

**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
January 17, 2007 at 11:00 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 11:00 a.m. on the above-referenced date. Due to inclement weather, the Board shortened the agenda to address only the most urgent matters and provided a teleconference line for Board members and guests who were unable to attend in person.

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
Fehrenbach, Nick	City of Dallas	Consumer/Commercial
Gahn, Scott	Just Energy	Independent REP (Via telephone)
Gallagher, Carolyn Lewis		Unaffiliated
Gent, Michehl		Unaffiliated
Helton, Bob	American National Power	Independent Generator (Segment Alternate for William Taylor)
Jones, Sam	ERCOT President/Chief Executive Officer	ERCOT
Karnei, Clifton	Brazos Electric Coop	Cooperatives
Newton, Jan		Unaffiliated
Ogelman, Kenan	Office of Public Utility Counsel	Consumer/Residential (Alternate for Suzi McClellan)
Standish, Tom	CenterPoint Energy	IOU Segment (Via telephone)
Wilkerson, Dan	Bryan Texas Utilities	Municipal (Via telephone)

Staff and Guests:

Barrow, Les	CPS Energy
Bojorquez, Bill	ERCOT Vice President of System Planning
Byone, Steve	ERCOT Vice President and Chief Financial Officer
Capezzuti, Nancy	ERCOT Vice President of Human Resources
Comstock, Read	Strategic Energy
Dreyfus, Mark	Austin Energy, TAC Chair (Via telephone)
Giuliani, Ray	ERCOT Vice President and Chief of Market Operations
Gurley, Larry	TXU
Heino, Shari	ERCOT (Via telephone)
Hinsley, Ron	ERCOT Vice President and Chief Information Officer
Kamme, Walter	IBM
King, Kelso	King Energy Consulting

Kolodziej, Eddie	Customized Energy Solutions
Marlett, Valerie	GDS Associates
Petterson, Michael	ERCOT Staff
Seymour, Cesar	Suez Energy
Skillern, Don	IBM
Sullivan, Jerry	ERCOT Staff
Thorne, James	ERCOT Vice President, General Counsel and Corporate Secretary
Timblin, Kelly	International Power
Trefney, Floyd	Reliant Energy

Announcements

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

Votes from Executive Session

Mr. Armentrout noted that the Board discussed six contracts while in Executive Session from 10 a.m. to 11 a.m.

Mark Armentrout moved to approve five contracts relating to the Texas Nodal project¹ via the resolutions attached to the Executive Session minutes as Exhibits A through E. Michehl Gent seconded the motion. The Board approved the motion by a unanimous voice vote with no abstentions.

Mr. Gent then moved to approve the North American Electric Reliability Corporation (NERC) Membership Agreement containing a new hold-harmless clause. Miguel Espinosa seconded the motion. The Board approved the motion with Nick Fehrenbach abstaining.

Clifton Karnei moved to approve the December 12, 2006 Executive Session minutes of the ERCOT Board. Andrew Dalton seconded the motion. The Board approved the motion by a unanimous voice vote with no abstentions.

Ratification of ERCOT Officers

Mr. Espinosa moved to ratify ERCOT's officers for 2007 via the resolution attached hereto as Attachment A. Jan Newton seconded the motion. The Board approved the motion by a unanimous voice vote with no abstentions.

Resolution Regarding Read Comstock

Mr. Armentrout read a resolution in appreciation of Read Comstock's service as the Chair of the Technical Advisory Committee (TAC) from September 2004 through December 2006, attached hereto as Attachment B. **Bob Helton moved to approve the resolution. Clifton Karnei seconded the motion. The Board approved the motion by a unanimous voice vote with no abstentions.**

¹ The vendors are as follows: AREVA T&D, Inc. (Energy Management System modifications); ABB, Inc.; (Market Management System modifications); Mosaic Media, Inc. (Nodal training); Nexant, Inc. (Congestion Revenue Rights program) and a vendor(s) to provide storage equipment.

Consent Agenda

This month's consent agenda contained the following items:

- Protocol Revision Requests: PRR647, PRR672, PRR679, PRR686, PRR693
- Nodal Protocol Revision Requests: NPRR34, NPRR38
- Retail Market Guide Revision Request: 42RMGRR
- December 12, 2006 Board Minutes

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

Mr. Armentrout noted that the minutes from the annual meeting of ERCOT Corporate Members had been provided for information only and that no vote would be taken on this item.

CEO Report

Sam Jones, ERCOT President and Chief Executive Officer (CEO), invited Bill Bojorquez, Vice President of System Planning, to report on ERCOT and stakeholder evaluation of the proposed CenterPoint Energy/Texas New Mexico Power Alvin 345k Transmission Tie Project. Mr. Bojorquez noted that this project is needed for reliability reasons. Mr. Dalton questioned whether the option selected would cost more in the short-term. Mr. Bojorquez responded that, while the recommended option is slightly more expensive than a second short-term alternative, ERCOT supports the option in the report to the Boards since it would be more cost effective when evaluating both the short and long-term system needs. **Kenan Ogelman moved to endorse the need for the project as recommended by ERCOT Staff and supported by the Regional Planning Group and TAC. Mr. Helton seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Operating Reports

Mr. Jones then gave a brief report on ERCOT operations. He noted that ERCOT staff will add a summary cover page to the operating reports, listing the most important events for each month. Mr. Helton asked whether ERCOT was losing any nodal staff. Ron Hinsley, ERCOT Vice President and Chief Information Officer, noted that ERCOT had only lost four or five nodal staff members. Steve Byone, ERCOT Vice President and Chief Financial Officer, added that while there may be areas in ERCOT experiencing staffing shortages, the overall ERCOT staffing level in 2006 had increased.

Mr. Jones discussed the question of increasing the 2300MW requirement for responsive reserves. He noted that ERCOT Operations does not see a need to increase responsive reserve requirements.

Mr. Armentrout invited Ray Giuliani, Vice President and Chief of Market Operations, to give an update on the implementation of Protocol Revision Request (PRR) 676 (RPRS Solution with Nodal RUC-Type Procurement and Cost Allocation). Mr. Giuliani noted that the Board originally approved PRR674 (Temporary Alteration of Settlement Equations Related to the RPRS Under-Scheduled Charge) to be effective until the earlier of February 1, 2007 or the implementation of PRR676 but that PRR676 would not be ready for implementation on February 1. **Mr. Helton moved to extend the implementation of PRR674 until the implementation of PRR676. Mr. Fehrenbach seconded the motion.** Scott Gahn asked if PRR676 would be ready for implementation in the next few weeks. Mr. Giuliani answered affirmatively. Mr. Gahn requested a revision to the motion to ensure that PRR676 would be implemented quickly. **Mr. Helton, therefore, modified his motion to extend implementation of PRR674 until the**

earlier of February 22, 2007 or the implementation of PRR676. Mr. Fehrenbach agreed to the modification. The motion passed by unanimous voice vote with no abstentions.

Mr. Giuliani also noted his concerns with the implementation of PRR676 while the appeal of the PRR at the Commission was still in progress. He remarked that this could result in PRR676 being implemented for a short time if the Commission decided to rule against the PRR. ERCOT would then have to perform more system changes to back out the PRR. Mr. Giuliani questioned whether it would be better to wait to implement PRR676 until the appeal had been resolved. Board members discussed this concern, but noted that it could be many years before final resolution occurred if the appeal were taken to court and ERCOT should not wait on implementation of a PRR due to an appeal unless the Commission orders ERCOT to do so.

Nodal Status Report

Mr. Hinsley invited Jerry Sullivan, Executive Director of the Nodal Project, to provide an update on the status of the Nodal market redesign effort. Mr. Sullivan discussed the following matters in his presentation:

- Nodal Fee filing by January 30, 2007
- Overall, the status of the project is still “red”
- Initial ERCOT/Market Participant Interface deliverable and Conceptual Systems Designs on schedule
- Review of project budget (approximately \$50 million spent for 2006)

IBM/Nodal Program Review

Mr. Armentrout invited Don Skillern and Walter Kamme of IBM to present a report on IBM’s (external) review of the Nodal Program Management Office Control System (“PMOCS”). The consultants informed the Board that the external review had commenced in September 2006 and would continue through TNMIP completion in 2009, with semi-annual progress checks. They provided an executive summary of the initial review of control activities (completed in October 2006) and the period process review that was completed on December 28, 2006. Mr. Skillern identified seven recommendations by IBM, which were scheduled for implementation by TNMIP in the first quarter of 2007. Mr. Skillern explained that IBM would present a full detailed report to the Finance & Audit Committee. The Board discussed the report in detail. Mr. Karnei asked whether the Internal Audit review should be mixed with the IBM review of Nodal, but, after discussion with Mr. Armentrout, Mr. Karnei and Mr. Armentrout agreed that, since the Internal Audit review was for financial controls only, the two reviews should be maintained separately. Mr. Armentrout noted that most projects at the current development stage of Nodal would have a 25% contingency, and the Board discussed issues relating to the current contingency estimate in the Nodal Budget.

H.R. & Governance Committee

The H.R. & Governance Committee elected Carolyn Lewis Gallagher to be Chair of the committee and Jan Newton to be Vice Chair.

Finance & Audit (F&A) Committee Report

1. Committee Update

The F&A Committee elected Clifton Karnei to be Chair of the committee and Miguel Espinosa to be Vice Chair.

2. Nodal Fee Filing

Mr. Armentrout invited Mr. Byone to report on the Nodal Fee Filing. Mr. Byone noted three items to be accomplished by the proposed resolution for the Nodal Fee filing which was provided in the Board packet:

1. Approval of the Nodal Project budget
2. Approval of the method of cost recovery (flat fee)
3. Approval to make the filing with the Commission

Mr. Karnei moved to approve the proposed resolution as written. Mr. Gent seconded the motion. Ms. Newton questioned whether it was too ambitious to implement the fee by June 2007 and asked whether Commission Staff was comfortable with this approach. James Thorne, ERCOT Vice President, General Counsel and Corporate Secretary, responded that the timing had been discussed with Commission Staff and appeared to be achievable. Mr. Dalton expressed his concerns about the amount of debt financing and stated that he opposed using \$37 million from the regular ERCOT budget to fund Nodal-Zonal interdependent projects. Mr. Fehrenbach stated that he believed that there should have been more detailed review of the budget by stakeholders. Mr. Hinsley noted that the entire budget had been made available to TPTF for review. Board members discussed interest costs, debt financing and ERCOT's ability to keep the fee level. Ms. Newton requested that the resolution include language intended to keep the fee reasonable and level. **Mr. Karnei and Mr. Gent agreed to modify the resolution as reflected in Attachment C. The Board voted to approve the resolution with Mr. Dalton, Mr. Ogelman and Mr. Fehrenbach opposed.**² Mr. Wilkerson indicated support of the resolution but did not vote.

Mr. Armentrout also requested that Mr. Byone revise the terminology on the Nodal Program Budget – Revised Estimate slide to show initial and final estimates of additional costs.

TAC Report

Mark Dreyfus, TAC Chair, reported that TAC met at the beginning of January. TAC extensively discussed the Texas Regional Entity (TRE) including budget, structure and needed bylaws changes. Mr. Dreyfus reported that many stakeholders expressed discomfort with degree of information provided by ERCOT staff prior to this meeting. He noted that TAC passed a resolution recommending to the ERCOT Board that the Reliability Standards Subcommittee be formed as soon as possible with a first order of business to establish its charge and procedures. Mr. Dreyfus explained that he would email a copy of the resolution to Board members. Mr. Dreyfus stated that TAC expected this group to function as a hub of information exchange regarding NERC-related activities, opportunities to comment and ERCOT filings. Mr. Armentrout noted that the Commission had taken a leadership role in the TRE formulation, thanked Mr. Dreyfus for his comments and noted that the Board will address TAC's concerns at the February Board meeting.

Other Business

Mr. Armentrout noted that the Board Retreat is planned for next month and that the chair and vice chair of

² Mr. Armentrout determined that Mr. Standish's vote via telephone should be included. The Board, therefore, will need to ratify this resolution at its next regular meeting because the vote was taken (partially) via teleconference.

TAC are invited. Board members also discussed holding the April Board meeting in Taylor.

Adjournment

Chairman Armentrout adjourned the meeting at approximately 2:00 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, pursuant to the ERCOT Bylaws dated May 15, 2006, the ERCOT Board of Directors shall annually (unless a longer term is selected) elect or ratify the officers of the corporation;

THEREFORE, BE IT RESOLVED, that the ERCOT Board of Directors hereby recognizes the continued service of Sam Jones, as ERCOT's elected President and Chief Operating Officer and recognizes the continued service and ratification of the following officers of ERCOT for the Year 2007:

Steve Byone - Vice President and Chief Financial Officer
Bill Bojorquez - Vice President of System Planning
Nancy Capezzuti - Vice President of Human Resources
Ray Giuliani - Vice President and Chief of Market Operations
Ron Hinsley - Vice President and Chief Information Officer
Kent Saathoff - Vice President of System Operations
James Thorne - Vice President, General Counsel and Corporate Secretary

Attachment B

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

WHEREAS, Read Comstock of Strategic Energy was originally elected to serve as Chair of the Technical Advisory Committee (“TAC”) of the Electric Reliability Council of Texas, Inc. (“ERCOT”) in September 2004; and

WHEREAS, Mr. Comstock has served with distinction as TAC Chairman since that time; and

WHEREAS, Mr. Comstock has provided guidance and wisdom through his tenure as TAC Chairman on various matters affecting ERCOT; and

WHEREAS, Mr. Comstock has chosen to cease serving as TAC Chairman as of December 2006.

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

RESOLVED, that the ERCOT Board of Directors wishes to express its most sincere appreciation and thanks to Mr. Comstock for his time, guidance and wisdom during his tenure as TAC Chairman of ERCOT.

Attachment C

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

WHEREAS, the Board of Directors (“the Board”) of the Electric Reliability Council of Texas, Inc. (“ERCOT”), a non-profit corporation (“Company”), deems it desirable and in the best interest of the Company for a source of funding to cover the costs ERCOT will incur related to the implementation of the Texas Nodal Market Implementation Program (“Nodal Program”), and

WHEREAS, ERCOT is required to request approval by the Public Utility Commission of Texas (“PUCT”) for ERCOT to collect a fee in the form of a surcharge to be assessed in addition to its System Administration fee (or some other comparable mechanism) to pay for Nodal Program costs ERCOT incurs, and

WHEREAS, the PUCT, in its Docket No. 32686, has ordered ERCOT to file, by January 30, 2007, “nodal market implementation cost information” to serve as the basis for ERCOT’s nodal market implementation surcharge (Nodal Surcharge), and

WHEREAS, for the benefit of consumers, the Board desires to implement a reasonable fee that can remain level and consistent over the development period and useful life of the assets.

NOW THEREFORE, BE IT RESOLVED, that the Board hereby approves the budget of \$248.9 million representing costs for the Nodal Program to be financed by the Nodal Surcharge, including the costs of financing the Nodal Program through a combination of Nodal Surcharge revenue and debt financing. The Board finds this is a reasonable forecast of ERCOT’s costs of nodal market implementation, and recognizes that the Nodal Program budget is subject to change as Nodal Program activities progress toward nodal market implementation, and

RESOLVED FURTHER, that ERCOT is hereby authorized to make a filing at the PUCT requesting authority to impose a surcharge or some other comparable mechanism to recover costs ERCOT incurs in connection with the Nodal Program.