

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
October 17, 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 to B. Manning after approximately 3:25 p.m.
Gahn, Scott	Just Energy	Independent REP
Gallagher, Carolyn Lewis		Unaffiliated
Gent, Michehl		Unaffiliated
Hudson, Paul	Public Utility Commission of Texas	PUCT Chairman; Did not return after lunch
Jones, Sam	ERCOT President/Chief Executive Officer	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 approximately 3:25 p.m.
Newton, Jan		Unaffiliated
Ögelman, 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, Kristi	Exelon
Belk, Brad	LCRA
Bojorquez, Bill	ERCOT Staff
Brenton, Jim	ERCOT Staff
Brewster, Chris	Steering Committee of Cities Served by TXU
Byone, Steve	Vice President & Chief Financial Officer
Clemenhausen, Barbara	Topaz Power
Day, Betty	ERCOT Staff
Dreyfus, Mark	Austin Energy

Fouriner, Margarita	Competitive Assets
Giuliani, Ray	Vice President & Chief of Market Operations
Greer, Clayton	Constellation
Gresham, Kevin	Reliant Energy
Grimm, Larry	ERCOT Staff
Gruber, Richard	ERCOT Staff
Helton, Bob	American National Power
Hinsley, Ron	Vice President & Chief Information Officer
Hobbs, Kristi	ERCOT Staff
Huddleston, Barry	Dynegy
Kolodziej, Eddie	Customized Energy Solutions
Marlett, Valerie	GDS Associates
Meek, Don	ERCOT Staff
Mereness, Matt	ERCOT Staff
Moore, John	John Moore
Morris, Sandy	LCRA
Oldham, Phillip	TIEC
Pak, Al	Sempra Energy
Parsley, Julie	PUCT Commissioner
Petterson, Michael	ERCOT Staff
Pieniazek, Adrian	NRG Energy
Ryall, Jean	Constellation Energy
Shumate, Walt	Shumate & Associates
Smitherman, Barry	PUCT Commissioner
Thorne, James	Vice President, General Counsel and Corporate Secretary
Twiggs, Thane	Direct Energy
Walker, DeAnn	CenterPoint Energy
Wittmeyer, Bob	RJ Covington
Yager, Cheryl	ERCOT Staff

Announcements

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

Chairman Hudson of the Public Utility Commission of Texas (PUCT) called to order a PUCT Open Meeting.

Consent Agenda

The consent agenda contains the following:

- Approval of the minutes from the September Board of Directors meeting
- Protocol Revision Requests (PRRs) 653 and 685
- Nodal PRRs 017, 022, 023, 025, 027, 028, 029 and 030

Mr. Manning moved to approve the items on the Consent Agenda. Mr. Kahn 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:

- Today's Austin American-Statesman article regarding resource adequacy
- Status of the establishment of the Regional Entity (RE) for the ERCOT Region

Approval of Venus to Sherry Line 345kV Circuit Addition Project

Mr. Jones reported that TXU Electric Delivery (TXU ED) had proposed to construct a new 345 kV circuit between the Webb and Century substations as described in the materials previously circulated.

Mr. Manning moved to approve the project as submitted. Mr. Espinosa seconded the motion. Mr. Gent raised a question regarding the approval process and timing. Mr. Dalton asked a question about this project's affect on generation. **The motion passed by unanimous voice vote with no abstentions.**

Gas Curtailment

Kent Saathoff, ERCOT Director of System Operations, presented the results of a survey by ERCOT staff regarding ERCOT's winter reliability during cold weather and natural gas curtailments. He stated that there are ninety dual-fuel (gas/oil) Resources in the ERCOT Region. He also presented data indicating the generation shortfall and firm load interruptions that might result from a 50% curtailment in natural gas supplies. The projected generation shortfall begins at 421 megawatts and grows to over 5,000 megawatts in 72 hours as fuel oil is burned as the primary fuel at the dual-fuel plants. A discussion took place regarding the age of dual-fuel units, the length of historical curtailments, oil inventories, air permits and pipeline connections to Resources.

Chairman Armentrout asked about ERCOT staff's next steps in this area. Mr. Jones stated that ERCOT staff would continue to work with Market Participants and the PUCT regarding Load response to natural gas curtailments.

Operating Reports

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

- Financial Summary Report
- Market Operations Report
- I.T. Report
- Compliance Report

Chairman Armentrout requested that ERCOT staff include the target levels in the I.T. Report. He also asked for elaboration on the Compliance Report. In response, Larry Grimm indicated that ERCOT's Control Performance Standard (CPS) score had been increasing since implementation of PRR525 (and other miscellaneous actions) but that, since that time, other PRRs have been passed which may be having and adverse affect on the CPS score. He stated that ERCOT staff will continue to monitor those results.

Nodal Market Redesign Status Report

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:

- Progress during the last month
- Project overall status
- Year-to-date spending (approximately \$14.2 million)
- A description of the differences in current budget numbers from those used during the interim fee case at the PUCT

He stated that the project is again in “red” status because the business requirements for some areas will not be completed by October 31, 2006. The target date for several business requirements is now November 6, 2006 and December 6, 2006. Mr. Hinsley also raised concerns about the level of stakeholder participation in the Texas Nodal Transition Plan Task Force (TPTF) meetings. Commissioner Parsley stated that the PUCT may have to get involved if participation remains an issue. Chairman Armentrout asked ERCOT staff to draft a letter to Market Participants for his signature to encourage them to fully participate in the TPTF process.

With respect to the final budget, Mr. Hinsley stated that the current estimate is \$263 million. However, he pointed out that approximately \$37 million of that cost relates to projects that would have occurred in the zonal market regardless of the nodal market redesign. Therefore, the “normalized” nodal budget is \$226 million, although he hopes that number will decrease as more analysis occurs.

He explained that the increase from the amount assumed for the interim nodal surcharge (~\$125 million) stems from underestimated costs associated with: (i) market trials and training; (ii) architecture, Rational Unified Process (RUP), Project Management Office (PMO) and integration; (iii) product costs; (iv) miscellaneous items (*e.g.* audits, testing); and (v) internal labor costs.

Chairman Armentrout stated that Read Comstock and Kathy Hager recently reported to him regarding their work on analyzing the nodal budget in an attempt to determine if it could be reduced. They reported that they could not appreciably decrease the budget due to the design of the nodal market and the fact that many of the components of the project depend on other components and were designed through a collaborative process that took place over a long period of time.

Finance & Audit (F&A) Committee Report

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

The ERCOT 2007 Budget

Mr. Karnei invited Steve Byone, ERCOT Chief Financial Officer (CFO), to review the work done to prepare the budget. Mr. Byone provided a detailed review of the 2007 budget process.

He also reported that, to draft the budget, ERCOT staff used input from the Board’s February retreat and the April discussions regarding planning issues. Staff also included feedback from the 2006 budget fee case at the PUCT. Additionally, ERCOT staff solicited a great deal of input from the public (including a September 26, 2006 public meeting).

At that time, Mike Petterson, ERCOT Controller, presented detailed information regarding items in the 2007 budget. Mr. Petterson began by reviewing the budget objectives employed by ERCOT staff in drafting the budget. He explained budget items added during 2006 that led to changes in the 2007 budget versus the 2006 budget. Many of those items result from the many audits that have taken place over the last two years. The 2007 budget assumes forty percent funding of capital projects through revenue (with

the other sixty percent debt financed) and assumes a three percent increase for salaries and one percent for promotions. These estimates are consistent with industry salary trends. ERCOT forecasts that the System Administration Fee for 2007 will remain at \$0.4171 per MWh.

He elaborated on the areas of the budget that have increased the most versus the 2006 budget, including: (i) outside services; (ii) hardware/software maintenance and support; (iii) utilities, maintenance and facilities; (iv) employee expenses; and (v) "other" (including relocation, subscriptions, postage, recruiting, *etc.*).

In conclusion, Mr. Petterson stated that ERCOT forecasts that the System Administration Fee will remain flat for the next five years.

Commissioner Smitherman raised a question regarding the assumptions used for megawatt growth in the budget estimates for future years. Chairman Armentrout asked Mr. Petterson to present to the Board at next month's meeting the information supporting the forecasted growth rates.

2006 Capital Budget Increase

Mr. Byone then presented information regarding recent issues regarding allocating capital projects between the zonal market budget and the nodal market redesign budget. One of the biggest factors affecting the nodal budget was the PUCT's decision to allocate the fee in a different way than the System Administration Fee (SAF). That decision required an analysis to allocate costs between "zonal" projects and "nodal" projects.

To address this issue, ERCOT staff recommended several budget revisions for the 2006 budget and 2007 budget as set forth in previously-circulated meeting materials. An alternative approach to fund the projects is an increase in the SAF of \$0.0179/MWh. ERCOT staff does not recommend that approach.

Commissioner Parsley raised a question regarding the effect of the PUCT's order on the interim surcharge and other fees related to the Independent Market Monitor (IMM) and the RE. She expressed a preference to address all fee issues on a "holistic" basis.

Mr. Jones stated that the Federal Energy Regulatory Commission (FERC) anticipates that it will approve and charge the fees related to the RE. Chairman Hudson stated that, if the RE fee goes directly to the FERC, that fee may be outside the PUCT's jurisdiction. Commissioner Parsley stated that she would need to review the Public Utility Regulatory Act (PURA) to better understand the nature of the RE fee.

Mr. Dalton raised a concern about reducing ERCOT's equity funding from 40% to 27%, as proposed by ERCOT staff in the materials. He recommended including the \$37 million associated with "zonal" projects in the nodal budget and allowing the PUCT to address the allocation issue. Mr. Standish agreed with Mr. Dalton's proposal. Mr. Karnei stated that the F&A Committee recommends the approach proposed by ERCOT staff. One of the goals is to avoid another hearing at the PUCT on the SAF while these other fee issues (nodal, RE) are being addressed.

Mr. Karnei moved to approve the Resolution attached hereto as Exhibit A. Mr. Gahn seconded the motion. Additional discussion then took place. **The motion passed with thirteen votes in favor and two opposed (Messrs. Dalton and Ögelman).**

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

Mr. Karnei reported that this item is postponed to next month.

In conclusion, Mr. Karnei reported on several additional matters addressed at today's committee meeting, including EthicsPoint reports and internal audit matters.

Technical Advisory Committee (TAC) Report

Chairman Armentrout invited Mark Dreyfus, Vice-Chairman of TAC, to report on recent TAC activities. Mr. Dreyfus then discussed the matters set forth below.

Protocol Revision Requests

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

- *PRR671, Remove Sunset Date on Floor for Responsive Reserve Service Bids.* Proposed effective date: November 1, 2006. This PRR revises Section 4.4.11, Ancillary Services Bid Submittal, to remove the sunset date of January 1, 2007, on the \$0/MW floor for QSE bids to provide Responsive Reserve Service. ERCOT posted this PRR on 6/15/06. On 7/20/06, with all Market Segments present, PRS unanimously voted to recommend approval of PRR671. On 8/17/06, PRS reviewed the Impact Analysis and Recommendation Report and voted to forward these documents on to TAC. The motion passed with one abstention from the IOU Market Segment. All Market Segments attended the vote. On 9/7/06, TAC voted to recommend approval of PRR671 as submitted by PRS. The motion passed with one opposing vote from the Consumer Market Segment and four abstentions from the IOU, Independent REP and Independent Power Marketer (2) Market Segments. All Market Segments were present for the vote. ERCOT credit staff and the Credit WG have reviewed PRR671 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

Mr. Karnei moved to approve PRR671. Mr. Dalton seconded the motion. The motion passed by unanimous voice vote with one abstention (Mr. Standish).

Other Matters

Mr. Dreyfus reported that the Wholesale Market Subcommittee (WMS) is working on an emergency interruptible load program and the PUCT has opened a project on this subject.

He also reported that Chairman Armentrout asked the TAC to review the nodal budget and its alignment to the nodal protocols and determine if the scope of the nodal project could be revised. Mr. Dreyfus stated that the second part of that task is quite difficult because the development of the nodal market design was a collaborative effort that took place over a great deal of time. He reported, however, that the TPTF passed a motion affirming that the implementation plan as presented by ERCOT staff is in alignment with the scope of requirements of the Nodal Protocols. Chairman Armentrout thanked the TAC for its efforts.

H.R. & Governance Committee

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

Approval of Annual Meeting Location

Mr. Kahn moved to approve the Airport Hilton hotel as the location for the annual membership meeting on December 12, 2006. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.

401(k) Match and Fixed Non-Elective Contribution (FNEC)

Joyce Manske, ERCOT Director of Compensation & Benefits, stated that ERCOT merged its 401(k) and Money Purchase Plans in April 2006. At that time, ERCOT kept the same contribution levels that had previously existed. As a result, Fidelity Investments has recommended that ERCOT pass a resolution ratifying those contribution levels.

Mr. Espinosa moved to pass the Resolution previously circulated (as amended by the H.R. and Governance Committee this morning and as circulated at this meeting), attached hereto as Exhibit B. Mr. Cox seconded the motion. The motion passed by unanimous voice vote with one abstention.

Tuition Reimbursement

Mr. Kahn mentioned that ERCOT attempted to include this benefit in the 2006 budget, but the PUCT found it unacceptable and, therefore, it was removed from the budget. Since that time, ERCOT has lost job candidates to other companies and the applicants have indicated that one of the reasons they chose the other company was because of that company's tuition reimbursement benefit. As a result, the committee recommends that ERCOT begin offering this benefit to employees at a maximum level of \$2,500 per year.

Mr. Gent moved to approve the Tuition Reimbursement benefit described in the previously-circulated Board packet; Mr. Espinosa seconded the motion. The motion passed by voice vote with thirteen votes in favor, one opposed (Mr. Dalton) and one recusal (Mr. Ögelman).

ERCOT Board of Directors' Ethics Agreement

Mr. Kahn explained that the committee has been working on an ethics agreement for Directors and the results of that work appears in the document circulated at this meeting. The committee recommends approving the ethics agreement as circulated. Mr. Kahn recommends that ERCOT's Legal Department send out the final document and that Board members return it by the November Board meeting.

Mr. Kahn moved to approve the Director Ethics Agreement as circulated at the meeting. Ms. Newton seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Future Agenda Items

Chairman Armentrout stated that he would like to add the following items to the future agenda items:

- an Emergency Electric Curtailment Plan (EECP) update to take place in April 2007;
- a placeholder for the February 2007 retreat (for items Directors would like to discuss);
- committee structure, membership and leadership; and
- choosing a Chair and Vice-Chair for the Board of Directors.

He also stated that he would like to eliminate items five through nine from the current list; he also stated that the Directors should receive a report on item #3 next month. He also asked ERCOT Staff to establish a date for the Board retreat in 2007.

Mr. Cox asked for an update on the Replacement Reserve Services (RPRS) PRRs (implementation of PRRs and their affect on ancillary services markets) next month.

Mr. Dalton asked that budget and fees related to the nodal project and RE should remain as standing items on the agenda.

Chairman Armentrout mentioned that the next two Board meetings will take place on November 14th and December 12th due to holidays.

Other Business

Chairman Armentrout opened the floor to discussion of other business.

Mr. Karnei asked ERCOT staff to make a presentation regarding the black outs that recently took place in Bryan/College Station. Mr. Jones stated that ERCOT staff could make such a presentation next month.

Executive Session

Chairman Armentrout adjourned the open portion of the meeting into Executive Session at approximately 1:40 p.m. to handle contract, personnel and litigation matters.

After the Executive Session (at approximately 3:15 p.m.), the following votes took place in open session:

- **Mr. Manning moved to approve the minutes of the September 2006 Executive Session. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.**
- **Chairman Armentrout moved to approve the Resolution previously circulated regarding item 13b(1), attached as Exhibit A to the Executive Session minutes. Mr. Manning seconded the motion. Ms. Newton recused herself from the vote. The motion passed by unanimous voice vote with no abstentions.**
- **Chairman Armentrout moved to approve the Resolution previously circulated regarding item 13b(3), attached as Exhibit B to the Executive Session minutes. Mr. Gent seconded the motion. Ms. Newton recused herself from the vote. The motion passed by unanimous voice vote with no abstentions.**
- **Chairman Armentrout moved to approve the Resolution previously circulated regarding item 13b(2), attached as Exhibit C to the Executive Session minutes. Mr. Manning seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

At 3:30 p.m., the meeting returned to Executive Session for discussions with the search firm working on the CEO search.

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/2006/06/20060620-BOARD.html>.

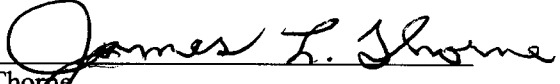

James L. Thorne
Vice President, General Counsel & Corporate Secretary

Exhibit A

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

WHEREAS, the board of directors (the "Board") of the Electric Reliability Council of Texas ("ERCOT"), Inc., a non-profit corporation (the "Company") deems it desirable and in the best interest of the Company and the Texas electric market to increase the 2006 Zonal project program funding by \$9.3 million to include the funding and execution of projects that, even without a nodal market redesign, would have been required by the ERCOT Zonal market by the end of 2008.

RESOLVED, that ERCOT is authorized to increase the total amount needed to complete Zonal projects by adding \$9.3 million to the total budget, resulting in a not to exceed total 2006 Zonal project program funding amount of \$34.3 million.

BE IT FURTHER RESOLVED, that Sam Jones, Chief Executive Officer of ERCOT, or his designee, is hereby authorized to act on behalf of ERCOT to negotiate and execute in the name of and on behalf of ERCOT such documents necessary to complete these projects.

Exhibit B

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

WHEREAS, in accordance with Section 1.10(a)(2) of the Electric Reliability Council of Texas 401(k) Savings Plan Adoption Agreement, effective April 1, 2006, the employer matching contribution equals 75% of an employee's election of up to 6% of the employee's salary; and

WHEREAS, in accordance with Section 1.11(a)(1) of the Electric Reliability Council of Texas 401(k) Savings Plan Adoption Agreement, effective April 1, 2006, the fixed non-elective contribution (FNEC) by ERCOT equals 10% of salary; and

WHEREAS, at the time ERCOT elected to merge the two plans in a Resolution adopted at the January 2006 Board of Directors meeting, it was the Board's intention to maintain the then-existing contribution levels; and

WHEREAS, the ERCOT Board of Directors continues to deem it desirable and in the best interests of ERCOT to maintain this current level of match and FNEC.

After full discussion and due consideration thereof, it was duly:

RESOLVED, that the ERCOT Human Resources Department is authorized and instructed, as of April 1, 2006 to maintain these contribution levels, in accordance with the provisions of the Electric Reliability Council of Texas 401(k) Plan Adoption Agreement unless and until directed by the ERCOT Board of Directors.