

**MINUTES OF THE BOARD OF DIRECTORS MEETING
OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

Electric Reliability Council of Texas, Inc.
7620 Metro Center Drive, Room 206
June 19, 2007 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 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
Fehrenbach, Nick	City of Dallas	Consumer/Large Commercial
Gahn, Scott	Just Energy	Independent REP Segment
Gallagher, Carolyn		Unaffiliated
Lewis		
Gent, Michehl		Unaffiliated; Board Vice-Chairman
Hudson, Paul	PUCT Chairman	PUCT
Jones, Sam	ERCOT President/CEO	
Karnei, Clifton	Brazos Electric Coop	Cooperatives
McClellan, Suzi	OPUC	Consumer/Residential & Small
		Commercial
Newton, Jan		Unaffiliated
Taylor, William	Calpine Corp.	Independent Generator
Wilkerson, Dan	Bryan Texas Utilities	Municipal

Staff and Guests:

Adib, Parviz	PUCT
Ashley, Kristy	Exelon
Barrow, Les	CPS Energy
Bell, Wendell	Texas Public Power Association
Bojorquez, Bill	ERCOT Vice President, System Planning
Brandt, Adrienne	PUCT
Brewster, Chris	City of Eastland
Byone, Steve	ERCOT Vice President, Chief Financial Officer
Capezzuti, Nancy	ERCOT Vice President, HR & Organizational Development
Carlson, Trent	Reliant Energy Inc.
Crowder, Calvin	American Electric Power

Crozier, Richard	Brownsville Public Utilities Board
Day, Betty	ERCOT
Dreyfus, Mark	Austin Energy, TAC Chair
Forfia, David	ERCOT
Fournier, Margarita	Competitive Assets
Giuliani, Ray	ERCOT Vice President, Chief of Market Operations
Grable, Mike	ERCOT
Greer, Clayton	J. Aron & Company
Gresham, Kevin	Reliant Energy Inc.
Grimm, Larry	Texas Regional Entity
Gurley, Larry	TXU
Hinsley, Ron	ERCOT Vice President, Chief Information Officer
Hobbs, Kristi	ERCOT
Jones, Don	Texas Industrial Energy Consumers
Jones, Liz	TXU Regulatory
King, Kelso	King Energy Consulting
Kolodziej, Eddie	Customized Energy Solutions
Morris, Sandy	Lower Colorado River Authority
Ogelman, Kenan	CPS Energy
Pieniazek, Adrian	NRG Energy
Roark, Dottie	ERCOT
Ryall, Jean	Constellation
Saathoff, Kent	ERCOT Vice President, System Operations
Shumate, Walt	Shumate & Associates
Thomas, Robert	Green Mountain Energy
Thorne, James	ERCOT Vice President, General Counsel
Vincent, Susan	ERCOT
Westbrook, Susan	ERCOT
Whittle, Brandon	DB Energy
Wullenjohn, Bill	ERCOT
Yager, Cheryl	ERCOT

1. Call to Order/Announcements

Mark Armentrout, Chairman, called the meeting to order at approximately 10:05 a.m., pointed out the Antitrust Admonition and determined a quorum was present.

2. Consent Agenda

The following items are included on the consent agenda:

- May 16, 2007 Minutes
- May 31, 2007 Minutes
- Protocol Revision Requests – PRR710, PRR711 and PRR723

William Taylor moved to approve the items on the Consent Agenda. Dan Wilkerson seconded the motion. The motion passed by unanimous voice vote with no abstentions.

3. Approval of Minutes

This item was handled in the Consent Agenda.

4. Ratification of Bob Kahn as President and Chief Executive Officer (CEO)

Chairman Armentrout stated that the Directors had a brief meeting this month to approve the hiring of Bob Kahn to serve as ERCOT President and CEO. Pursuant to the ERCOT Bylaws, the Directors must ratify that prior vote.

Clifton Karnei moved to ratify the selection of Bob Kahn to serve as the ERCOT President and CEO beginning July 9, 2007. Miguel Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

5. Chief Executive Officer Report

Sam Jones, ERCOT President and CEO, stated that an Emergency Electric Curtailment Plan (EECP) event occurred yesterday due to a change in weather which caused temperatures to be higher than forecasted.

a. Ancillary Services Methodology

Kent Saathoff, ERCOT Vice President of System Operations, reported that Dan Jones, the Independent Market Monitor (IMM), made a recommendation on how to change the Ancillary Service methodology to save money. ERCOT staff and Market Participants analyzed the proposal and decided to adopt it. The proposed methodology:

- removes the requirement to block hours for procurement of Regulation-Up and Regulation-Down Services;
- calculates the 98.8 percentile of deployed Regulation-Up and Regulation-Down Services in the previous month and same month of the previous year, by hour;
- targets an exhaustion rate of 1.2% or thirty-five (35) intervals per month; and
- adds a back-cast feature allowing ERCOT to adjust when the exhaustion rate exceeds 1.2%

Mr. Saathoff stated that ERCOT staff may ask the Directors for additional changes in the Ancillary Service methodology in early 2008 based on a current study that should conclude in October.

Mr. Wilkerson moved to adopt the proposed methodology. Nick Fehrenbach seconded the motion. The motion passed by unanimous voice vote with no abstentions.

6. Operating Reports

Chairman Armentrout invited comments or questions regarding the Financial Summary, Market Operations Report, IT Report and Compliance Report.

Jan Newton raised a question on the Financial Report relating to audit controls. She asked for elaboration regarding the delay in addressing audit points and the re-opening of certain audit points. Steve Byone, ERCOT Vice President and Chief Financial Officer (CFO), stated that less than ten (10) items have been re-opened by Internal Audit and certain other outstanding audit findings were not being remediated as quickly as desired, as a result, the CEO and CFO (together with the rest of the management team) has agreed to address audit issues. With respect to the delay, Mr. Byone stated that the issue is competing priorities. Employees have less time to devote to audit points. The management team, however, has informed staff that they must timely address audit points.

Andrew Dalton raised a question regarding why zonal capital expenditures have been less than projected in the budget. Mr. Byone stated that the primary reason is competition for resources – human and technology. The acceleration of nodal EDS schedules and the use of base resources for Nodal projects has impacted this item. Additionally, some projects were put on “hold” or cancelled.

Mr. Dalton asked for monthly updates on the Nodal/Zonal dependencies. In response, Mr. Byone pointed out that the requested information appears on page fifteen (15) of the financial report previously distributed to Directors.

Chairman Armentrout asked about the status of compliance with the Service Level Agreements (SLAs). Ron Hinsley, ERCOT Vice President and Chief Information Officer (CIO), stated that some incidents occurred in January to adversely affect the results but, since that time, performance has improved. Discussions have occurred with the Retail Market Subcommittee (RMS) with regards to changing the SLAs to address service degradations.

7. Nodal Status Report

Chairman Armentrout invited Jerry Sullivan, ERCOT Nodal Program Executive Director, to update the Directors on the status of the Nodal Program. Mr. Sullivan presented information on: (i) program status; (ii) program change control; (iii) market readiness; and (iv) spending.

He reported that scope, schedule and cost all remain in “amber” status. He then described how the Nodal Protocols continue to evolve, creating challenges for the design teams. He stated that one particular vendor is forecasting a delay in delivery of its work product which could adversely impact the “go live” date. Consequently, he and his staff are working to get this vendor’s project back on schedule.

He also reported that the Protocol Revisions Subcommittee (PRS) and the Texas Nodal Transition Plan Task Force (TPTF) had a joint meeting last week and will do so again in the near future to address Nodal Protocol Revision Requests (NPRRs). He believes the team can implement “Baseline 1” (which includes NPRRs through May 6, 2007) without changing the

program's schedule or budget.

Brad Cox asked a question to clarify what the Directors should expect in July. Mr. Sullivan stated that, in July, he will ask for approval of draft NPRRs (approximately twenty-five (25)).

Mr. Karnei noted that contingency funds have been depleted and questioned how that will impact the total budget amount. Mr. Sullivan and Mr. Jones indicated that, as new costs have arisen, the team has identified savings in other areas to keep the total budget at \$263 million. As changes occur that might increase the total budget, those changes must be brought to management and the Directors.

Mark Dreyfus, Technical Advisory Committee (TAC) Chairman, stated that most of the NPRRs in Baseline 1 are clarifications necessary to move the Program forward. For Baseline 2, TAC will review the NPRRs carefully to ensure they are only clarifications and not changes to the program's scope. Mr. Sullivan stated that he included the Baseline 1 costs in the data provided in the spending update he presented today.

Chairman Armentrout reiterated that the Directors do not want to see the scope of the project increased. If a new idea arises that has value, that proposal should be addressed in a different forum (*i.e.* not the Nodal Program budget).

Chairman Armentrout commended Mr. Sullivan on his presentation and encouraged broad communication with Market Participants regarding readiness metrics.

Mr. Hinsley stated that the Nodal Program team has a good rapport with TAC, TPTF and PRS and they all seem to be on the same page and pulling in the same direction. He expressed his appreciation to those groups for their support and cooperation.

8. Technical Advisory Committee Report

Chairman Armentrout invited Mr. Dreyfus to report on recent TAC activities. He began by pointing out that Market Participants passed Retail Market Guide Revision Request (RMGRR) 052 and Operating Guide Revision Request (OGRR) 196 during the last month.

a. Protocol Revision Requests (PRRs)

Mr. Dreyfus reported that TAC voted to recommend that the ERCOT Directors approve the following PRR:

- ***PRR709 – Scarcity Pricing Mechanism. Effective date: July 1, 2007.*** This PRR revises the ERCOT Protocols to provide for a scarcity pricing mechanism as required by the Public Utility Commission of Texas (PUCT) SUBST. R. §25.505(g), Resource Adequacy in the ERCOT Power Region. ERCOT posted PRR709 on January 31, 2007. On March 22, 2007, PRS voted to recommend approval of PRR709 as submitted with one (1) abstention (Municipal Market Segment). All Market Segments attended the vote. On April 20, 2007, PRS reviewed the Impact Analysis (IA) for PRR709 and unanimously

voted to forward it to TAC. All Market Segments attended the vote. On May 4, 2007, TAC voted to recommend approval of PRR709 as recommended by PRS. The motion passed with one (1) abstention from the Independent Retail Electric Provider (IREP) Market Segment. All Market Segments attended the vote. ERCOT credit staff and the Credit Work Group (CWG) have reviewed PRR709 and do not believe it requires changes to credit monitoring activity or the calculation of liability.

Mr. Espinosa moved to approve PRR709 and Mr. Wilkerson seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Dreyfus then stated that PRS and the TPTF had a joint meeting last week to review sixty-three (63) clarifications to the Nodal Protocols baseline – *i.e.* Baseline 1. ERCOT staff stressed the need to accelerate the evaluation of Baseline 2 so the impact on cost and schedule can be evaluated. In July, TPTF/PRS will present recommendations to TAC for items in Baseline 1 and whether to accelerate development of Baseline 2.

Finally, Mr. Dreyfus made a brief presentation regarding North American Electric Reliability Corporation (NERC) registration issues and stated that TAC has asked the Reliability and Operations Subcommittee (ROS) to evaluate the issue and make a recommendation to TAC regarding how to proceed.

10. Appeal to ERCOT Directors regarding use of Fuel Oil

Larry Gurley, TXU Wholesale, made a presentation proposing to allow ERCOT to reimburse a Qualified Scheduling Entity (QSE) seeking to recover its verifiable costs for fuel oil in connection with providing the Replacement Reserve Service Task Force (RPRS), Out of Merit Capacity (OOMC) Service or Out of Merit Energy (OOME) Service without requesting back-up documentation so long as the amount requested by the QSE is within ten percent (10%) of the Fuel Index Price (akin to the process used for reimbursement of natural gas fuel costs). Essentially, TXU asked the Board to approve using a fuel oil index price as a proxy for replacement costs of the fuel consumed in response to ERCOT Dispatch Instructions.

Mr. Wilkerson asked how the QSE can guarantee that it will not make a gain on the cost of replacing the fuel oil consumed. Mr. Gurley stated that, by using the fuel index price, the Market Participant will run the risk of making a gain or loss on the replacement fuel oil. Mr. Wilkerson stated that his company has sought the actual cost of the fuel oil burned when providing the Ancillary Service.

Mr. Dalton echoed Mr. Wilkerson's comment. He stated that using the cost of the fuel oil actually burned is the most equitable approach. Michehl Gent replied by stating that Mr. Dalton's proposal penalizes Market Participants for having dual fuel capability. Mr. Wilkerson disagreed and pointed out that TAC has addressed compensation for dual fuel.

Mr. Karnei stated that he has concerns about the proposed wording and believes the better approach would be to allow Market Participants to use *only* an index price because that would prevent "gaming" the system.

Mr. Fehrenbach raised the points that fuel oil and gas are different because the exact fuel oil burned can be identified; and he agrees that replacement cost is the appropriate measure, but does not agree to using an index price.

Mr. Taylor asked about the timeline for the disputes and whether ERCOT has exposure to other Market Participants for similar claims. Andrew Gallo, Assistant General Counsel, stated that the change would apply only prospectively.

Mr. Karnei moved to approve paying TXU for the replacement cost of the fuel oil, but not based on an index price. Mr. Gent seconded the motion.

Additional debate took place regarding the pros and cons of the TXU proposal.

Mr. Karnei and Mr. Gent agreed to withdraw the previous motion. Mr. Gent then asked for clarification of the prior motion.

Mr. Fehrenbach moved to reject the use of a Fuel Oil Index Price for events in the past, but to allow compensation for verifiable costs. Mr. Dalton seconded the motion.

Mr. Cox raised a procedural question regarding whether the Directors had to vote on TXU's proposal as presented or whether they could consider other alternatives. Mr. Fehrenbach stated that he believes his motion rejects TXU's proposal, as made.

Ms. Newton asked whether TXU intended to pursue a PRR. Mr. Gurley stated that he believes TXU would continue to pursue the PRR.

The motion passed by a vote of thirteen (13) to one (1) (Mr. Gent) with no abstentions.

Lunch

The meeting broke for lunch at approximately 12:10 p.m. and reconvened at 1:10 p.m.

11. Finance & Audit (F&A) Committee Report

Mr. Karnei, F&A Committee Chair, stated that the committee met this morning and considered several matters and provided the following report.

The committee began its morning meeting in executive session and received Requests for Proposal (RFPs) for credit evaluation and is considering them.

a. Charter Approval

A draft charter was provided in the Board packet along with a resolution and the committee recommends the charter as circulated. Chairman Armentrout asked Mr. Karnei to summarize the highlights of the proposed changes. Mr. Karnei did so and then stated he intends to vote against

the charter because he does not agree with the final language regarding credit risk. He thinks it should be stronger. Mr. Espinosa, F&A Committee Vice Chair, agreed with Mr. Karnei's sentiment.

Messrs. Fehrenbach and Taylor stated that the committee considered stronger language but did not believe it appropriate.

Mr. Taylor moved to approve the charter as circulated. Mr. Fehrenbach seconded the motion. The motion passed by a vote of ten (10) to three (3) (Messrs. Karnei, Wilkerson and Espinosa) with one (1) abstention (Chairman Armentrout).

Mr. Karnei then reported on the 2008 budget projections and pointed out that Moody's improved ERCOT's credit rating last week.

b. 2008 Budget Schedule and Assumptions

Mike Petterson, ERCOT Controller, made a presentation regarding the 2008 budget schedule and assumptions. He elaborated on expenses associated with the Nodal Program, Texas Regional Entity (TRE) and IMM.

12. H.R. & Governance Committee

Carolyn Lewis Gallagher, H.R. & Governance Committee Chair, stated that the committee met this morning and considered several matters and provided the following report.

The committee discussed an orientation program for new board members and agreed on an outline for a two-day program without an industry background. A "test run" orientation will occur in a few months. Additionally, annual training on ethics and fiduciary duties will take place in connection with the retreat.

The committee also considered Nodal staffing turnover and related issues. The Human Resources Department has some suggested courses of action which the committee endorsed.

Ms. Gallagher also mentioned that Theresa Gage provided a legislative update to the committee.

a. Creation of HR & Governance Sub-Committee

The committee established a sub-committee for the Chief Compliance Officer (CCO) search. Ms. Newton will chair the sub-committee and Mr. Gent, Mr. Standish and Lane Lanford, with the Public Utility Commission of Texas (PUCT), will also serve on the committee.

13. Other Business

Chairman Armentrout invited anyone to raise "other business." Chairman Armentrout asked Mike Grable, ERCOT Assistant General Counsel, to summarize the Energy Efficiency bill (HB3693) that passed in the Legislature. Mr. Grable provided that summary, which included a

requirement that ERCOT develop net metering. Mr. Dreyfus stated that the TAC has created a task force to address that issue.

14. Future Agenda Items

Chairman Armentrout invited anyone to raise any items they wish to be addressed at future meetings. Chairman Armentrout asked to add the following items:

- An Emergency Interruptible Load Service (EILS) update (*e.g.* market participation, *etc.*)
- An update regarding Competitive Renewable Energy Zones (CREZs)
- Short review of new Service Level Agreements (SLAs)
- Next IBM review of Nodal Program
- Board budget presentation (August)
- Board budget approval (September)

Mr. Hinsley stated that item two (2) on the current list should be removed because he and Mr. Giuliani made a presentation on that subject last month.

15. Executive Session

At 2:00 p.m., Chairman Armentrout adjourned the open session of the meeting and the ERCOT Directors went into Executive Session to discuss contract matters, personnel matters, litigation, NERC Compliance issues, TRE Penalties and other matters.

16. Open Session Vote

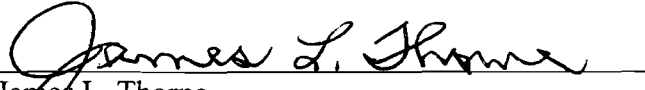
Chairman Armentrout moved to approve the Executive Session minutes from May as amended. Mr. Karnei seconded the motion, which passed by unanimous voice vote with no abstentions.

Chairman Armentrout moved to approve the three (3) contracts discussed in Executive Session. The three Resolutions addressing those contracts appears as Attachments A, B and C to the Executive Session minutes. Mr. Gahn seconded the motion. The motion passed by unanimous voice vote with no abstentions.

17. Adjournment

Chairman Armentrout adjourned the meeting at approximately 3:20 p.m.

Board materials and presentations from the meeting are available on ERCOT's website at <http://www.ercot.com/committees/board/index.html>.


James L. Thorne

Vice President, General Counsel & Corporate
Secretary