

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

Electric Reliability Council of Texas, Inc.
7620 Metro Center Drive, Room 206, and via Teleconference
June 6, 2008 at 2:00 p.m.

Pursuant to notice duly given on June 5, 2008, the urgent meeting of the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) convened on the above-referenced date.

Meeting Attendance:

Board Members:

Director	Affiliation	Segment
Armentrout, Mark (via phone)		Unaffiliated; Board Chairman
Ballard, Don (in-person)	OPUC	Consumers/Residential & Small Commercial
Crowder, Calvin (in-person)	Electric Transmission Texas, LLC	Investor-Owned Utilities
Dalton, Andrew (via phone)	Valero Energy Corp.	Consumers/Industrial
Espinosa, Miguel (via phone)		Unaffiliated
Fehrenbach, Nick (in-person)	City of Dallas	Consumers/Commercial
Gent, Michehl (via phone)		Unaffiliated; Board Vice-Chairman
Helton, Bob (in-person)	IPA	Independent Generators
Kahn, Bob (in-person)	ERCOT President/CEO	
Karnei, Clifton (via phone)	Brazos Electric Coop	Electric Cooperatives
Newton, Jan (via phone)		Unaffiliated
Ryall, Jean (in-person)	Constellation Energy Commodities Group, Inc.	Independent Power Marketers
Thomas, Robert (in-person)	Green Mountain Energy	Independent Retail Electric Providers
Wilkerson, Dan (via phone)	Bryan Texas Utilities	Municipally-Owned Utilities

Staff and Guests:

Bell, Wendell	TPPA
Billo, Jeff	ERCOT

Bojorquez, Bill	ERCOT
Bruce, Mark	FPL Energy
Cochran, Seth	Sempra Trading
Doggett, Trip	ERCOT
Gage, Theresa	ERCOT
Grable, Mike	ERCOT
Jones, Dan	Potomac Economics
Jones, Don	Reliant
Kolodziej, Eddie	Customized Energy Solutions
Lloyd, Brian	Public Utility Commission of Texas (PUCT)
Morais, Matt	ERCOT
Priestley, Vanus	Juice Energy
Roark, Dottie	ERCOT
Saathoff, Kent	ERCOT
Seely, Chad	ERCOT
Walker, Mark	NRG Texas
Whittle, Brandon	DB Energy Trading
Yager, Cheryl	ERCOT
Zlotnik, Kevin	Shumate & Associates

1. **Call to Order**

Mark Armentrout, Board Chairman, called the meeting to order at approximately 2:05 p.m., gave brief opening remarks on the Commission's directive to the ERCOT Board to convene this urgent Board meeting to consider and approve the Independent Market Monitor (IMM)-sponsored, emergency Protocol Revision Request (PRR) 764, *Zonal Congestion and CSCc/CREs*. Chairman Armentrout asked that Dan Jones, Potomac Economics, present to the Board his presentation on PRR764.

2. **Protocol Revision Request (PRR) 764**

a. **Discussion**

Dan Jones gave opening remarks on PRR764. Mr. Jones indicated that the ERCOT wholesale market has witnessed chronic transmission congestion on the North to South Commercially Significant Constraint (CSC) and that the zonal congestion management techniques have not been effective and efficient in resolving the problem. He commented that under the current zonal market model, transmission congestion is resolved through a bifurcated process that consists of either (1) zonal Balancing Energy deployments, or (2) local, unit-specific deployments. He indicated that there is a limit to zonal Balancing Energy deployments and that local management techniques would be more effective in resolving the constraint. PRR764 allows for a more efficient management of congestion within the context and limits of the zonal market model.

Chairman Armentrout inquired as to what triggers local unit-specific deployments. Mr. Jones responded that constraints are no longer defined as a valid zonal constraint; the congestion is to

be resolved through local techniques, such as unit-specific deployments. PRR764 defines what techniques are appropriate and when to use them in resolving congestion. If there is not a valid zonal technique, then Out of Merit (OOM) deployments are left to manage local congestion. Mr. Jones pointed out that PRR764 does not eliminate congestion; it just allows different techniques to be used by ERCOT.

Miguel Espinosa inquired whether the nodal market will resolve this congestion problem. Kent Saathoff (ERCOT Vice President of System Operations) responded in the affirmative that nodal will fix the problem because essentially all congestion will be local.

Jan Newton inquired how long has ERCOT been using the zonal constraint method and has ERCOT seen this type of problem in the past. Mr. Jones indicated that this problem has occurred in the past, but has been somewhat undetected because the magnitude was not as severe. Mr. Jones commented that the magnitude of the congestion has also been exacerbated by the existence of some key Resource outages. Mr. Saathoff further indicated that ERCOT initially managed everything locally in 2001 because the zonal constraint systems were not ready. However, ever since the market opened in 2002, ERCOT has been using zonal techniques to manage zonal constraints.

Chairman Armentrout asked whether PRR764 clearly defines when ERCOT should use zonal versus local techniques. Mr. Saathoff indicated that it does. Mr. Jones commented that the North to South CSC did not exist last year and therefore was managed by local constraints prior to this year. Mr. Jones commented that he agrees with Mr. Saathoff that nodal will resolve these issues.

Bob Helton commented that it is important to have reasonable expectations of what PRR764 will accomplish going forward. PRR764 does not stop congestion pricing nor ensure matching buyers and sellers that are efficient among the zones. This PRR is meant to fine tune the system, not to eliminate congestion.

Miguel Espinosa inquired about the abstentions at the Protocol Revision Subcommittee (PRS) and the Technical Advisory Committee (TAC). Mark Dreyfus, TAC Chair, commented that although PRR764 was on a short timeline, stakeholders have followed the ERCOT Protocols and other administrative procedures to process this PRR for Board approval. Mr. Dreyfus indicated that there was a lengthy discussion at TAC yesterday and that at the conclusion of the discussion, there was a motion to recommend approval of the PRR, which resulted in 29 in favor, 0 in opposition and 1 abstention. Mr. Dreyfus invited TAC members who were interested in PRR764 to speak at the Board meeting if they had any issues or opinions about the PRR.

Miguel Espinosa further inquired about whether the Credit Work Group (CWG) had reviewed PRR764. Mike Grable (ERCOT General Counsel) indicated that ERCOT polled CWG members this morning and that responding CWG members indicated credit neutral or credit positive responses and support for PRR764, and that at least one CWG member had responded from all market segments.

Jean Ryall asked about the timeline for implementation of PRR764. Mr. Grable commented that the Impact Analysis (IA) indicates that PRR764 could be implemented within two Business Days. Mr. Saathoff indicated that ERCOT could put PRR764 into effect as early as Monday (June 9) at 8:00 a.m. Bob Helton asked that a Market Notice be distributed to inform Market Participants of the implementation.

Andrew Dalton asked about ERCOT Staff comments on the unintended consequences of implementing PRR764. Mr. Saathoff indicated that ERCOT Staff comments were mainly to point out market issues, such as an increase in local congestion activities and local congestion costs. Mr. Dalton commented that the consequence would be more uplift to Load but that price spikes will be mitigated. Mr. Saathoff commented from an operations perspective that this is a more effective way to manage congestion but that there will be uplifts on a Load Ratio Share. Mr. Jones commented on cost implications to the market and the recent Transmission Congestion Rights (TCRs) being oversold and the impact on local costs.

Calvin Crowder inquired about the future review of CSCs and Closely Related Elements (CREs) as indicated in the TAC report and IMM memo. Mr. Jones indicated that stakeholders will perform an additional review of CSCs and CREs to determine whether the constraints are appropriate or whether adding or deleting CSCs and CREs are necessary. That activity is not on a critical time path, but will be done as soon as possible. Beth Garza (ERCOT Manager of Congestion Revenue Rights) indicated that the Congestion Management Working Group (CMWG) will conduct the review and make adjustments to the CSCs/CREs list, but that more time is needed between passage of PRR764 and that meeting in order to do meaningful analysis. Calvin Crowder inquired whether Board action is required to remove a CSC/CRE from the list. Ms. Garza indicated that Board action is not required; the process allows for TAC action or deemed approved after seven days.

Dr. A.D. Patton asked whether there is a mechanism in place to update CSCs/CREs in real time. Ms. Garza indicated that the current Protocol process is the quickest solution to address the concerns; it is not a real-time adjustment but can be adjusted in seven days. ERCOT needs flexibility to make those adjustments as quickly as possible.

Bob Helton commented that the specific constraints that have raised this issue are hard constraints to resolve whether using local or zonal methods. Mr. Helton inquired whether the problem is more of a Load issue rather than a Resource issue. Mr. Saathoff indicated that this is problematic congestion to manage under either option and that PRR764 will not do away with congestion problems.

Chairman Armentrout asked whether any other participants, besides Board Members, wanted to make any comments on the issue before inviting a motion on PRR764. No further comments were made.

b. Vote

Miguel Espinosa moved to approve PRR764 as recommended by TAC. Clifton Karnei seconded the motion. Chairman Armentrout asked whether Board Members had any other

questions or comments before voting on the motion. **Don Ballard made a friendly amendment to the motion to indicate in the Board Resolution that ERCOT Staff make best efforts to implement PRR764 by 8:00 a.m. on Monday, June 9, 2008. Jean Ryall seconded the friendly amendment. Mr. Espinosa and Mr. Karnei approved the friendly amendment to the motion.**

A roll call was taken first of Board Members attending in-person and then of Board Members attending via telephone. **The motion passed unanimously.**

3. Other Business

Clifton Karnei inquired about the recent Market Participant defaults and what will the uplift be to the market. Bob Kahn (ERCOT President and Chief Executive Officer) indicated that, at this time, ERCOT anticipates \$3.2 - \$4.7 Million in losses to the market.

Adjournment

Chairman Armentrout adjourned the meeting at approximately 2:46 p.m.

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

Michael G. Grable
Corporate Secretary