

# ***Texas Regional Entity***

*An Independent Division of ERCOT*

## **DRAFT MINUTES OF H.R. & GOVERNANCE COMMITTEE TEXAS REGIONAL ENTITY, a DIVISION OF ERCOT**

ERCOT Austin  
7620 Metro Center Drive, Room 211  
Austin, Texas 78744  
August 21, 2007 at 8:30 a.m.

### **Committee Members Present**

Carolyn Lewis Gallagher, Chair  
Jan Newton, Vice Chair  
Mark G. Armentrout, Board Chairman  
Brad Cox  
Andrew J. Dalton

### **Segment Alternates Present**

Bob Helton

### **ERCOT Executives and Staff Present**

Bob Kahn  
Larry Grimm  
Sam Jones  
Nancy Capezzuti

### **Outside Counsel and Staff Present**

David F. Brown, Esq., Hughes & Luce, LLP  
Ginny B. Hayes, Legal Assistant, Hughes & Luce, LLP

### **Call to Order**

Chairperson Gallagher called the meeting to order at 8:30 a.m.

### **Minutes**

Chairperson Gallagher asked if the members had any changes to the minutes of the past monthly meeting. When no changes were requested, Ms. Gallagher invited a motion to accept. Ms. Newton moved approval of July minutes, and Mr. Dalton seconded. The minutes were approved by unanimous voice vote.

### **Open Session – Review of Chief Compliance Officer Goals**

Mr. Grimm was invited to speak about the Texas Regional Entity, a division of ERCOT (“TRE”) draft goals, bylaws amendments, the Chief Compliance Officer (“CCO”) job description, and TRE Delegation Agreement. Mr. Grimm presented a lengthy list of tasks for the TRE, consisting of approximately twelve categories of “key performance indicators (“KPIs”), but stated that he had narrowed the focus to approximately seven KPI categories.

A discussion among the persons present began with Ms. Newton suggesting that the use of KPIs was appropriate, but that the TRE should consider assigning a percentage value for each category and each KPI overall. Mr. Armentrout suggested that the percentages be measured by effectiveness, rather than time. It was also suggested that some of the KPIs were of more importance than others, and that a system of weighting would also be helpful.

Chairperson Gallagher asked if TRE was happy with the goals, and that it would also be important to monitor them effectively. Ms. Gallagher inquired as to the best method of monitoring and the frequency of monitoring. Chairperson Gallagher suggested that they be monitored on a quarterly basis, and reported to the Board at least twice per year.

Mr. Jones and Mr. Armentrout opened a discussion among persons present about how the evaluations would be handled. Ms. Newton suggested that the seven KPIs should be broken down to significant accomplishments/successes or risks in the reported quarter.

Mr. Grimm presented additional information on the goals and stated that the 2007 and 2008 goals were mixed and that he needed to spend some time separating them. Mr. Grimm also acknowledged that TRE would most likely get audited next year.

Mr. Cox pointed out that NERC would also be evaluating the TRE's performance, and that it would be helpful to the process for the TRE's performance indicators to match up with NERC's audit goals and standards. Mr. Cox stated that although some of the KPIs were specific to ERCOT, the others should be written to parallel NERC standards. Ms. Gallagher noted that if TRE obtains a clean NERC audit, it will likely have met its TRE goals. Mr. Cox suggested that TRE check the KPIs against NERC audit standards.

Mr. Kahn entered the meeting at 8:40 a.m.

Mr. Jones stated that NERC will provide more oversight than just the audit. Ms. Newton suggested adding a TRE Board agenda item to ensure that the board is updated as NERC gives guidance. Mr. Jones stated that NERC is still developing its processes with regard to the Regional Entities and is expected to audits only once every three years.

Mr. Grimm stated that he was not exactly sure what NERC will do in its audit and other processes, but it will most likely be similar to 2006.

Mr. Cox asked if there was any sort of feedback from NERC on the TRE's implementation, and Mr. Grimm reported that TRE is working with NERC Staff on a continuing basis and that they will get about substantial feedback through the audit.

Mr. Dalton suggested that the Committee receive monthly updates. Ms. Newton suggested that in the future the TRE Board should add an agenda item to get a better idea of what NERC's standards and guidelines are to be.

Chairperson Gallagher thanked Mr. Grimm for his updates and asked that he leave the room for Executive Session.

Mr. Grimm left the room at 8:45 a.m.

### **Executive Session – Personnel Matters – Chief Compliance Officer Search**

Chairperson Gallagher adjourned the open portion of the meeting into Executive Session to handle personnel, litigation, and contract matters at approximately 8:45 a.m.

The Executive Session adjourned at approximately 8:55 a.m. No votes were taken.

### **Open Session – TRE Reporting Structure**

Mr. Grimm re-entered the room at 8:55 a.m.

Chairperson Gallagher called the open session of the committee to order again at approximately 8:55 a.m. and opened a discussion about the TRE reporting structure. She asked if there was anything to recommend to the TRE Board regarding the oversight role and how they were to report back to the ERCOT Board.

Mr. Jones asked which attorney would report back to the Board and what oversight role it was anticipated that TRE would have – an administrative role, personnel role, budget, compliance. The question of whether TRE would have a separate board and meetings, make a compliance report to the ERCOT Board similar to the compliance reporting of the past, or use some other mechanism, was also discussed among the persons present. Mr. Armentrout stated that no matter what role TRE took, the Board must ensure that it did not violate the separation between ERCOT and TRE. He suggested keeping TRE Board meetings separate with separate agendas.

Ms. Newton stated that she thought it would be a good idea to ensure separation by closing one Board meeting, and after a time, reconvening the separate board. For instance, Ms. Newton suggested, the TRE Board could meet on Monday afternoons, and the ERCOT Board could continue its Tuesday meetings, to ensure no confusion.

Mr. Cox opened a discussion of how the ERCOT Board and TRE Board would handle an alleged violation of a reliability standard by ERCOT – ISO. Mr. Cox suggested that every violation be reported to ERCOT and that it be made non-public.

Mr. Grimm stated that TRE would have 30 days to respond to any alleged violation and 30 days to appeal or accept, just like any other registered, “responsible entity.” Mr. Grimm also stated that up to the time a complaint was filed at the PUC on an enforcement action, all reliability compliance proceedings were considered highly confidential.

Mr. Kahn entered the room at 9:10 a.m.

Mr. Cox stated that if a compliance issue was significant, Mr. Kahn could report to the ERCOT Board in Executive Session to ensure a clear separation of roles. Otherwise, TRE would treat ERCOT ISO just like any other market participant. Mr. Armentrout suggested a bright-line rule: TRE should present separate reports to the ERCOT Board – one for compliance issues and one for TRE business concerns. He also raised the question of when Mr. Grimm should or should not be present at ERCOT Board meetings where TRE issues were raised. He also raised the question of when TRE should be expected to report to the ERCOT Board. Mr. Armentrout also stated that the respective executive sessions should be fully separate. Ms. Newton raised the question of when reports would be open to the public.

Chairperson Gallagher stated that discussions could be continued at the next Board Meeting.

### **Adjourn**

The meeting adjourned at 9:50 a.m.