

**DRAFT 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 17, 2008 at 10:00 a.m.

Pursuant to notice duly given, the 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		Unaffiliated; Board Chairman
Ballard, Don	OPUC	Consumers/Residential & Small Commercial
Ryall, Jean	Constellation Energy Commodities Group	Segment Alternate - Independent Power Marketers
Dalton, Andrew	Valero Energy Corp.	Consumers/Industrial; arrived at approximately 10:30 a.m.
Espinosa, Miguel		Unaffiliated
Fehrenbach, Nick	City of Dallas	Consumers/Commercial
Gent, Michehl		Unaffiliated; Board Vice-Chairman
Helton, Bob	IPA	Independent Generators
Crowder, Calvin	Electric Transmission Texas	Segment Alternate - Investor-Owned Utilities
Kahn, Bob	ERCOT President/CEO	
Newton, Jan		Unaffiliated
Patton, A.D.		Unaffiliated
Smitherman, Barry T.	PUCT Chairman	PUCT
Thomas, Robert	Green Mountain Energy	Independent Retail Electric Providers
Wilkerson, Dan	Bryan Texas Utilities	Municipally-Owned Utilities; Proxy for Clifton Karnei

**Staff and Guests:**

Adib, Parviz	APX
Behroon, BJ	KEMA
Bell, Wendell	Texas Power Pool Association (TPPA)
Bojorquez, Bill	ERCOT
Bradley, Beth	Aces Power Marketing
Brandt, Adrienne	Austin Energy
Brenton, Jim	ERCOT
Brewer, Tim	Texas Regional Entity
Brewster, Chris	City of Eastland

Bruce, Mark	FPCE
Byone, Steve	ERCOT
Capezzuti, Nancy	ERCOT
Clay, Ryan	Texas Regional Entity (TRE)
Cochran, Seth	SempraTrading
Comstock, Read	Strategic Energy
Day, Betty	ERCOT
Doggett, Trip	ERCOT
Fanhangi, Anoush	Wal Mart
Firestone, Joel	Direct Energy
Fox, Kip	American Electric Power (AEP)
Giuliani, Ray	ERCOT
Goodman, Dale	ERCOT
Grable, Mike	ERCOT
Gresham, Kevin	Reliant Energy
Haas, Jason	Public Utility Commission of Texas (PUCT)
Hayslip, Darrell	EON
Headrick, Bridget	PUCT
Hinsley, Ron	ERCOT
Hobbs, Kristi	ERCOT
Huerta, Miguel	Chaparral Steel
Jones, Don	Reliant
Jones, Liz	Oncor
Kates, Brad	Opinion Dynamics
King, Kelso	King Energy
Kolodziej, Eddie	Customized Energy Solutions
Norton, Bill	Opinion Dynamics
Ogelman, Kenan	CPS Energy
Oldham, Phillip	TIEC
Richard, Naomi	Lower Colorado River Authority (LCRA)
Roark, Dottie	ERCOT
Ross, Richard	American Electric Power Service Corporation (AEPSC)
Saathoff, Kent	ERCOT
Schubert, Eric	BP
Seely, Chad	ERCOT
Spellman, Matt	SE
Stephenson, Randa	Luminant
Trostle, Kay	Chaparral Steel
Troxtehl, David	ERCOT
Wagner, M.	PSEG
Walker, DeAnn	CenterPoint Energy
Windler, Jennifer	LCRA
Wittmeyer, Bob	Denton Municipal Electric (DME)
Wullenjohn, William	ERCOT
Zlotnik, Kevin	Shumate & Associates
Zlotnik, Marcie	StarTex Power

## **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.

Chairman Armentrout immediately adjourned the meeting into an Executive Session to discuss a personnel matter. The open meeting reconvened at approximately 10:15 a.m.

At that time, Chairman Armentrout publicly thanked Carolyn Lewis Gallagher for service as an ERCOT Director and welcomed Dr. A.D. Patton as the newest unaffiliated Director. Mike Grable, ERCOT General Counsel, announced that the matter handled in Executive Session involved a potential conflict-of-interest for Dr. Patton in connection with his service as an expert witness on behalf of a construction company that has a cross-claim against CenterPoint Energy, an ERCOT market participant. CenterPoint has indicated it has no objection to Dr. Patton being seated at this time and Dr. Patton pledged to recuse himself from any matters involving CenterPoint until after his work as an expert witness in that case terminates.

Chairman Armentrout made some brief comments regarding recent developments in the ERCOT Region involving high temperatures and high Balancing Energy Service prices. He stated that ERCOT staff and market participants have been working with the PUCT to address those issues.

## **2. Consent Agenda**

The following items were handled in the consent agenda:

- Item 3 - Approval of Minutes
- Item 9(b) - Nodal Protocol Revision Requests (NPRR105, NPRR106, NPRR109 and NPRR110)
- Item 9(c) - Protocol Revision Request (PRR763)

**Mr. Wilkerson moved to approve the items on the Consent Agenda as set forth in Exhibits A and B attached hereto. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

## **3. Approval of Minutes**

This matter was handled in the consent agenda.

## **4. Chief Executive Officer Report**

Bob Kahn, ERCOT President and Chief Executive Officer (CEO), reported on the following:

- The AREVA software critical to Nodal “go live” is now scheduled to arrive in late June or early July. ERCOT staff continues working on a schedule for Nodal implementation and, once a schedule is finalized, the budget will be revised. Mr. Kahn reiterated that the scope of the project should not be increased in light of the delay. Chairman Smitherman

asked the Directors to consider whether certain dates are better or worse for a “go-live” date.

- He then discussed issues and questions in connection with recent transmission congestion and high Balancing Energy Service prices. ERCOT has responded quickly to changes suggested by the Independent Market Monitor and PUCT. Mr. Kahn requested that the Protocol Revision Subcommittee (PRS) and Technical Advisory Committee (TAC) look at the current process for setting the Shadow Price Cap. Mr. Dreyfus, TAC Chair, stated that TAC will consider the issue.

## **5. Operating Reports**

Chairman Armentrout invited comments or questions regarding the Financial Summary, Market Operations Report, Grid Operations Report, System Planning Report and Information Technology (IT) Report.

Mr. Thomas asked a question about the computer system outage on June 1, 2008. Ron Hinsley, ERCOT’s Chief Information Officer, stated that the outage resulted after ERCOT went through a maintenance cycle and brought the system back up. Subsequently, it became obvious that transactions were not processing correctly. After solving that problem, it took some time to get the system caught up. Chairman Armentrout then asked Mr. Hinsley to discuss the Service Level Agreements not met in May. Mr. Hinsley stated that the Security Constrained Economic Dispatch (SCED) software experienced some problems during implementation of some Nodal software.

In connection with the grid operations report, Chairman Armentrout commended ERCOT staff on improvements in Load forecasting.

Chairman Smitherman asked if zonal congestion data was available for May. Kent Saathoff, ERCOT V.P. of System Operations, replied that the data was not yet compiled. Chairman Armentrout asked Mr. Saathoff to send that information to all Directors when it is compiled. (Mr. Saathoff distributed the requested data later in the meeting).

## **6. Market Participant Survey Results**

Messrs. Bill Norton and Brad Kates of Opinion Dynamics Corp. (ODC) provided a presentation regarding the results of the bi-annual market participant survey. Mr. Kates reported that the response rate was quite good (29%) for the survey size. In general, ERCOT Staff performance was very strong, with positive changes from 2006 to 2008. More details will be provided in a written report at a later date.

Chairman Armentrout asked what “Asset Registration” means in the context of the market participant survey. Ray Giuliani, ERCOT V.P. of Market Operations, indicated that it represents the Resource parameters for all Resources in the ERCOT Region and that there have been some issues raised with wind Generation Resources.

Mr. Hinsley asked how many responders had gone through training in response to the market

participant survey. Mr. Thomas asked about process issues and where questions regarding improvements to the market participant survey would go. Mr. Giuliani indicated that improvement issues should be sent to Dale Goodman, ERCOT's Director of Market Services.

Mr. Crowder asked where ERCOT will go with the conclusions provided by ODC. Mr. Kahn indicated that ERCOT will develop action plans to handle areas of concern and report back to the Human Resources & Governance (HR&G) committee in the near future. Dr. Patton asked about credit standards in the ERCOT Region. Mr. Norton indicated that the standards refer to the credit standards for market participants. Steve Byone, ERCOT Chief Financial Officer, indicated the stakeholders are reviewing the credit standards and whether changes are appropriate in the context of recent events.

Chairman Armentrout indicated that an action plan to address problem areas should be added to future Board Agenda Items.

## **7. Nodal Program Update**

Jerry Sullivan gave an update on the Texas Nodal Market Implementation Program (TNMIP), including ERCOT Staff readiness, market participant readiness and Nodal delivery status. He discussed the schedule revision situation due to the delay in the December 1 Nodal go-live date. ERCOT is aggressively working to develop a revised integrated Nodal program schedule that is realistic and achievable. In the meantime, ERCOT continues with integration testing, data validation and other high value activities and improving processes (*e.g.*, release management and data quality).

Mr. Sullivan indicated that the Energy Management System (EMS) Common Information Module (CIM) importer delivery date is currently June 27<sup>th</sup>, but he believes the actual delivery date will be in mid- to late July. Mr. Dreyfus asked about other software releases and whether those releases are on schedule. Mr. Sullivan indicated that some software releases are on-time and others have been delayed. Mr. Dreyfus indicated that stakeholders are looking for certainty on schedule so market participants can perform data validation.

Mr. Wilkerson asked about the critical path schedule and how long it will take to be ready for the 168-hour test. Mr. Sullivan indicated the schedule will have a timeframe for the last delivery of software releases and the 168-hour test, including data validation by the TDSPs. Mr. Dreyfus indicated that dialogue is on-going with TDSPs and ERCOT Staff on the timeline for data validation. Mr. Dreyfus indicated that a resolution should come to TAC this month or next.

Mr. Sullivan stated that the current scope will meet the Nodal Protocols up to baseline two, but scope changes could impact the implementation schedule.

Mr. Sullivan then reported that ERCOT staff and market participant readiness are both in "amber" status and reported that most market participants have provided the required Resource Asset Registration Forms.

Mr. Sullivan reported that the Program is very close to being on budget, with approximately \$7 million of the \$15 million contingency fund forecast to be spent.

Chairman Armentrout asked whether, if AREVA meets the June 27<sup>th</sup> date, the Board should expect an updated schedule in August or September. Mr. Hinsley replied in the affirmative. Mr. Espinosa asked if the “burn rate” might decrease to zero. Mr. Sullivan stated that he does not anticipate the “burn rate” going to zero because the TNMIP does not plan to take a hiatus because doing so would cause ERCOT to lose key resources.

## **Lunch**

The meeting adjourned for lunch at 12:05.

## **9. Technical Advisory Committee Report**

At approximately 1:05 p.m., Chairman Armentrout invited Mark Dreyfus, TAC Chair, to report on recent TAC activities. The following matters were discussed:

### **a. Ratification of June 6, 2008 Urgent Vote on PRR764**

**Chairman Armentrout moved to ratify the action taken by the Directors on June 6, 2008 in connection with approving PRR764 as set forth in the Resolution attached hereto as Exhibit C. Mr. Helton seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

### **b. Nodal Protocol Revision Requests**

This matter was handled in the consent agenda.

### **c. Protocol Revision Requests (PRRs)**

Mr. Dreyfus reported that TAC met to consider the following PRRs and recommends approving them, as set forth in the materials distributed to Directors:

- ***PRR720, Texas Regional Entity Fee Methodology Revision.*** This PRR changes how ERCOT issues invoices to collect the Electric Reliability Organization Fee. ERCOT posted PRR720 on 5/1/07 and, on 6/21/07, PRS unanimously voted to refer the PRR7 to the Commercial Operations Sub-committee (COPS). On 3/20/08, PRS unanimously voted to recommend approval of PRR720 as revised by ERCOT comments. On 4/18/08, PRS unanimously voted to endorse and forward the PRS Recommendation Report and Impact Analysis to TAC. On 5/8/08, TAC voted to recommend approval of PRR720 as recommended by PRS with three abstentions (Consumer (2) and Independent Retail Electric Provider (IREP) (1) Market Segments).

Mr. Fehrenbach asked several questions regarding how the billing would take place. Mr. Byone stated that ERCOT’s Finance Dept. will generate invoices manually. Mr. Grable also referred market participants to the delegation agreement between the North American Electric Reliability Corporation (NERC) and the Texas Regional Entity (TRE).

**Mr. Gent moved to approve PRR720 as set forth in the Resolution attached hereto as Exhibit D. Mr. Helton seconded the motion. The motion passed with thirteen votes in favor and two opposed (Messrs. Fehrenbach and Ballard) and no abstentions.**

- ***PRR753, PRR Appeals Process.*** This PRR provides for a more structured process for parties to appeal PRR recommendations by PRS and TAC. This proposal also provides timelines for appealing PRS and TAC decisions and makes accommodating provisions for PRRs on an Urgent timeline. ERCOT posted PRR753 on 2/4/08 and, on 3/20/08, PRS voted to recommend approval of PRR753 as revised by PRS, with one abstention (Independent Generator Market Segment). On 4/18/08, PRS unanimously voted to endorse and forward the PRS Recommendation Report and Impact Analysis to TAC. On 5/8/08, TAC voted to recommend approval of PRR753 as recommended by PRS, with eight objections (Consumer (4) and IREP (4) Market Segments).

Mr. Dreyfus pointed out one proposed minor revision, involving changing the deadline for providing position statements to *no less than* two days ahead of time (as opposed to exactly two days). Mr. Kahn recapped the situation that gave rise to this PRR.

Mr. Fehrenbach asked if TAC discussed whether the process should provide for an appellant to *request* expedited treatment rather than receive expedited treatment simply by requesting expedited status. In other words, whether the expedited process should be granted, rather than received as a matter of right.

Several questions were raised about timing and logistics in connection with an appeal of a PRR. As a result, **Mr. Dalton moved to remand PRR753 to TAC to address the following issues:**

- **In Section 21.4.11.2(1), the reference in the penultimate line to paragraph (5) should be changed to paragraph (e);**
- **In Section 21.4.11.2.1(f), the TAC should add language indicating that ERCOT will not distribute information not timely submitted by a market participant;**
- **Only PRRs on urgent status should get expedited appeal treatment; and**
- **Timing conflicts within the PRR should be resolved.**

**Mr. Fehrenbach seconded the motion.**

Further discussion took place regarding how market participants could contact individual Directors during the appeal process. Mr. Thomas stated that the appeal process should involve a defined set of data considered by the Directors in making a decision. Consequently, he recommends placing limits on communicating with Directors while a PRR appeal is pending. Mr. Grable pointed out that the Public Utility Regulatory Act requires that the public be allowed to speak at Board meetings, even if they do not provide data to the Directors before the Board meeting. Chairman Armentrout speculated as to whether a market participant could use the timing of an appeal to benefit financially.

Mr. Dreyfus asked for clarification regarding the third instruction from Mr. Dalton and stated that some PRR appeals may need to be considered on an expedited basis even if the PRR did not have urgent status at PRS. Mr. Dalton stated that his concern focuses on giving the appellant the right to obtain expedited status just by requesting that status.

Chairman Armentrout called the question. **The motion passed by unanimous voice vote with no abstentions.**

- **PRR762, West Zone SCE Performance Conditions.** This PRR revises Section 6.10.6, *Ancillary Service Deployment Performance Conditions*, to exclude from consideration performance periods where Qualified Scheduling Entities (QSEs) operating controllable Resources in the West Congestion Zone are called upon to deploy and recall Balancing Energy Service in response to high wind production and congestion in the area. ERCOT posted PRR762 on 4/21/08 and, on 5/22/08, PRS voted to recommend approval of PRR762 as revised by PRS, with one opposing vote (Consumer Market Segment) and four abstentions (Municipally Owned Utility (MOU)(1); Independent Power Marketer (IPM)(1); IREP(1); and Investor Owned Utility (IOU)(1) Market Segments). On 5/22/08, PRS also voted to grant PRR762 Urgent status, with three opposing votes (Consumer (1) and MOU (2) Market Segments) and four abstentions (MOU (1); IPM (1); and IREP (2) Market Segments). On 6/5/08, TAC voted to recommend approval of PRR762 as recommended by PRS, with seven opposing votes (Consumer (6) and MOU (1) Market Segments) and one abstention (IOU Market Segment).

Mr. Fehrenbach asked whether this PRR might make a situation worse as opposed to improving it. Richard Ross of AEP, the PRR sponsor, explained the situation in the West Congestion Zone where the controllable Resource is in an area with an abundance of wind Resources. Mr. Dalton raised a question about whether this PRR goes beyond solving the scope of the problem it is trying to solve. Mr. Saathoff stated that this PRR has very narrow application. Mr. Fehrenbach asked if a new ramp rate could be developed to apply to this situation. Mr. Saathoff stated that System Operations can use only one ramp rate at a time for a Resource. Mr. Ross stated that it would be difficult to make such a systems change while still in a zonal system. He also reiterated that the exemption is very narrow and gives a QSE only forty-five minutes to comply with a Dispatch Instruction. Mr. Saathoff stated that ERCOT staff supports this proposal because it is very narrowly tailored and will provide System Operations more flexibility in moving the Resource in question.

**Mr. Crowder moved to approve PRR762 as set forth in the Resolution attached hereto as Exhibit E. Mr. Wilkerson seconded the motion.** Chairman Armentrout asked for an update from ERCOT staff in sixty days regarding the impacts of this PRR. **The motion passed with twelve votes in favor, two opposed (Messrs. Fehrenbach and Ballard) and one abstention (Mr. Dalton).**

Mr. Dreyfus discussed the following additional matters:

- An update on unannounced Resource testing under PRR750.
- Reviewing the Closely Related Elements list in light of the recent approval of PRR764. That review will begin tomorrow at the Wholesale Market Sub-committee (WMS) meeting.
- The changes in the Mass Transition process have improved the timeline for Mass Transition events and decreased the financial exposure to market participants. Mr. Dreyfus reviewed the timeline of Mass Transitions in 2005 versus the timeline for the



recent Mass Transitions. Chairman Smitherman asked Mr. Dreyfus to circulate this data to the Directors.

## **10. Finance & Audit (F&A) Committee Report**

Mr. Espinosa, F&A Committee Vice-Chair, stated that the committee met this morning and considered the following matters:

- An update from the Internal Audit group;
- Recent credit activities;
- Liquidity and potential borrowings;
- Delegations of authority within the ERCOT organization; and
- A wrap up of the PricewaterhouseCoopers audit report.

### **a. Application of the 2007 Actual vs. Budget Revenue Requirement Variance**

Mr. Byone explained the options associated with disposing of excess revenues from 2007 (approximately \$2.5 million). The committee recommends that ERCOT use that money to make an equity contribution to the capital to be spent on the Met Center disposition project for 2008. Any remaining amounts should go toward paying down debt.

Mr. Ballard suggested using the funds to give to customers sent to the Providers of Last Resort (POLRs) as a result of recent market participant defaults. He suggested that doing so would send a positive message to end-use customers. Mr. Kahn asked if ERCOT could accomplish that goal programmatically. Mr. Byone responded in the negative. Mr. Kahn asked if Mr. Grable had a chance to consider the legal ramifications of the request. Mr. Grable stated that he has not had time to research the issue.

Chairman Armentrout asked for input from Chairman Smitherman, who stated that the suggestion parallels a suggestion from Chairman King, and the PUCT is looking into various ways of trying to help those customers. Chairman Smitherman suggested postponing a vote on this item until after Item 16 on the agenda is handled.

Chairman Armentrout asked Mr. Grable to consider the precedent that would be set if ERCOT took the requested action. Additionally, Mr. Wilkerson pointed out that a sizeable portion of the funds generated by the System Administration Fee come from municipally-owned utilities and cooperatives, who do not participate in competition and, therefore, using money paid by those entities to subsidize the competitive sector would not be appropriate. Dr. Patton pointed out that many consumers face higher prices even if their Retail Electric Provider (REP) did not default and questioned whether those consumers should also receive compensation. Ultimately, it was agreed to postpone a vote on this agenda item.

Mr. Espinosa invited Cheryl Yager, ERCOT Treasurer, to update the Directors on recent credit developments. She stated that defaults by several market participants will lead to an estimated \$4 to \$5 million in losses to other market participants. She also reported that the Mass Transition of

customers to the POLRs has gone well. Recent changes to the Mass Transition process have prevented millions of dollars in additional losses.

## **11. H.R. & Governance Committee**

Jan Newton, the committee Chair, stated that the committee met this morning and considered the following matters:

- An update from Mr. Kahn regarding his meeting with Chairman Kelleher. The Chairman had a strong focus on wind issues.
- Creation of a legislative subcommittee in preparation for the upcoming legislative session. The committee recommends that Chairman Armentrout, Andrew Dalton and Ms. Newton serve on that subcommittee.
- Annual review of ERCOT Bylaws. One potential item for revision was discussed but is not sufficiently material to warrant a Bylaws change.

### **a. Board Policies and Procedures**

Mr. Grable explained that the committee discussed proposed changes to the Board Policies and Procedures document. One change would require Directors to sign an Ethics Agreement each year. Another change clarifies that votes on matters discussed in executive session should take place in open session. **Ms. Newton moved to approve the Resolution attached hereto as Exhibit F. Mr. Helton seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Mr. Grable further explained that a third proposed change would address information-flow to the Board for non-PRR appeals from TAC, and that this proposed change would be held pending the remand and resolution of PRR 753 regarding PRR appeal processes.

## **12. Other Business**

No other business was raised.

## **13. Future Agenda Items**

Chairman Armentrout invited anyone to raise items they wish to be addressed at future meetings. Chairman Armentrout made the following comments:

- Add a CPS1 rating forecast for 2009 assuming the Nodal market design gets implemented early in the year and another forecast if Nodal does not get implemented. He provided no date for this item.
- Add (for August or September) a TNMIP schedule update.
- Add a market participant survey results update for September.
- Add a discussion regarding the 2010 budget schedule for October or November.

Mr. Ballard asked to see reports on whether the changes to the Market Clearing Price for Energy (MCPE) and Shadow Price Cap are solving the recent congestion and pricing issues. He would also like to see a presentation regarding what ERCOT can do to assist customers switched to the POLRs.

Ms. Newton asked for an update on cyber security issues/developments. No timeframe was provided.

Mr. Byone asked whether it made sense to remove Item 3 (Review of Internal Controls) from the current list. Chairman Armentrout stated that the goal of that item was to ensure there is a “top-to-bottom” attitude of compliance with internal controls. Having a semi-annual update provides that comfort. Mr. Byone agreed to leave the item on the list.

#### **14. Executive Session**

Chairman Armentrout adjourned the meeting to Executive Session at approximately 2:55 p.m.

#### **15. Voting on Executive Session Items**

There were no voting items from the Executive Session.

#### **16. Discussion and Possible Action on IMM Recommendation re: MCPE and Offer Cap/Floor Consistency**

Chairman Armentrout brought this item before the Directors after the TAC report and before the Executive Session. Mr. Dan Jones of Potomac Economics (the Independent Market Monitor (IMM)) explained the history and background of this issue and the situation the proposal intends to address. Chairman Smitherman stated that there were seventy-three intervals between March 1 and the end of May in which the MCPE exceeded \$2,250. Mr. Jones stated that there were only approximately twenty intervals in which the MCPE *greatly* exceeded \$2,250. Chairman Smitherman stated that the only time the offer cap had been exceeded before March 1, 2008 was on February 1, 2008, when the MCPE exceeded the offer cap by only five dollars.

Chairman Armentrout asked whether the Directors should vote to make the changes recommended by Mr. Jones. Mr. Grable stated that ERCOT staff would like to have an endorsement of the TAC action approving the IMM’s recommendation to limit the MCPE to \$2,250 and to implement a Shadow Price Cap of \$5,000. Clayton Greer of J. Aron asked if a PRR would be proposed to require approval of changes to these limits in the future. Mr. Dreyfus stated that this issue would be assigned to the WMS for consideration. Mr. Jones stated that, in the past, procedures for making these price changes have been communicated through Market Bulletins.

Mr. Ballard stated that he would like to see the process for setting caps included in the Protocols and asked why the MCPE exceeded \$2,250 last Friday. Mr. Jones explained that, even with changing the Shadow Price Cap, MCPE could still exceed \$2,250, but should not *greatly* exceed that amount. Mr. Ballard asked why it is appropriate to pay the price cap to deal with zonal

congestion. Mr. Jones responded that prices increase due to the scarcity of Resources to solve a reliability issue. Mr. Ballard asked if Mr. Jones can ensure that the MCPE will not exceed \$2,250 if this proposal is approved. Mr. Jones responded affirmatively.

Chairman Smitherman reiterated that this issue first arose early this year. The ERCOT Region has an energy-only market and, therefore, prices must make it worthwhile for market participants to operate their Resources for only short periods of time. He also pointed out that the North-South Commercially Significant Constraint (CSC) is relatively new. Mr. Helton stated that he would like to see a procedure approved for setting these caps, but would prefer to not include such a process in the Protocols because doing so would require a PRR to change the amount and the PRR process takes too long. He would rather see a guide developed to address this issue.

**Mr. Helton moved to implement the process approved by TAC as set forth in the Resolution attached hereto as Exhibit G.** Mr. Ballard proposed a friendly amendment to include instruction to WMS to develop a process. Mr. Helton did not accept the amendment. **Mr. Wilkerson seconded Mr. Helton's motion.** Chairman Armentrout opened the floor to further discussion.

Mr. Thomas asked whether TAC and WMS considered applying this change retroactively. Mr. Jones stated that he did not consider doing so and Chairman Armentrout stated that, in his experience on the Board of Directors, retroactive application has never been considered.

Mark Bruce of FPL Energy (TAC Vice-Chair) stated that the TAC thoroughly considered several proposals last week, including those from Dr. Oren and Reliant Energy. The TAC did not reject the other proposals, but simply recommended approving the IMM's proposal for immediate implementation and the other proposals could not be immediately implemented. He also stated that retroactive application was not discussed at the TAC meeting. Mr. Bruce stated that some market participants felt that there has always been a difference between an "offer cap" and a "price cap" and the PUCT rule –as written – clearly indicates there is a difference between the two. Nonetheless, Mr. Bruce stated that the PUCT Commissioners made it clear last week that they would like to see the MCPE capped at \$2,250.

Mr. Gent stated that, in an energy-only market, we must provide incentives to build new Generation Resources. The proposed MCPE cap is ten to twenty times the cost of natural gas right now and, therefore, the incentive to build new generation facilities will still exist.

Mr. Jones clarified that his recommendation was intended to parallel his understanding of what the PUCT Commissioners wanted to implement and the PUCT is the appropriate forum to discuss changes in policy. Dr. Patton stated that the price signal has been sent and it might be many years before new Generation Resources actually get built. Mr. Jones stated that, as prices occasionally spike, forward prices increase and, as a result, more Generation Resources are on-line. Therefore, market participants – on the supply side – respond to the prices.

Mr. Ballard stated that ERCOT – the organization – must consider how to address the suffering of some of the customers who were sent to POLRs. He would also like to see periodic reports on the effect of this proposal.

Mr. Bruce raised the issue of allowing this proposal to be implemented with less than the normal ten day market notice. Mr. Grable stated that a Market Notice has already been drafted. Mr. Saathoff stated that ERCOT could implement the change by Noon tomorrow. Mr. Bruce recommended a two step notice – one would say the change should be implemented within a time window and a second notice would say when the change was implemented. Chairman Armentrout recommended changing the Resolution to require implementation as soon as possible, but no later than end of the day tomorrow.

Chairman Armentrout called the question. **The motion passed by unanimous voice vote with no abstentions.**

At approximately 3:00 p.m., Chairman Armentrout closed the open session and the Directors went into Executive Session.

### **Adjournment**

After the Executive Session ended, Chairman Armentrout adjourned the meeting at approximately 3:40 p.m. because no votes took place on matters from Executive Session.

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

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Michael G. Grable  
Corporate Secretary

**Exhibit A**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, the Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) deems it desirable and in ERCOT's best interest to approve NPRR105, *Section 23, Synchronization of Zonal Protocols*, NPRR106, *Section 24, Synchronization of Zonal Protocols*, NPRR109, *Section 18, Synchronization of Zonal Protocols*, and NPRR110, *Section 20, Synchronization of Zonal Protocols*.

THEREFORE, be it RESOLVED, that the ERCOT Board hereby approves NPRR105, NPRR106, NPRR109 and NPRR110.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its June 17, 2008 meeting, the ERCOT Board of Directors passed a motion approving the above Resolution by a unanimous vote with no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

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Michael G. Grable  
Corporate Secretary

**Exhibit B**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, the Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) deems it desirable and in ERCOT's best interest to approve PRR763, *Use of WGRPP as a Planned Operating Level in Day-Ahead Resource Plan for WGRs*.

THEREFORE be it RESOLVED, that the Board hereby approves PRR763.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its June 17, 2008 meeting, the ERCOT Board of Directors passed a motion approving the above Resolution by a unanimous voice vote with no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

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Michael G. Grable  
Corporate Secretary

**Exhibit C**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, Potomac Economics, the Independent Market Monitor, has proposed the adoption of Protocol Revision Request (PRR) 764, *Zonal Congestion and CSCs/CREs*; and

WHEREAS, the Protocol Revision Subcommittee and the Technical Advisory Committee have both recommended approval of PRR764, as modified; and

WHEREAS, the Public Utility Commission of Texas (Commission), in an open meeting duly convened on June 5, 2008, directed the Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) to consider PRR764 on an urgent basis under authority that exists under Public Utility Regulatory Act Section 39.1511(b), multiple Commission Rules, and ERCOT Bylaws 4.6(b) and (c);

WHEREAS, the Board Chair convened an urgent meeting of the Board pursuant to the Commission's direction, at which meeting the Board unanimously voted to approve PRR764; and

WHEREAS, the Board deems it desirable and in ERCOT's best interest to ratify the prior urgent approval of PRR764, *Zonal Congestion and CSCs/CREs*;

THEREFORE be it RESOLVED, that the Board hereby ratifies its urgent approval of PRR764.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its June 17, 2008 meeting, the ERCOT Board of Directors passed a motion approving the above Resolution by a unanimous vote with no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

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Michael G. Grable  
Corporate Secretary



**Exhibit D**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, the Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) deems it desirable and in ERCOT's best interest to approve PRR720.

THEREFORE, be it RESOLVED, that the Board hereby approves PRR720.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its June 17, 2008 meeting, the ERCOT Board of Directors passed a motion approving the above Resolution by a vote of thirteen in favor, two opposed and no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

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Michael G. Grable  
Corporate Secretary

**Exhibit E**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, the Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) deems it desirable and in ERCOT's best interest to approve PRR762, *West Zone SCE Performance Conditions*.

THEREFORE, be it RESOLVED, that the Board hereby approves PRR762.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its June 17, 2008 meeting, the ERCOT Board of Directors passed a motion approving the above Resolution by a vote of twelve in favor, one opposed and one abstention.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

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Michael G. Grable  
Corporate Secretary

**Exhibit F**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, Electric Reliability Council of Texas, Inc. (ERCOT) is required by an open audit point to stipulate that Directors and Segment Alternates sign the ERCOT Director Ethics Agreement; and

WHEREAS, adopting specific procedures governing Executive Session discussions and voting procedures increases transparency; and

WHEREAS, Market Participants desiring to be heard on non-Protocol Revision Request (PRR) appeals from the Technical Advisory Committee (TAC) should have clear and understandable procedures to follow; and

WHEREAS, the Board of Directors (Board) of ERCOT deems it desirable and in the best interest of ERCOT to accept revisions to the Board Policies and Procedures (Board Policies) related to these three items;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby adopts revised Board Policies consistent with Attachment A to this Resolution.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Michael G. Grable, Corporate Secretary of (ERCOT), do hereby certify that, at its June 17, 2008 meeting, the ERCOT Board of Directors passed a motion approving the above Resolution by a unanimous vote with no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of \_\_\_\_\_, 2008.

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Michael G. Grable  
Corporate Secretary

**Exhibit G**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, Potomac Economics, the Independent Market Monitor (IMM), drafted a letter on June 9, 2008, suggesting various changes to limit wholesale prices in the ERCOT power region; and

WHEREAS, the Public Utility Commission of Texas (Commission), in an emergency open meeting duly convened on Wednesday, June 11, 2008, directed the Wholesale Market Subcommittee (WMS), the Technical Advisory Committee (TAC), and the Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) to meet as quickly as is prudent to consider the IMM's recommendations; and

WHEREAS, on Friday, June 13, 2008, WMS and TAC convened an urgent joint meeting; considered the IMM's recommendations as well as additional proposals submitted by Reliant Energy and Dr. Shmuel Oren; and voted unanimously to recommend that the Board direct ERCOT staff to implement the IMM's proposal; and

WHEREAS, the Board deems it desirable and in ERCOT's best interest to direct ERCOT staff to implement the IMM's proposal as expeditiously as is prudent;

THEREFORE be it RESOLVED, that the Board hereby approves the IMM's recommendation and directs that ERCOT staff use best efforts to implement the IMM's proposal as quickly as possible, preferably by close of business on Wednesday, June 18, 2008.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its meeting convened on June 17, 2008, the ERCOT Board of Directors passed a motion approving the above Resolution by a unanimous vote with no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of June, 2008.

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Michael G. Grable  
Corporate Secretary