project Budgets	Project Budgets consist of proposed expenditures to be made to develop capital assets during ERCOT's Fiscal Year. Any significant projects not included in the approved project budget will be presented to ERCOT's Board of Directors for approval as they arise.
Cash Operating and Maintenance Expenses	All reasonable and necessary costs and expenses (excluding non-cash items such as depreciation and amortization) incurred in the operation and maintenance of ERCOT's facilities, equipment and systems.
Fiscal Year	ERCOT's fiscal year is January 1 st through December 31 st .
Operating and Maintenance Budget	The Operating and Maintenance Budget consists of operating costs expected to be incurred during ERCOT's Fiscal Year.
TRE Budget	The TRE Budget is the budget (which can include both operating and maintenance and project budgets) for the Texas Regional Entity Division of ERCOT (TRE) which is approved by NERC and Federal Energy Regulatory Commission (FERC) and which is used exclusively for the TRE's proposing and enforcing Reliability Standards (Federal Statutory duties) and for ERCOT Protocol compliance and enforcement activities.
Scheduled Debt Service	All interest and mandatory principal payments on ERCOT's outstanding indebtedness (both long-term and short-term) for a stated period.
Strategic Financial Plan	The strategic financial plan will provide current financial information and a five-year projection, which addresses all sources of revenues, including any proposed fee adjustments. It will include projections of operating and maintenance expenses, project expenditures, the funding sources of project expenditures, and debt service requirements as well as the resulting capital structure.

3.0 FINANCIAL OBJECTIVES

In seeking to fulfill its corporate objectives, ERCOT will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

Strategic Financial Plan and Budget. Prior to or in conjunction with the submission of the annual Budget, the Chief Financial Officer will submit an update to the Strategic Financial Plan.

The Budget will be substantially consistent with the Strategic Financial Plan and will be submitted to the Board with sufficient time for the review and approval of the Board prior to the beginning of the Fiscal Year. The TRE Budget component of the Budget may be approved in advance of the full Budget if required to meet deadlines set by regulators.

In developing the Strategic Financial Plan and Budget, ERCOT staff will work to ensure that financial ratios required for compliance with debt instruments are maintained.

ERCOT will pursue financial objectives that will allow it to maintain an investment grade debt rating with Standard & Poor's, Moody's or Fitch. If a rating below investment grade is received or expected to be received, staff will promptly recommend a plan for Board consideration to recover or maintain the targeted rating within 18 months.

Overall, the Strategic Financial Plan and the related Budget will seek to assure ERCOT's financial stability. They will be approved by the Board and will guide ERCOT's financial planning process.

Fees and Charges. ERCOT will assess fees consistent with the ERCOT Protocols and PUCT rulings and will collect fees on behalf of the Electric Reliability Organization as approved by FERC. If approved as the regional entity, the TRE will also receive funding for its Federal Statutory duties from NERC, pursuant to a Delegation Agreement. Fees, funding, and charges will be requested to recover the Board-approved Operating and Maintenance Budget (excluding depreciation and amortization), Scheduled Debt Service (less any principal payments reasonably expected to be refinanced), and the portions of Project Budgets that are to be financed with revenue. Fee adjustments, if necessary, will generally be developed and proposed in connection with ERCOT's annual Budget.

ERCOT will use all reasonable means to operate within the approved Budget for the current year. When unforeseen events occur (e.g. MWh's are significantly over or under projected levels, functionality is added or removed, etc.) and as a result, ERCOT experiences or expects to experience in the next 12 month period more than a 25% variance from 1) its Project Budgets, 2) its Operating and Maintenance Budget (excluding depreciation and amortization), or 3) its projected revenue stream, staff will promptly recommend a plan for Board consideration, which may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.

Sources of Financing. ERCOT will use a combination of equity (revenue funding) and debt to finance projects. In determining the combination of equity and debt to be used in any particular year, ERCOT will consider the impact of the current year decision on future years.

Generally, ERCOT will structure debt issues such that the average maturity of the debt approximates the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified.

ERCOT may use variable-rate debt to provide flexibility in its overall financing program and to manage its overall interest rate exposure. However, in no event will ERCOT allow unhedged, variable rate debt to be more than 40% of total debt outstanding.

ERCOT will periodically evaluate the interest rate environment and review ways to manage interest rate exposure within that environment.

As appropriate, ERCOT will periodically evaluate mechanisms to restructure or refinance debt. ERCOT will regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this financial standard.

Liquidity. ERCOT will seek to maintain adequate liquidity to meet its business needs.

Liquidity is the combination of available 1) operating cash on hand, 2) operating cash equivalents / short term investments and 3) undrawn borrowing capacity under credit facilities.

ERCOT's targeted minimum level of liquidity will factor in: 1) six months of forecasted Scheduled Debt Service, other than principal payments reasonably expected to be refinanced, 2) two months of average Cash Operating and Maintenance Expenses, net of projected administrative fee receipts, 3) two months of budgeted project expenditures, and 4) two months of estimated TCRs expected to be paid, net of projected TCR receipts during the same period.

If at any time ERCOT's liquidity is less than or is expected to be less than the targeted minimum level set forth in this standard, staff will promptly recommend a plan for Board consideration to achieve the liquidity target within six months.

Funds received in conjunction with TCR auctions may be utilized to fund ERCOT working capital and project expenditure needs so long as liquidity is at or above the target levels and ERCOT's issuer rating remains investment grade. These funds may be utilized in place of borrowing under short term credit facilities to meet liquidity needs.

4.0 RESPONSIBILITIES

It is the responsibility of the Chief Executive Officer, Chief Compliance Officer and Chief Financial Officer to ensure that this standard is implemented and to recommend changes in the standard as needed.

5.0 FINANCIAL STANDARD ADOPTION

ERCOT's financial standard will be adopted by resolution of the Board of Directors. The standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.