

**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
July 15, 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 ¹	Valero	Industrial Consumer
Miguel Espinosa		Unaffiliated
Bob Helton	International Power America	Independent Generator
Charles Jenkins	Oncor Electric Delivery Company	Investor Owned Utility
Bob Kahn	CEO, ERCOT	
Clifton Karnei	Brazos Electric Power Cooperative	Cooperative
Jan Newton		Unaffiliated
A.D. Patton		Unaffiliated
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider
Dan Wilkerson	Bryan Texas Utilities	Municipal

Commissioners and Segment Alternates

Steve Bartley	CPS Energy	Municipal
Calvin Crowder	American Electric Power Service	Investor Owned Utility
Mark Walker	NRG Texas	Independent Generator

Other Attendees

Larry Grimm, Texas Regional Entity CEO and CCO
Susan Vincent, Texas Regional Entity Director, Legal Affairs
Victor Barry, Texas Regional Entity Director, Compliance
Todd Brewer, Texas Regional Entity Senior Financial Analyst
Ryan Clay, Texas Regional Entity Senior Paralegal
Trip Doggett, III, Senior VP & COO
Nancy Capezzuti, ERCOT VP HR & OD

¹ Mr. Nick Fehrenbach designated Mr. Andrew Dalton as his Alternative Representative for representation in this meeting.

Kent Saathoff, ERCOT VP System Operations
Liz Jones, Oncor Electric Delivery Company
Bob Peck, LCRA

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 2:40 p.m. on **July 15, 2008**. Chairman Mark Armentrout called the meeting to order and ascertained that a quorum was present.

Approval of Previous Minutes

Bob Kahn moved for approval of the minutes from the June 17, 2008 meeting; Michehl Gent seconded the motion. The motion passed by voice vote, with Brad Cox, Clifton Karnei, and Charles Jenkins abstaining.

CEO Report

Larry Grimm provided the Board with an update of Texas Regional Entity activities over the previous month, noting that since the June Board meeting: (a) the Board-approved Texas RE Delegation Agreement with NERC had been completed and submitted to NERC with no material changes; (b) the Board-approved 2009 Texas RE Business Plan & Budget had been completed and submitted to NERC with no material changes; (c) Texas RE was still on schedule with its 2008 compliance audits; and (d) the ERCOT Control Performance Standard (CPS1) score for June had improved, as reflected in the Compliance Operating Report.

Mr. Grimm informed the Board that Texas RE currently has 3 vacancies on its staff due to two members leaving the division since the June Board meeting. He explained that, although one employee departure was caused by the relocation of a spouse, the other two employees left to work for market participants. Mr. Grimm noted that Texas RE is competing against many entities for resources – the other seven (7) regional entities, NERC, FERC, market participants, and other ISOs/RTOs.

Michehl Gent asked whether Texas RE employees were restricted from accepting compliance positions at market participants for a period of time after leaving Texas RE employment. Ms. Vincent informed the Board that there was no such restriction, because of the fear that such a stipulation could deter a candidate from accepting a job with Texas RE. Mr. Gent asked that Texas RE check with other regional entities to see if they had such restrictions. Ms. Vincent also told the Board that she would discuss the potential impact of such restrictions with Nancy Capezzuti.

Mr. Grimm discussed Texas RE's concerns regarding the reliability impacts and unique operational challenges of integrating the increasing quantity of wind generation in the ERCOT region. Mr. Grimm noted that he believed many in the industry, are watching to see how ERCOT addresses the unique operating challenges associated with increased wind generation. Mr. Grimm requested that ERCOT and stakeholders work together to create a strategic plan to proactively address wind's real-time operational challenges and successfully integrate the anticipated increased wind generation into the bulk power system. Mr. Grimm requested that quality metrics for wind generation be established promptly, with a completion of no later than December 2008. The Directors confirmed that maintaining reliability in the ERCOT bulk power system was a top priority.

In a response to a question from Don Ballard asking what types of metrics should be established for wind, Mr. Grimm responded that examples would be metrics similar to the SCPS2 and resource plan metrics required for other types of generation.

Victor Barry informed the Board, as another example, that John Dumas (ERCOT Manager of Operations Planning) had recently discussed a Protocol Revision Request which included a ramp rate limitation for wind-powered generators, in order to avoid frequency spikes. Mr. Barry noted that this request was substantially modified by the Reliability and Operations Subcommittee, but it would come to the Board in the form approved by the Technical Advisory Committee. In a response to a question from Clifton Karnei regarding the ability of a wind generator to control its ramp rate, Mr. Barry responded that it would depend on the specific wind farm.

Compliance Report

In response to Mr. Grimm's request for questions about the monthly Texas RE Compliance Report, Mr. Gent referred the Directors to the CPS1 performance reports on pages 10 and 8 of the Compliance Report and asked Texas RE staff to closely monitor these reports each month. Mr. Gent asked Mr. Grimm if the two failing non-wind QSEs were the same entities that were on the May Report. Mr. Grimm stated that he did not have those figures in front of him, but he would follow up on the question.

Jan Newton and Dr. A.D. Patton expressed their concern about reliability issues relating to wind generation. Ms. Newton questioned who was responsible for identifying and addressing issues related to wind and strongly suggested that the Board promptly adopt a strategic plan for dealing with wind reliability issues.

Kent Saathoff agreed that ERCOT does not yet have its arms completely wrapped around wind reliability, given the increasing wind generation. Mr. Saathoff stated that the ERCOT Wind Operations Task Force is currently looking at wind operation issues such as appropriate metrics, and ramp rates. Mr. Saathoff added that PRR763, approved by the Board in June 2008, was one of the first products from this task force. Mr. Saathoff informed the Directors that they should expect to see a PRR proposing a new Ancillary Services methodology to specifically address wind resource issues within the next year. Mr. Saathoff also confirmed that ERCOT expects approximately 9,000 MW of wind capacity at the end of the year, but because of transmission constraints, ERCOT would only be able to use about 4,500 MW.

In a response to a question from Bob Helton asking if the methodology that ERCOT is looking at takes the cost and availability of fuel into account with the 9,000 MW of wind in the future, Mr. Saathoff responded that ERCOT does take those factors into account, but reminded the Directors that ERCOT could only integrate approximately 4,500 MW of wind in 2008.

Mr. Karnei suggested that if ERCOT was going to limit wind generation in the future, ERCOT should disclose this to the market sooner rather than later, to avoid issues experienced in 2000 or 2001 when ERCOT had received requests to reimburse wind generators when production was curtailed.

In response to a question from Mr. Ballard asking what wind-related reports the Directors should expect to see at the next few ERCOT Board meetings, Chairman Armentrout clarified that the following reports were expected at the September ERCOT Board meeting:

- Report and update from the Wind Task Force;
- A forward-looking forecast of CPS1 standard performance from ERCOT; and
- Historical performance of individual wind QSEs from ERCOT.

Texas RE Advisory Committee Report

Mr. Gent reported to the Board that the newly formed Texas RE Committee had its first meeting on the previous day, and had elected a chair (Mr. Gent) and vice chair (Dr. Patton) and formally adopted a name: Texas Regional Entity Advisory Committee (the "Committee"). Mr. Gent informed the Board that the Committee had not yet finalized a Charter, but that Texas RE staff would circulate the latest draft Committee Charter for the Directors to review before the next Board meeting, in anticipation of a Board vote in August on the Charter. Mr. Gent requested that any comments to the draft Charter be sent to Larry Grimm or Susan Vincent.

Board of Directors 2008 & 2009 Meeting Schedule

Mr. Gent informed the Board that the Committee recommended that the Texas RE Board begin meeting quarterly, unless additional meetings were required by Texas RE staff or a Director and that the Board meetings be set on the Monday preceding the ERCOT Board meetings.

Mr. Gent stated that the Committee believed that quarterly Texas RE Board meetings would now normally be sufficient. He informed the Board that Texas RE staff would continue to provide the Board with a monthly Compliance Report, and that Texas RE staff or any Director could request a meeting be held in addition to the quarterly meetings. Chairman Armentrout and Miguel Espinosa stated their agreement with this proposed schedule, with the understanding that additional Board meetings would be held as required. Mr. Gent stated that the Committee proposed that the Board modify the 2008 Board meeting schedule and approve quarterly Board meetings for 2008 and 2009, at 3:00 p.m. on the Monday following the third Tuesday of the month.

Mr. Gent notified the Board that the Committee would continue to schedule monthly Committee meetings (at least through the end of 2008), on the Monday before the third Tuesday of each month. He explained that the Committee will normally meet at 2:00 p.m. during months when the Texas RE Board meets and at 3:00 in months when the Texas RE Board does not meet.

The Directors discussed the potential benefit of moving the Texas RE Board meetings to Monday. Dr. Patton stated that having the Texas RE meetings on a separate day from the ERCOT meetings made for clearer separation and that was important to many people, including Chairman Smitherman of the Public Utility Commission of Texas. Dan Wilkerson asked how moving the Texas RE meetings from Tuesday to Monday would impact the fees of the Unaffiliated Directors.

Andrew Dalton stated that Mr. Fehrenbach was concerned with the proposed meeting schedule and structure of the Texas RE Advisory Committee because if the Committee did meet quarterly on Mondays, the pay for the unaffiliated Directors could increase about \$58,000 per year. The non-Unaffiliated Directors discussed the possible Board compensation implications of Monday meetings. Brad Cox informed the Directors that the formula in the procedures made assumptions about future Board meetings and that the Board may want to consider having a different Board member fee for Texas RE meetings, since their meetings are much shorter than ERCOT meetings. Mr. Dalton concurred with Mr. Cox and proposed that the Board Member Compensation Subcommittee reconvene to discuss this issue. Mr. Helton stated that he was supportive of the Monday meetings, to further enhance the perception of separation of Texas

RE from ERCOT, and he would like to re-look at the calculation of Unaffiliated Director Compensation.

Charles Jenkins and Don Ballard voiced concerns regarding the difficulty for some of the Directors to attend two days of Board meetings, but the Directors agreed that Director attendance and participation would continue to be strong regardless which day the Texas RE Board held its meetings.

Chairman Armentrout made a motion to approve the quarterly meetings of the Texas RE Board of Directors, for the following dates:

- **August 18, 2008 – 3:00 p.m.**
- **November 17, 2008 – 3:00 p.m.**
- **February 16, 2009 – 3:00 p.m.**
- **May 18, 2009 – 3:00 p.m.**
- **August 17, 2009 – 3:00 p.m.**
- **November 16, 2009 – 3:00 p.m.**

Clifton Karnei seconded the motion. The Motion passed by voice vote, with Charles Jenkins and Don Ballard abstaining.

Chairman Armentrout asked Ms. Vincent to set up a conference call to discuss the potential Unaffiliated Director fee increase more fully with the following attendees: Chairman Smitherman, Chairman Armentrout, Mr. Gent, and Mr. Dalton.

Mr. Armentrout clarified that the August Texas RE Board meeting would occur on Monday August 18th, and the Board would re-evaluate the meeting schedule or Board compensation structure in August if Chairman Smitherman expressed concerns about the financial implication of Monday Board meetings.

Other Business

In response to a question from Mr. Gent asking if the Regional Entities were looking for a single audit firm to audit the 2008 financials for all the Regional Entities, Mr. Grimm explained that NERC was looking for one of the big four auditing firms to audit the financials of NERC and the eight Regional Entities, to allow even the smaller Regional Entities to use a national audit firm on a cost effective basis. Mr. Grimm added that he spoke with Mike Peterson, ERCOT Comptroller, and he did not see any problems associated with a different auditor conducting an audit of Texas RE financials than that used by ERCOT.

Mr. Karnei stated that he was not sure if a separate auditor can engage in financial statements without the permission from the ERCOT Board of Directors, and Ms. Vincent confirmed that the Bylaws required the Board to approve the auditor of financials of Texas RE or ERCOT.

Future Agenda Items

Chairman Armentrout encouraged the Board members to contact him or Texas RE staff if they wanted to add a specific agenda item in future Board meetings.

Executive Session

At 3:44 p.m., Chairman Armentrout adjourned the open session portion meeting and the Board went into executive session. Mr. Armentrout informed all persons present that since there were no voting items to consider after the executive session concluded; so, the Board meeting would not be reconvened in open session.

Adjournment

Chairman Armentrout adjourned the executive session portion of the Board meeting at 3:49 p.m.



Susan Vincent
Corporate Secretary