

ERCOT H.R. & Governance Committee Meeting Minutes
ERCOT Taylor Offices
2705 West Lake Drive
Taylor, Texas 76574
Tuesday, April 18, 2006
8:00 a.m.

Committee Members Present

Bob Kahn	Carolyn Lewis Gallagher	Mark Armentrout
Brad Cox	Michehl Gent	Andrew Dalton

ERCOT Staff and Guests Present

Tom Schrader	Carolyn Shellman	Chad Seely
Sam Jones	Commissioner Smitherman	Rachel Drew
Clayton Greer	Pam Fisher	Jess Totten

Bob Kahn, Chairman of the H.R. & Governance Committee, called the meeting to order at 8:10 a.m. after determining that a quorum was present.

Approval of March 21, 2006 Minutes

Carolyn Lewis Gallagher moved to approve the March 21, 2006 meeting minutes. Brad Cox seconded the motion. The motion passed by unanimous voice vote.

Separately, Ms. Gallagher moved to approve the March 21, 2006 Executive Session meeting minutes. Brad Cox seconded the motion. The motion passed by unanimous voice vote.

PUCT Compensation Project / Compensation RFP

Committee Members briefly discussed the action plan for implementing the Mercer study. Pam Fisher, ERCOT Acting Vice President of H.R. & Organizational Development, indicated that work plans have been provided by three bidders for the Compensation Structure Review which will likely take 12 to 15 weeks. Tom Schrader, ERCOT President & CEO, indicated that there will be ongoing communications with Committee Members as ERCOT moves forward with implementing the Mercer study. Commissioner Smitherman commented that the PUCT Compensation Project was established in order to facilitate better communication with ERCOT and the Commissioners. Commissioner Smitherman indicated that ERCOT may want to verify with the other two Commissioners that they do not have some preconceived bias against Mercer based upon the fee case proceeding before awarding a contract to one of bidders.

Benefit Plan Review

Ms. Fisher indicated to Committee Members that the Benefit Plan Review will be completed in May. The biggest change will likely be the medical coverage issue. Mr. Schrader commented that ERCOT intends to make plans to move closer to the median suggested in the Mercer study.

Mark Armentrout, Vice Chairman of H.R. & Governance, indicated that ERCOT should again communicate extensively with the Commissioners on this project as well.

FERC/ERO Rule Implementation

Chairman Kahn gave a brief overview to Committee Members regarding the April 6, 2006 Open Meeting held at ERCOT's Met Center on the FERC/ERO Rule Implementation. Chairman Kahn also gave a brief overview to Committee Members regarding a conference call that was held with some Committee Members on this same issue last week. Chairman Kahn indicated that he would like the Committee to vote this morning on recommending approval of the Resolution to the Board. The Resolution instructs ERCOT Staff to take action to prepare and compile information requested by the North American Electric Reliability Council ("NERC") regarding the draft budget for a Regional Entity ("RE") in the ERCOT region to be filed by May 10, 2006. Chairman Kahn indicated that the Board could always change its mind after the legislative hearing this afternoon and depending on further direction from the Texas Legislature and PUC Commissioners.

Carolyn Shellman, ERCOT Vice President and General Counsel, discussed concerns raised by some parties about whether formation of an RE might inadvertently subject the ERCOT region to FERC jurisdiction and the effect on ERCOT if those concerns are not resolved quickly. She reported that ERCOT will do everything possible to alleviate those concerns if ERCOT proceeds to make the May 10 budget filing. Chairman Kahn commented that ERCOT may want an outside firm to make the filing on behalf of some entity yet to be named. This would lessen any ties to ERCOT Staff and may help on the jurisdictional concerns. Brad Cox commented that this filing could bring ERCOT under FERC jurisdiction under the Federal Power Act. Mr. Armentrout commented that ERCOT is a creature of the Legislature; ERCOT should proceed down this path, but ERCOT should not do anything that is inconsistent with legislative guidance.

Mr. Cox commented that overall discussions from Market Participants have concluded that it is in the best interests of the ERCOT market to have an RE. Mr. Cox further indicated that ERCOT seems to be the obvious entity to start the groundwork for an RE. Sam Jones, ERCOT Executive Vice President & Chief Operating Officer, commented that NERC and FERC certainly believe that the ERCOT region is under FERC jurisdiction for purposes of reliability and that if ERCOT does not file an RE application, NERC and FERC will probably take action to fill the void for the ERCOT region. Mr. Jones commented that one disadvantage to having an RE put in place by NERC is that the RE monitoring compliance for the ERCOT region may not know ERCOT's specific regional issues. Chairman Kahn commented that we will likely not know the outcome to the jurisdictional issues before the filing deadline.

Andrew Dalton inquired as to what would be different under this Resolution than what ERCOT Staff is already doing in preparation for a May 10 filing. Chairman Kahn indicated that this Resolution would confirm ERCOT Staff's authority to provide information to NERC. Mr. Armentrout commented that a Board Resolution further gives notice to the public on what ERCOT intends to do on this issue.

Committee Members discussed the corporate structure for an RE and whether an additional Open Meeting needed to be held before the May 10 filing to discuss the advantages and disadvantages of the corporate structure. Mr. Jones indicated that the May 10 filing is merely a draft budget for the RE. The first Board approved document is not needed until June 1, 2006. Several Committee Members commented that we could indicate in the May 10 filing that this is not a Board approved document; it is merely a placeholder document to preserve the option of creating an RE. Mr. Cox commented that the RE budget will ultimately be approved by the RE and not by ERCOT. Chairman Kahn commented that an Open Meeting before the May 10 filing may not serve much of a purpose. However, Chairman Kahn indicated that we need to keep the stakeholder process moving forward. Chairman Kahn proposed holding an Open Meeting on the morning of May 17, 2006 from 9:00 a.m. to Noon.

Chairman Kahn moved to approve the Resolution. Michehl Gent seconded the motion. Mr. Dalton indicated that he is uncomfortable with authorizing ERCOT Staff to make a filing without knowing what the filing is. If the Board moves forward with approving this Resolution, then he will vote against it. Mr. Cox commented that he would like to make it explicit in the Resolution that the overriding governance structure has not been resolved. Mr. Cox commented that in the May 10 filing, it should be clear that no ERCOT members are obliged to take any further action because of this filing.

Committee Members agreed to modify the following two paragraphs in the Resolution. (Additions are indicated in underline and in bold font.)

WHEREAS, the Board of Directors of ERCOT ("Board") deems it desirable and in the best interests of the ERCOT **power region** to take the steps necessary to establish an RE subject to continuing exploration of important jurisdictional, governance, **organizational structure** and operating issues regarding the creation of such an entity.

NOW, THEREFORE, BE IT RESOLVED, that ERCOT management and staff are hereby authorized to take action, as necessary, to prepare and compile information requested by NERC regarding the budget, operating plan and a **tentative** organizational structure for an RE for the ERCOT **power** region, to submit such information to NERC in accordance with NERC-adopted schedules, and to take additional action, as necessary to establish an RE, subject to such action not being inconsistent with direction ERCOT receives from either the Texas Legislature or from the Texas Public Utility Commission ("PUC").

Chairman Kahn accepted the friendly amendments to his motion to recommend approval of the Resolution to the Board. Chairman Kahn inquired whether there were any additional comments on the revised Resolution. There were no additional comments. The motion passed by voice vote with one opposing vote from Mr. Dalton.

Mr. Armentrout indicated that ERCOT Staff should present a start-up plan for the RE to this Committee and inquired when ERCOT Staff would be prepared to present such information. Mr. Jones indicated that he could have a presentation ready for the next Board meeting. Chairman

Kahn indicated that ERCOT Staff should be prepared to distribute at the next Board meeting information regarding what will be presented at the May 17, 2006 Open Meeting. Chairman Kahn indicated that the information does not have to go in the Board packet; it can be handed out during the Board meeting.

Committee Members inquired whether we can wait until the June Board meeting on which organizational structure to proceed with on the RE model. Mr. Jones indicated yes; however, the budget will have to be approved prior to that meeting.

Future Agenda Items


- ERCOT Staff will present a draft Start-up Plan for the RE under a functional independence model and a separate company model.

At 9:47 a.m., the Committee concluded the Open Session. There were no items for Executive Session.

CORPORATE SECRETARY'S CERTIFICATE

I, James L. Thorne, General Counsel and Corporate Secretary of ERCOT, do hereby certify that, at the May 16, 2006 ERCOT H.R. and Governance Committee Meeting, the Board of Directors of ERCOT approved the above minutes.

IN WITNESS WHEREOF, I have hereunto set my hand this 20th day of March, 2007.



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