

Texas Regional Entity

An Independent Division of ERCOT

DRAFT MINUTES OF THE BOARD OF DIRECTORS **OF THE TEXAS REGIONAL ENTITY** **A DIVISION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

7620 Metro Center Drive, Room 206

August 21, 2007

Mark Armentrout		Unaffiliated; Board Chairman
Brad Cox	Tenaska Power Services	Independent Power Marketer
Andrew Dalton	Valero Energy Corp.	Consumer/Industrial
Miguel Espinosa		Unaffiliated
Nick Fehrenbach	City of Dallas	Consumer/Large Commercial
Carolyn Lewis Gallagher		Unaffiliated
Scott Gahn	Just Energy	Independent REP
Michehl Gent		Unaffiliated; Board Vice-Chairman
Clifton Karnei	Brazos Electric Coop	Cooperatives
Jan Newton		Unaffiliated
Tom Standish		Investor-Owned Utilities
William Taylor	Calpine Corp.	Independent Generator
Dan Wilkerson	Bryan Texas Utilities	Municipal

Other Attendees

Steve Bartley, Board Segment Alternate
Jean Ryall, Board Segment Alternate
Robert Thomas, Board Segment Alternate
Commissioner Julie Parsley, Public Utility Commission of Texas (PUC)
Sam Jones, former ERCOT President/CEO
Susan Vincent, ERCOT Assistant General Counsel
Parviz Adib, PUC
Mark Dreyfus, Austin Energy
Henry Durrwachter, Luminant Energy
Randy Jones, Calpine
Eddie Kolodziej
Terry Lane, LS Power
Kenan Ogelman, CPS
Les Barrow, CPS
Bob Peck, LCRA
Walter Reid, Wind Coalition
James Thorne, ERCOT Vice President and General Counsel
Thane Thomas Twiggs, Direct Energy
Deann Walker, CenterPoint Energy

Outside Counsel and Staff Present

David Brown, Hughes & Luce, LLP Outside Counsel
Ginny Hayes, Hughes & Luce, LLP Outside Counsel Assistant

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Call to Order

Chairman Armentrout called to order the regular meeting of the Texas Regional Entity – a division of Electric Reliability Council of Texas, Inc. (Texas RE) Board of Directors at approximately 3:05 p.m.

Minutes

Chairman Armentrout asked if the members had any changes to the minutes of the past monthly meeting; and if not, requested a motion to accept. **Mr. Espinosa moved approval of the July minutes and Mr. Fehrenbach seconded. The minutes were approved by unanimous voice vote.**

Open Session – Texas Regional Entity Report

Mr. Grimm introduced Texas RE's outside counsel, David Brown of Hughes & Luce and his assistant, Ginny Hayes.

Report of Industry Performance

Mr. Grimm presented a report on the industry's overall performance for non-wind-only QSEs. Mr. Grimm reported that ERCOT market participants had improved and that performance scores continue to improve and had reached their highest level since the implementation of PRR 525. Mr. Grimm gave a monthly summary of alleged violations and reported that there was one new alleged violation and one new confirmed violation of the ERCOT Protocols and Operating Guides. He also reported that there had been one new alleged violation of NERC Standards. He stated that five new events had been reviewed, and that two detailed reports had been required, and three additional detailed reports from past events were still underway and due to be issued. Mr. Grimm also reported that three on-site audits had been completed, and that three more would be completed by mid-September. Mr. Grimm also reported that there remained four unresolved registration appeals.

Mr. Karnei asked questions about the appeals, and Mr. Wilkerson asked for additional information on the process for pursuing Protocol and Operating Guides violations in comparison with the prosecution of NERC Standards violations.

Mr. Grimm responded with a brief description of the processes and procedures in place and to be adopted. Mr. Grimm explained that after a possible violation is discovered in an audit, an investigation, or through incident reports, Texas RE reviews it and determines whether additional investigation is required. After all necessary investigation is conducted and there is evidence of a possible violation, the Texas RE will issue a notification letter of alleged violation to the compliance contact or officer of the allegedly offending company that the market participant has designated. The PUC Staff is copied on the letter. The market participant, a "Responsible Entity" under the NERC Standards, has the opportunity to respond. If after the Responsible Entity responds, Texas RE is still of the view that a violation has been committed, it issues a Notice of Violation and requests a mitigation plan from the Responsible Entity. The Responsible Entity is then given time to respond and provide a mitigation plan.

Mr. Taylor asked if most violations were discovered from incident reports from the ISO or investigations. Mr. Taylor also asked whether alleged violations were reported to the Independent Market Monitor. The Board raised other questions about the process of investigations.

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Mr. Grimm stated that most violations to date had been discovered from compliance audits, investigations, and incident reports, and that once Texas RE was made aware of a possible violation, it would determine whether it warranted further investigation.

Mr. Taylor asked if violation of a Protocol could also result in sanctions under the NERC Compliance Process. Mr. Grimm responded that with issues related to Protocol Compliance, the Texas RE issues violation notices and tracks mitigation plans to completion. The Texas RE does not impose penalties, but the PUCT could. With NERC Standards Compliance related issues, the Texas RE issues violation notices and imposes penalties as well. In other words, a market participant and Responsible Entity could be subject to penalties or sanctions for both a Protocol violation which also violates a NERC Reliability Standard.

Resolution Regarding Standards Development Process

Mr. Grimm continued his presentation regarding the three procedures and related committees to implement the Texas RE Standards Development Process: (1) the Registered Ballot Body; (2) Reliability Standards Committee; and (3) Standards Drafting Team. Mr. Grimm described two rounds of stakeholder review, the posting of drafts on Texas RE's web page under Regional Reliability Standards Development Planning and Procedures.

Ms. Newton asked if stakeholders had offered comments or were in agreement.

Mr. Grimm said that stakeholders were in substantial agreement, but that one stakeholder comment was not incorporated because it sought an expanded role.

Mr. Gent asked if there was a specific format to follow and were the issues the same that had been there in the past with NERC. He also asked about the opinions of independent members. The Board, including Ms. Newton, Mr. Dalton, Mr. Espinosa, and Mr. Gent, generally discussed the issue of whether there was a direct connection between the stakeholders and the body, whether there was an opportunity for formal stakeholder review, and whether the input would be weighted. Ms. Parsley also participated in the discussion.

Mr. Gent moved for approval of the Resolution with a change to the header language indicating that the resolution was that of the Texas RE. Mr. Standish seconded the motion. The Resolution and changes were approved by unanimous voice vote, with Mr. Dalton abstaining.

Continued Discussion of Industry Performance

The Board continued to discuss Mr. Grimm's presentation, with Mr. Wilkerson noting that the scores had declined for seven straight months. Mr. Gent inquired as to the risk factor analysis, particularly for self-reported violations.

Mr. Grimm reported that some Responsible Entities were reporting violations even though they were not registered for functions under NERC standards and some self-reports were not actual violations. Mr. Grimm stated that the Texas had reviewed all 166 proposed Mitigation Plans for pre-June 18th self-reported violations and was sending them to NERC for review. The Mitigation Plans remained subject to approval by the NERC Board of Trustees Compliance Committee.

Mr. Grimm also spoke about the high-risk-category violations and procedures and how they related to NERC Functional Model issues. Mr. Gent stated a concern about whether, as a

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technical matter, the “high-risk” violations were seen as a risk to reliability. Mr. Grimm stated that none of the violations were considered to put the ERCOT System at risk.

Mr. Grimm also reported on the FERC/NERC visit to the Texas RE, and suggested that while the meeting went well, there were occasional bumps in the road. He also announced that there was a September 18 Technical Conference on cost recovery issues related to ISO violations that would be very interesting to attend.

Executive Session

Chairman Armentrout adjourned the open portion of the meeting into Executive Session to handle personnel, litigation, and contract matters at approximately 3:45 p.m.

The Executive Session adjourned at 4:18 p.m.

Resumption of Open Session

Chairman Armentrout called the open session of the Texas RE Board Meeting to order at approximately 4:19 p.m. Chairman Armentrout announced that a motion for approval of the Executive Session minutes, which was seconded, had been approved on a unanimous voice vote, with one abstention.

Adjourn

Chairman Armentrout also entertained a motion to adjourn. The meeting adjourned at 4:20 p.m.