

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

Room 206, 7620 Metro Center Drive, Austin Texas 78744

May 20, 2008

Directors

Mark Armentrout, Chair		Unaffiliated
Michehl R. Gent, Vice Chair		Unaffiliated
Don Ballard	Office of Public Utility Counsel	Residential Small Consumer
Brad Cox	Tenaska Power Services	Independent Power Marketer
Andrew Dalton	Valero	Industrial Consumer
Miguel Espinosa		Unaffiliated
Nick Fehrenbach	City of Dallas	Large Commercial Consumer
Bob Helton	International Power America	Independent Generator
Charles W. Jenkins, III	Oncor Electric Delivery Company	Investor Owned Utility
Bob Kahn	CEO, ERCOT	
Clifton Karnei	Brazos Electric Coop	Cooperatives
Jan Newton		Unaffiliated
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider
Dan Wilkerson	Bryan Texas Utilities	Municipal

Commissioners and Segment Alternates

Commissioner	Commissioner, Public Utility	
Julie Parsley	Commission of Texas	
Jean Ryall	Constellation Energy	Independent Generator
Mark Walker	NRG Texas	Independent Generator

Other Attendees

Larry Grimm, Texas Regional Entity CEO and CCO
 Susan Vincent, Texas Regional Entity Director, Legal Affairs
 Todd Brewer, Texas Regional Entity Senior Financial Analyst
 Ryan Clay, Texas Regional Entity Senior Paralegal
 Nancy Capezzuti, ERCOT VP HR & OD
 Mike Grable, ERCOT General Counsel

Call to Order

Pursuant to notice duly given, the meeting of the Texas Regional Entity Division of Electric Reliability Council of Texas, Inc. (Texas RE) Board of Directors convened at approximately 2:30 p.m. on **May 20, 2008**. Chairman Mark Armentrout called the meeting to order and ascertained that a quorum was present.

Approval of Previous Minutes

Dan Wilkerson moved for approval of the minutes from the April 15, 2008 meeting; Miguel Espinosa seconded the motion. The motion passed by voice vote, with abstentions by Clifton Karnei, Don Ballard, and Bob Kahn.

CCO Report

Larry Grimm provided the Directors with an update of Texas Regional Entity activities and compliance in the ERCOT region. In response to a question by Chairman Armentrout, Mr. Grimm reported that, to his knowledge, NERC was not currently working on any wind-only Reliability Standards. In response to a question by Chairman Armentrout asking if anyone on the Texas RE staff had contacted FERC about the “blackout” language they used to describe an event that occurred February 26, 2008, Susan Vincent and Victor Barry confirmed Texas RE had discussed this topic with FERC staff.

In response to a question by Jan Newton, regarding the reasons for the relatively long time period for certain registered entities to submit mitigation plans (particularly for technical/severe violations), Mr. Grimm responded that the one (anonymous) registered entity that had delayed submitting its mitigation plan was still within NERC timeline requirements for its mitigation plan, and that this entity was in settlement negotiations regarding the violation. Michehl Gent noted that the timelines in the NERC process were long, and asked Mr. Grimm how long was permitted before mitigation plan submission was required. Mr. Grimm told the Board that in most cases, mitigation plans are submitted within a few weeks but it could occasionally take months; mitigation plans are usually then completed in a few months, but it could stretch out to a year or more in some instances. The Board declined Mr. Grimm’s offer to go into executive session to discuss a confidential compliance matter in more detail. Commissioner Julie Parsley stated she was concerned about the appearance of severe violations without mitigation plans and suggested a new category or additional information be added to the violation tracking reports to indicate if there was a settlement or other reason for a delayed mitigation plan. Mr. Grimm concurred with the Commissioner’s suggestion and told the Board he would include an additional category or other information in future violation tracking reports.

Bob Helton asked Mr. Grimm if Texas RE had considered the effect of the ERCOT plans for the retirement of systems after go-live date of the ERCOT Nodal system on the retention of necessary data for compliance. Mr. Grimm acknowledged this issue was something Texas RE would have to work with ERCOT ISO to determine what data and systems would be necessary to retain for a prescribed period. Mr. Helton then suggested that Texas RE might consider posting a bulletin requesting market participants to retain certain data and systems; Mr. Grimm concurred with Mr. Helton’s suggestion.

In response to a question by Robert Thomas regarding the decrease in number of incidents reported by ERCOT ISO beginning in September, 2007 (per slide 25 of the presentation), Mr. Grimm explained to the Board that the decrease in the number of incidents reported by the ISO could be for a variety of reasons, including increased compliance diligence by market participants in light of the implementation of mandatory reliability standards. Bob Kahn, ERCOT President and CEO asked that issues specifically relating to registered entities – such as ERCOT ISO – be discussed in executive session at future Board meetings.

Bob Helton recognized the fact that protocol violations have decreased, but asked why this would be a problem that needs to be fixed. Victor Barry, Texas RE Director of Compliance, stated he believed there were certain activities that should have been reported to Texas RE that were not. In

response to Mr. Helton's question to Mr. Barry regarding whether, as a whole, market participants were complying better with Protocols than in the past, Mr. Barry confirmed that this could be the case. Mr. Grimm noted that fewer audits occur from September to December, so the decrease in violations could reflect the end of the audit season. In response to a question by Mr. Karnei about a definition for the "audit season" for Texas RE, Mr. Grimm informed the Board that Texas RE tries to schedule the majority of audits in the first nine months of the calendar year.

Amended Delegation Agreement

Chairman Armentrout asked Ms. Vincent to discuss the amended Delegation Agreement between Texas RE and NERC. Ms. Vincent overviewed the modifications to the Delegation Agreement that were presented in the materials and explained that, because NERC had asked the regional entities to make some global, minor changes to Exhibit E the previous day, Texas RE was pulling this agenda item and would bring the revised Delegation Agreement to the Board in June. Mike Grable confirmed that the proposed revisions to Exhibit E (which describes the funding mechanism, including ERCOT's billing of the market) were acceptable to ERCOT.

Chairman Armentrout referred the Board of Directors to Exhibit C, Appendix A, paragraph II of the Delegation Agreement (Standards Development Process), which states:

"Although the ERCOT BOD will have the final vote on proposed ERCOT-Specific Reliability Standards and Regional Variances, the ERCOT BOD will not have involvement in Reliability Standard compliance and enforcement activities."

The Chairman noted it was appropriate for the Board to have some involvement in overseeing the compliance and enforcement activities in general, but the Board did not need to have a detailed review of all compliance and enforcement activities. Brad Cox agreed with the comments of the Chairman, but confirmed his view that the Board must have general oversight of compliance in the region, along with the Public Utility Commission of Texas, ERCOT ISO, and all registered entities.

Finance and Audit Committee Report

Mr. Karnei gave an update to the Board on the activities of the Finance & Audit Committee (F&A), and informed the Board that the F&A Committee held a special F&A meeting on Monday (May 19, 2008) to review the proposed Texas RE 2009 Budget for the second time.

Mr. Karnei reported that the 2009 Budget & Business Plan would be presented to the Board for a vote at the June 17, 2008 Board meeting, because the Board-approved final draft is due to NERC by July 9, 2008. Mr. Karnei also informed the Board that the Texas RE budget is increasing to approximately \$7,000,000 (\$872,000 of this is Protocol compliance and \$855,000 is the Statutory cash reserve being established).

Mr. Grimm explained the need for the increased staffing (1 position in 2008 (CIP), 5 additional statutory and 1 non-statutory in 2009) at a cost of approximately \$990,000 (salary and benefits). The following additional positions were requested:

- (1) Critical Infrastructure Protection
- (3) Compliance Enforcement & Assessment (audits and analyses/investigations)
- (1) IT (oversight of data portal and website)
- (1) Legal/Regulatory
- (1) Protocol Compliance

Mr. Karnei explained that Texas RE requires additional office space for 2009 and that Texas RE will likely move from Met Center later in 2008. Mr. Espinosa added that Texas RE would office again with ERCOT once ERCOT staff moves out of the Met Center in 2011. The cost of the additional space required by Texas RE is estimated to be \$400,000 higher than the 2008 forecast.

Chairman Armentrout asked what metrics Texas RE was using to assess staff levels. Mr. Karnei told the board that Texas RE has favorable staffing and expense levels per registered entity when compared to other regional entities (both on an FTE and cost basis) based on a presentation to the F&A Committee during Executive Session.

Future Agenda Items: F&A will recommend and Board will vote on Budget at the June meeting.

Agreed Upon Procedures

Mr. Karnei informed the Board that NERC agreed to accept an Agreed Upon Procedures (AUP) review of Texas RE for 2007, instead of requiring the full audit required by the Delegation Agreement. PwC performed the AUP review of the 2007 financials of Texas RE, and found no material differences in the reporting made to NERC and the AUP review conducted.

Mr. Karnei made a motion for the Board to accept the Agreed Upon Procedures of the Texas Regional Entity 2007 financial statements; Nick Fehrenbach seconded the motion. The motion passed unanimously by way of voice vote.

Memorandum of Understanding

The Board then had a discussion regarding the proposed Memorandum of Understanding between Texas RE and ERCOT (under which ERCOT will perform services and Texas RE will reimburse ERCOT at an agreed fair rate for the services provided). The Board postponed voting on this item until later in the meeting, after the modification to Mr. Grimm's title (to add CEO) had been approved.

Human Resources and Governance Committee Report

Jan Newton provided the Board an update on the activities of the Human Resources & Governance (HR&G) Committee.

Vision and Mission Statement

The Board discussed the proposed Texas RE Vision and Mission Statement.

Ms. Newton made a motion to approve the Texas RE Vision and Mission Statement; Bob Helton seconded the motion. The motion passed by unanimous voice vote.

Governance and Committee Structure

Ms. Newton reviewed the HR&G discussion regarding the governance and committee structure of the Texas RE, and informed the Board that the HR&G Committee recommended the Board create a committee for Texas RE which would replace the functions of the current F&A and HR&G Committees and that this committee would be comprised of only Unaffiliated Board members. Ms. Newton informed the Board that this item would be raised for a Board vote at the June meeting.

Addition of CEO Title

Ms. Newton announced that the HR&G Committee requested that the Board modify Mr. Grimm's title from "Chief Compliance Officer" to "Chief Executive Officer and Chief Compliance Officer" of Texas Regional Entity.

Ms. Newton made a motion to approve the title of Chief Executive Officer and Chief Compliance Officer for the chief executive of Texas Regional Entity; Chairman Armentrout seconded the motion. The motion passed by unanimous voice vote.

Memorandum of Understanding

The Board returned to its consideration of the Memorandum of Understanding between Texas RE and ERCOT.

Mr. Karnei requested that the Memorandum of Understanding be modified to include the title of CEO for Mr. Larry Grimm, and, as amended, Mr. Karnei moved for approval of the Memorandum of Understanding between Texas RE and ERCOT; Chairman Armentrout seconded the motion. The motion passed by unanimous voice vote.

Future Agenda Items

Chairman Armentrout told Mr. Grimm that the Board would like to see additional future agenda items for the upcoming Board meetings.

Executive Session

At 3:38 p.m., the meeting was adjourned and the Board of Directors went into Executive Session until 3:58 p.m., when the meeting returned to Open Session.

Nick Fehrenbach left the meeting at 3:45 p.m., providing a proxy for Don Ballard to represent him.

Open Session Reconvened

The Board of Directors resumed Open Session at 3:58.

Chairman Armentrout explained the Board had discussed the Chief Compliance Officer (CCO) Terms of Employment during Executive Session. Chairman Armentrout stated the Human Resources & Governance Committee had voted to recommend a salary adjustment for Mr. Grimm based on his performance.

Mr. Helton made a motion to approve the recommendations of the HR & Governance Committee regarding Mr. Grimm's annual compensation; Ms. Newton seconded the motion, the motion passed by unanimous voice vote.

Adjournment

Chairman Armentrout adjourned the meeting at 3:59 p.m.

Susan Vincent
Corporate Secretary