

ERCOT H.R. & Governance Committee Meeting Minutes
Tuesday, January 17, 2006
8:00 a.m.

Committee Members Present

Bob Kahn	Carolyn Gallagher	Mark Armentrout
Andrew Dalton		

Guests and Staff Present

Tom Schrader	Carolyn Shellman	Nancy McIntire
Shari Heino	Sam Jones	

1. Mercer Report

While waiting for a quorum of the HR & Governance Committee to arrive, Mr. Kahn invited Erin Packwood of Mercer Human Resources Consulting to present an overview of the results of Mercer's compensation assessment. Sam Jones noted that the positions to which ERCOT operators were compared in the Mercer study may not be comparable to ERCOT operators. He noted ERCOT has recently lost three operators to another ISO. After the presentation, the Committee discussed steps needed to meet Mercer's recommendations. Ms. McIntire suggested that a first step would be to update ERCOT's salary ranges and grade structure because these have not been updated in five years. Ms. McIntire reported that it will take twelve to eighteen months to implement all of the suggested changes, although the salary structure can be updated quickly. Committee members asked Ms. Packwood what she would do differently if doing the analysis again. She responded that she would include more research on compensation at other ISOs.

Mr. Kahn thanked Ms. Packwood for her presentation. After determining that a quorum was present, Mr. Kahn called the meeting to order at approximately 8:40 a.m.

2. Minutes

Mark Armentrout moved to approve the December 13, 2005 Executive Session meeting minutes. Andrew Dalton seconded the motion. The Committee approved these minutes unanimously. Mr. Armentrout moved to approve the December 13, 2005 meeting minutes. Carolyn Gallagher seconded the motion. The Committee approved these minutes unanimously.

3. Election of Committee Chair

Mr. Armentrout moved to appoint Mr. Kahn as Chair of the Committee for 2006. Ms. Gallagher seconded the motion. The Committee approved the motion unanimously.

4. Bylaws Amendments

Carolyn Shellman provided a history of the 2005 ERCOT Bylaws amendment process, noting that the Commission approved the Amended and Restated Bylaws on an interim basis with a

requirement that revised Bylaws be filed with the Commission by March 31, 2006. Ms. Shellman reported that ERCOT Staff was still awaiting feedback from Commission Staff regarding the most recent proposed changes (provided in the Board packet). The Committee discussed having the Board approve the Bylaws amendments as submitted, but holding off on a membership vote until Commission Staff had provided feedback. If Commission Staff has additional changes, the Board can consider the amendments again in February prior to sending them for membership vote. The Committee also discussed involving TAC in future Bylaws amendment discussions in order to encourage more participation. **Mr. Armentrout moved to endorse the amendments. Mr. Kahn seconded the motion. The Committee approved the motion unanimously.**

5. Retirement Plan Migration

Ms. McIntire reported on several recommended changes, developed via the ERCOT Plan Administrative Committee and an employee focus group, to the Money Purchase Plan ("MPP") and 401(k) Savings Plan (the "Plan"). The proposed changes are as follows:

- 1) Amendment to allow the merger of the MPP into the Plan to decrease administrative burden and cost.
- 2) Amendment of the Plan to change the provider of the Plan from New England Financial (MetLife) to Fidelity Investments.
- 3) Amendment of the Plan to remove Thomas F. Schrader and Sammy R. Jones as trustees to the Plan and to appoint Fidelity Management Trust Company as the trustee to the Plan.
- 4) Amendment of the Plan to designate ERCOT as the Plan Administrator.
- 5) Amendment of the Plan to add Thomas F. Schrader, Sammy R. Jones and Steve Byone as authorized signatories.
- 6) Amendment of the Plan to increase the maximum employee contribution level from 15% to 20%.

Committee members discussed the benefits of the proposed amendments. **Mr. Armentrout moved to endorse the recommended changes. Ms. Gallagher seconded the motion. The Committee approved the motion unanimously.**

6. Incentive Compensation Plan

Tom Schrader summarized ERCOT Staff's recommendations for the 2005 Incentive Compensation Plan. These recommendations include (1) an adjustment of the eligibility date from July 1, 2005 to September 30, 2005 and (2) a corporate performance factor of 1.2 to be used determining the amount of payout under the 2005 Incentive Compensation Plan:

- (1) Eligibility date: Mr. Schrader explained that the reason for the eligibility date change was to allow five more employees to participate in the Plan for 2005. He noted that these employees had contributed materially to ERCOT's performance this year and that all bonuses would be prorated based upon the amount of time of service. This change will be considered by the Board today. The Committee discussed the change and found it to be reasonable.

- (2) Corporate performance factor: Mr. Schrader reported that the ERCOT Board must review corporate performance for 2005 in order to determine recommended payout under the 2005 Incentive Compensation Plan: Mr. Schrader provided an overview of the dashboard which summarizes 2005 corporate performance with respect to various corporate goals. He noted that the December storage outage affecting retail and other systems was a factor affecting retail performance. Committee members discussed whether the goal targets should be higher for future years. Mr. Schrader recommended a corporate performance factor of 1.2 based upon the corporate performance review. Each employee participating in the Plan also has an individual performance factor; the average is expected to be 1.125. Based upon a 1.125 employee performance factor and a 1.2 corporate performance factor, the expected bonus pool would be about 1.35 million dollars. Committee members discussed moving the retail goal score down due to the December storage outage; however, the Committee discussed and determined that the total corporate performance factor should be lowered instead (resulting in a bonus pool of about 1.28 million dollars). **Mr. Armentrout moved to recommend approval of a corporate performance factor of five percent less than the requested level of 1.2 (i.e. 1.14). Mr. Dalton seconded the motion. The Committee approved the motion unanimously.**

Mr. Schrader also requested Committee recommendation of the 2006 Incentive Compensation Plan to the Board. The 2006 Plan is the same as the 2005 Plan with some minor changes. The Committee noted that discussion and approval of the 2006 goals would be deferred to February. **Mr. Kahn moved to recommend approval of the 2006 Incentive Compensation Plan. Ms. Gallagher seconded the motion. The Committee approved the motion unanimously.**

Finally, Mr. Schrader requested Committee approval of ERCOT's internal procedures for administration of the Incentive Compensation Plan. The Board will not need to review these procedures. **Mr. Kahn moved to accept these procedures**, noting that the committee may review them again at a later date. **Ms. Gallagher seconded the motion. The Committee approved the motion unanimously.**

7. Tuition Reimbursement Plan

The Committee discussed ERCOT's proposed tuition reimbursement plan and noted that it was acceptable.

8. Board Retreat Planning

Carolyn Shellman reported ERCOT had not yet received a significant response to the Board survey (to be discussed at the retreat). The Committee discussed potential topics for the retreat and a preference for holding the retreat at Lakeway Inn. Ms. Shellman noted that she would circulate a list of potential retreat discussion topics.

9. Nominating Committee Report

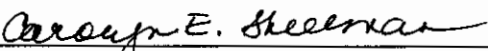
Ms. Shellman reported that the Nominating Committee was in conversation with its two top candidates for the Unaffiliated Director positions. She noted that meetings with the candidates would be scheduled with the Commissioners soon.

10. Future Agenda Item

The Committee noted the following items to be addressed at a future meeting:

- Compensation for Chairman of the Board

Due to time constraints, other items were deferred. At 10:05 a.m., the Committee adjourned.



Carolyn E. Shellman
Vice President, General Counsel & Corporate Secretary