

**MINUTES OF H.R. & GOVERNANCE COMMITTEE MEETING
OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

ERCOT Austin, Room 224
7620 Metro Center Drive
Austin, Texas 78744
February 20, 2007 at 9:00 a.m.

Committee Members Present

Carolyn Lewis Gallagher
Mark Armentrout
Brad Cox
Michehl Gent
Jan Newton
Sam Jones
Suzi McClellan
Andrew Dalton

ERCOT Staff

Nancy Capezzuti
James Thorne
Mike Grable

Call to Order

Carolyn Lewis Gallagher opened the meeting at 9:02 a.m.

Minutes

Brad Cox moved approval of the January minutes and Suzi McClellan seconded. The minutes were approved by unanimous voice vote.

Committee Self-Survey

Ms. Gallagher thanked Committee members for their efforts on the survey (Attachment A) and mentioned that she wanted to highlight and discuss the “no” and “not sure” responses, starting with the Committee Charter. Generally speaking, Ms. Gallagher wants to see that the Charter is updated and is used as a roadmap for the Committee’s activities for the year.

Second, Ms. Gallagher raised the fact that there were various responses on whether the Committee “reviews and approves” corporate-officer pay levels. Mark Armentrout noted that the Committee had previously evaluated officer bonuses, and overseen three broad compensation studies. Sam Jones reminded the Committee that bonuses for officers other than the CEO have been transitioned out of the compensation plan in favor of base salary adjustments, per the Public Utility Commission’s wishes. Nancy Capezzuti mentioned that salary data and compensation

goals for officer-level employees is being compiled and will be shared with the Committee in the March meeting, prior to salary adjustments scheduled to take effect April 1. Ms. Capezzuti added that the Committee will always be able to review salary data prior to officers and other employees learning of planned salary adjustments.

Mr. Jones added that all three Commissioners will be briefed in the next few weeks about the new market-driven compensation plan.

On Self-Survey Questions 6.4 and 6.5, Ms. Gallagher raised the topic of CEO performance review and of succession planning. Mr. Armentrout mentioned that CEO review will be thorough this year. Ms. Gallagher expressed particular concern that succession planning is perhaps the most important Committee duty, and should be reviewed at least once and perhaps twice per year. Ms. Capezzuti proposed July, and the Committee agreed on July and January each year.

Regarding Question 6.7 on competitive practices and trends, Ms. Capezzuti mentioned that the Mercer study directly addresses this topic. Andrew Dalton asked how often the Mercer data will be updated; Ms. Capezzuti informed the Committee that the regular schedule is a full review every three years in the December-January timeframe and an annual spot-check as well.

On Question 6.8, the only contractual employment arrangement is for CEO; Mr. Armentrout mentioned the search for former CEO Tom Schrader and how the Committee had run it. The Committee will plan to review a contract for a new CEO prior to Board approval. Mr. Cox raised the question of ethics agreements and Mr. Armentrout mentioned Commissioner Smitherman's having raised differences between Board and ERCOT Staff ethics agreements, and requested a side-by-side comparison for the Committee to review. Mike Grable added that subsequent conversations have confirmed that Commissioner Smitherman understands the differences and is okay with them, but Staff will provide a side-by-side comparison for the Committee's review.

Turning to Question 6.10, Ms. Gallagher strongly recommended a new-Board-member orientation program to educate newly selected members. Mr. Cox added that non-profit corporations are unique and suggested finding materials appropriate to the non-profit/hybrid context. Mr. Armentrout mentioned that the National Association of Corporate Directors (NACD) has a very helpful toll-free number and recommended that all Board members make use of it as needed; Mr. Cox also mentioned that NACD does workshops in Dallas fairly regularly. Ms. Capezzuti will check whether all Board members receive NACD emails relevant to ERCOT, and work with James Thorne on this.

Ms. Gallagher reiterated the need for ERCOT-focused training, especially for independent Board members; this will be added to the April agenda.

Ms. Gallagher next raised Question 6.11, and Mr. Armentrout noted the particular need for more long-term thinking, perhaps codification, of the particular attributes that are sought in independent Directors, such as IT experience. Ms. Gallagher added that this idea should be dynamic, as the needs of ERCOT change. Michehl Gent mentioned that NERC does something similar, and Mr. Cox suggested that this be a high-level, flexible approach. Ms. Gallagher

requested that this be added as a future agenda item, most likely in the fall. Mr. Gent will distribute the NERC document.

On Question 9, no Committee members wanted discussion; the consensus was that the process is working appropriately.

Finally, on Self-Survey Question 11, Mr. Dalton mentioned that he most likely put down “not sure” because he was not clear on what “safe haven” means. Mr. Armentrout mentioned that he viewed it as protection for the precise closed-session discussion comments; that comments in Executive Session will not see their comments mentioned in the newspaper. Mr. Grable offered to rewrite the related language in the Committee Charter.

Going forward, Ms. Gallagher and Mr. Grable will work on an outline for the year and a revised Committee Charter. Mr. Jones added that the Board Retreat will include a discussion of committee charters, and the revisions will incorporate ideas raised tomorrow also.

Last, Ms. Gallagher mentioned that the Charter does not mention legislative affairs/government relations. Mr. Armentrout stated that he views it as part of “Governance,” and Jan Newton suggested adding Charter language to buttress that view.

Compensation

Ms. Capezzuti raised two proposals to amend the 401(k) plan. The first change would raise from 20% to 99% the amount of salary that employees can contribute. This change would not affect ERCOT match amounts or the hard statutory cap on employee contributions (\$15,500), it would merely enable employees to contribute more of their income. Ms. Newton proposed, and Ms. Capezzuti agreed, that a clarification that the 99% is wage contributions after deductions should be included in the Board resolution, and also clarify it to state clearly that the proposal will comply with IRS regulations on contribution limitations.

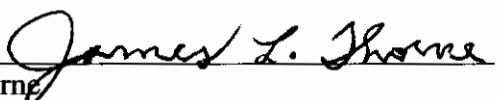
Mr. Armentrout moved approval of the Board resolution as amended by Ms. Newton and Mr. Dalton seconded. The motion was approved by unanimous voice vote.

Second, ERCOT would like to true up the funds that ERCOT provides as a match to employees’ 401(k) contributions, and communicated to employees that a true-up would be done, but the Plan Agreement does not currently provide for a true-up. Ms. Capezzuti recommended approval of an amendment to allow ERCOT to proceed with a true-up. **Ms. Newton moved approval of the amendment and Mr. Armentrout seconded. The motion carried by unanimous voice vote.**

Finally, Ms. Capezzuti shared information on head-count staffing levels, and distributed to the Committee a projection for 2009 (Attachment B), cautioning that it is a rough projection. Mr. Jones also emphasized that this is a living, changing document. Mr. Armentrout mentioned that he feels good about the current state of these numbers, but suggested that the Committee take this under advisement and return to it for discussion at the March Committee meeting.

Ms. Gallagher adjourned into Executive Session at 9:40 a.m. The meeting emerged from Executive Session at 10:05 a.m.

The meeting adjourned at 10:05 a.m.



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

Attachment A

	ERCOT HR & Governance Committee Self-Evaluation February 2007	Yes	No	Not Sure	Comments
1.	Does the committee have the appropriate number of members? The committee should not be so large that: <ul style="list-style-type: none"> ▪ its ability to operate efficiently and effectively is reduced ▪ members' ability to raise issues is hampered ▪ it is difficult to get a quorum when a time-sensitive issue arises 	7	-	-	[Yes] "We may need to revisit the size of the committee if we add new Board committees (i.e. RE committee)"
2.	Committee members demonstrate their objectivity during meetings through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.	6	-	1	
3.	Differences of opinion on issues are resolved to the satisfaction of the committee.	7	-	-	[Yes] "Not a common occurrence." [Yes] "All members have the opportunity to raise issues and advocate their positions."
4.	Committee members challenge the Chair as appropriate.	7	-	-	
5.	The committee charter is used as a document to guide the committee in its efforts, and to help guide the committee's agenda.	2	2	3	[No] "But most duties are self-evident."
6.	6.1 The committee is fully independent, accountable and vigorous in taking primary responsibility for all aspects of executive compensation.	4	-	3	[Yes] "But there is reliance on ERCOT exec. team." [Not sure] "No experience due to short tenure on committee."
	6.2. The committee reviews and approves pay levels for corporate officers.	1	2	4	[Yes] "Although how we deal with Mercer's proposals this spring will be a big part of this." [Not sure] "CEO, yes. Not sure we approve other officers."

	ERCOT HR & Governance Committee Self-Evaluation February 2007	Yes	No	Not Sure	Comments
					[Not sure] "No experience due to short tenure on committee."
	6.3 The committee annually reviews and approves performance goals & objectives with respect to the compensation of the CEO.	6	-	1	[Yes] "Under change." [Not sure] "No experience due to short tenure on committee."
	6.4 The committee evaluates the CEO's performance against the goals and objectives set for the year and provides oversight of the performance evaluation of all other officers against approved goals and objectives.	2	1	4	[Not sure] "No experience due to short tenure on committee." [Not sure] "Oversight of review of other officers less clear." [Yes] "But need more focus on this."
	6.5 The committee consults with the CEO and advises the Board with respect to senior management succession planning	3	2	2	[No] "This should be done 1-2/yr." [No] "Not yet." [Not sure] "I think we need to be more active in this area."
	6.6 The committee advises the full Board as to risk issues it sees in the H.R. and Governance area.	6	-	1	[Not sure] "Don't understand the premise."
	6.7 The committee investigates competitive practices and trends to determine the adequacy of the organization's executive compensation programs.	5	1	1	
	6.8 The committee approves contractual employment arrangements.	2	2	3	[Yes] "CEO" [Not sure] "No experience due to short tenure on committee."

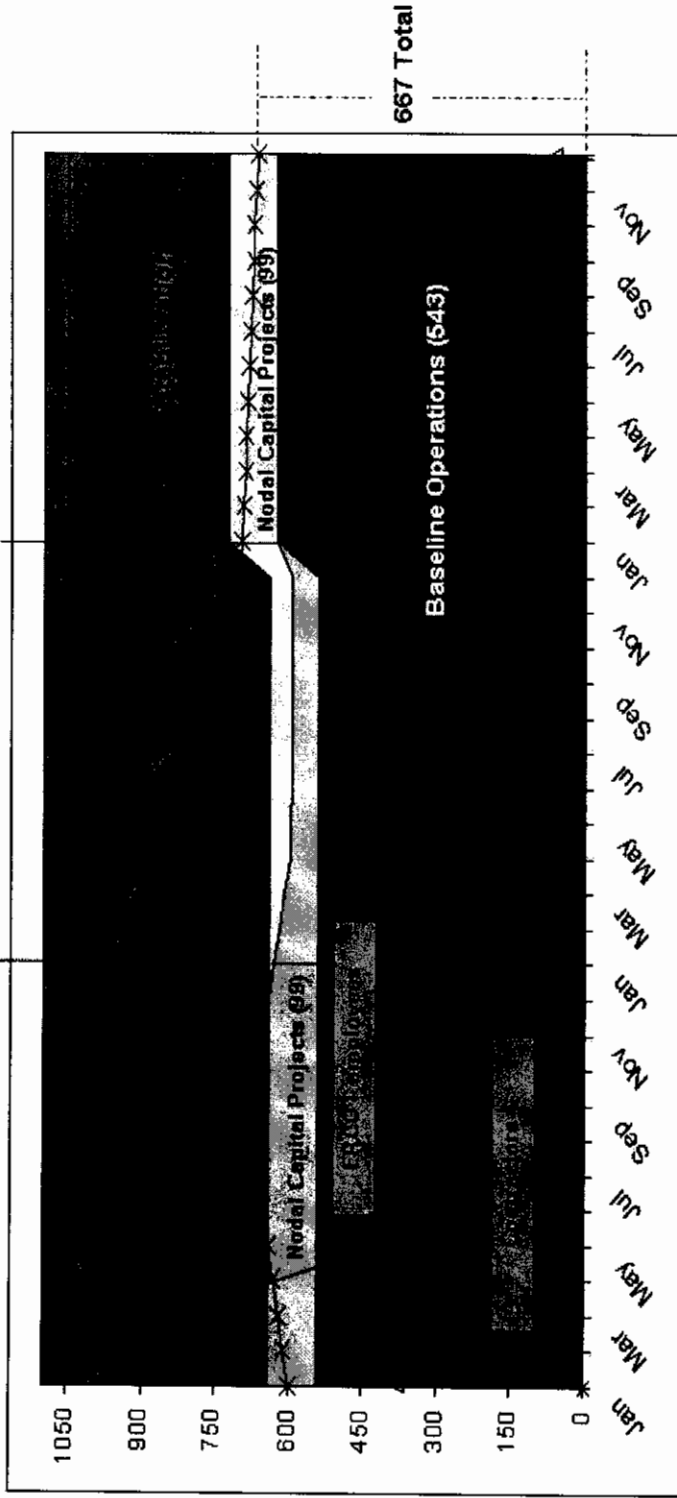
ERCOT HR & Governance Committee Self-Evaluation February 2007		Yes	No	Not Sure	Comments
					[Not sure] "I haven't seen one come through the committee yet."
	6.9 The committee considers outside directors compensation matters as needed.	4	-	3	[Not sure] "No experience due to short tenure on committee." [Yes] "But we need more emphasis on this."
	6.10 The committee considers necessary training to enhance the Board's performance, keeping apprised of the latest corporate governance trends and issues.	2	-	5	[Not sure] "No experience due to short tenure on committee." [Not sure] "We may be able to do more here, at least on a voluntary basis." [Not sure] "No experience due to short tenure on committee."
	6.11 The committee considers Board succession planning.	4	1	2	[Not sure] "Would this only be an issue for Independent Directors?" [Yes] "We're starting to."
7.	The committee conducts an annual self-evaluation of its performance and reports the results to the Board, including recommended charter, membership and other changes.	7	-	-	
8.	The Committee makes appropriate use of workgroups or task forces to investigate issues defined by the Committee.	7	-	-	
9.	The committee engages outside experts as appropriate.	3	1	3	[Not sure] "No experience due to short tenure on committee."
10.	The committee is cognizant of the line between oversight and management, and endeavors to respect that line.	6	1	-	
11.	The committee conducts executive sessions in a manner that offers a "safe haven" to the individual, while at the same time asking tough and necessary questions, evaluating answers, and pursuing issues that might arise to satisfactory resolution.	6	-	1	[Yes] "By safe haven – assume means respect for privacy." [Not sure] "What individual(s) are we talking about here? Though I do believe our exec sessions run reasonably."

	ERCOT HR & Governance Committee Self-Evaluation February 2007	Yes	No	Not Sure	Comments
12.	The committee communicates at an appropriate level of detail when informing the Board of its actions.	7	-	-	
13.	Committee members receive clear and succinct agendas and supporting written material sufficiently prior to scheduled meetings.	7	-	-	
14.	Committee members have adequate opportunities to discuss issues and ask questions.	7	-	-	
15.	The frequency of committee meetings is appropriate for the responsibilities assigned to the committee.	7	-	-	
16.	Meeting facilities and presentation materials are effective for the conduct of committee activities.	7	-	-	
17.	Please add additional comments, questions and suggestions	-	-	-	<p>"Where appropriate, each item should have a time frame and action items."</p> <p>"Many of the items (e.g., 9) are appropriate for the charter but may not lend themselves to a self-assessment survey."</p>

Attachment B

Projected Staffing and Contractor Needs for Nodal (2007-2009)

- ERCOT employees - currently 601 on payroll, starting point for the trend line
- Assumes 10 net-new ERCOT employees per month until November '07
- Hiring process maintains staffing level until January '09
- Allow net 5% attrition until steady state (667) reached December '09



Lead from the front
Texas Nodal