



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

GENERAL SESSION

Electric Reliability Council of Texas, Inc.
Austin Office – Met Center
7620 Metro Center Drive, Room 206
Austin, Texas 78744
August 19, 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.

General Session Meeting Attendance:

Board Members:

Director	Affiliation	Segment
Armentrout, Mark		Unaffiliated, Chair
Ballard, Don	OPC	Consumers/Residential & Small Commercial
Cox, Brad	Tenaska Power Services	Independent Power Marketers
Dalton, Andrew	Valero Energy Corp.	Consumers/Industrial
Espinosa, Miguel		Unaffiliated
Fehrenbach, Nick	City of Dallas	Consumers/Commercial
Gent, Michehl		Unaffiliated, Vice Chair
Helton, Bob	IPA	Independent Generators
Jenkins, Charles	Oncor Electric Delivery	Investor Owned Utilities
Kahn, Bob	ERCOT	ERCOT
Karnei, Clifton	Brazos Electric Coop	Cooperatives
Newton, Jan		Unaffiliated
Patton, A.D.		Unaffiliated
Smitherman, Barry T.	Chairman, PUCT	PUCT
Thomas, Robert	Green Mountain Energy	Independent Retail Electric Providers
Wilkerson, Dan	Bryan Texas Utilities	Municipalities

Staff and Guests:

Abernathy, Rick	Lehman Brothers – Eagle Energy
Adib, Parviz	APX
Atkinson, Michael	AREVA
Barron, Les	CPS Energy
Barry, Victor	Texas Regional Entity (TRE)
Bell, Wendell	TPPA
Brandt, Adrienne	Austin Energy



Brenton, Jim	ERCOT
Brewster, Chris	City of Eastland
Bruce, Mark	FPL Energy
Byone, Steve	ERCOT
Claiborn-Pinto, Shawnee	Public Utility Commission of Texas (PUCT)
Clay, Ryan	TRE
Cochran, Seth	Sempra Trading
Comstock, Read	Direct Energy
Cooper, Tammy	Andrews Kurth
Crozier, Richard	Brownsville
Day, Betty	ERCOT
Doggett, Trip	ERCOT
Drost, Wendell	AREVA
Firestone, Joel	Direct Energy
Fox, Kip	American Electric Power (AEP)
Fox, Lynda	Tara Energy
Gage, Theresa	ERCOT
Grable, Mike	ERCOT
Greer, Clayton	J Aron
Grendel, Steve	ERCOT
Gresham, Kevin	Reliant
Haas, Jason	PUCT
Hasley, Bryan	Guest
Hinsley, Ron	ERCOT
Hobbs, Kristi	ERCOT
Ierullo, Bruno	ERCOT
Jones, Brad	Luminant
Jones, Don	Reliant
Jones, Liz	Oncor
Jones, Pam	ERCOT
Jones, Randy	Calpine
Kahn, Bob	ERCOT
King, Kelso	King Energy
McDonald, Carol	ERCOT
Morris, Sandy	Lower Colorado River Authority (LCRA)
Nelson, Donna	PUCT Commissioner
Ogelman, Kenan	CPS
Orr, John	Constellation
Parsley, Julie	PUCT Commissioner
Read, Walton	Wind Coalition
Rexrode, Caryn	Customized Energy Solutions
Roark, Dottie	ERCOT
Saathoff, Kent	ERCOT
Seely, Chad	ERCOT
Smallwood, Aaron	ERCOT
Stephenson, Randa	Luminant



Taylor, William	Calpine
Walker, DeAnn	CenterPoint Energy
Weston, Tisa	ERCOT
Wittmeyer, Bob	DME
Wullenjohn, William	ERCOT
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 that a quorum was present.

Public Utility Commission of Texas (PUCT) Chairman Barry T. Smitherman called to order an open meeting of the PUCT and introduced Donna Nelson, newly appointed PUCT Commissioner. Commissioner Nelson commented that she looks forward to working with ERCOT.

Chairman Armentrout remarked that Commissioner Julie Parsley will be leaving the PUCT effective September 2, 2008. He noted that she has served the market well, brought a lot of insight, and was instrumental in helping ERCOT adjust to the 2005 Energy Act and establish the Texas Regional Entity (TRE).

Mr. Armentrout commented that we are nearing the end of summer which is the peak season for energy usage. He also noted media reports suggesting possible mismanagement of the grid, and stated that ERCOT has simply changed rules to improve the market, and that the market can count on ERCOT to follow the rules in an unbiased manner.

2. Consent Agenda

Mr. Armentrout removed the Minutes, PRR753, PRR766 and NPRR133 from the Consent Agenda. This left NPRR114, NPRR127, and NPRR132 on the Consent Agenda.

Miguel Espinosa moved to approve the remaining items on the Consent Agenda. Bob Helton seconded the motion. The motion passed by unanimous voice vote with no abstentions.

3. Approval of Minutes from July 15, 2008 Meeting

Mr. Armentrout presented a draft of the General Session Minutes for the July 15, 2008 meeting for approval. On Item 7, Nick Fehrenbach proposed striking the erroneous word "unanimous." On Item 12, Jan Newton proposed adding this sentence to the end of her comments: "However, a new Ethics Agreement needs to be developed that reflects the fact that certain ERCOT ISO employees provide administrative support to TRE."



Ms. Newton moved to approve the Minutes with the discussed revisions, Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

4. Chief Executive Officer Report

Bob Kahn, ERCOT President and Chief Executive Officer (CEO), reported on the Nodal Project and schedule. He noted that the schedule is not ready for the Board for four reasons: a need to fully vet the schedule with the Transition Project Task Force (TPTF); vendor-related delays; moving parts and new business requirements; and the lessons learned and issues uncovered since the TNMIP review began in May.

He further noted that ERCOT still has not reached a new all-time peak load this year despite high temperatures, and that two of the three remaining Resource-Must-Run (RMR) contracts in the ERCOT region have been terminated, which will reduce costs to the market.

5. Operating Reports

Mr. Armentrout invited comments or questions regarding the Financial Summary, Market Operations Report, Information Technology (IT) Report, Grid Operations Report, and System Planning Report. He also thanked ERCOT Staff for developing helpful summary slides.

The Market Operations Report showed an increase in June switch activity and an unplanned system outage in June. Ms. Newton asked about July data, and Betty Day, Director of Commercial Operations, said the figures will be reported to the Board when they are available.

Ron Hinsley, Vice President and Chief Information Officer, gave the IT report. Mr. Kahn asked Mr. Hinsley to discuss the database issue that occurred a few weeks ago. Mr. Hinsley reported that the problem was with extracts from the Electronic Data Warehouse, occurred due to human error, and had been resolved.

Kent Saathoff, Vice President of System Operations, gave the Grid Operations report. Chairman Smitherman expressed surprise that the September peak interval was not higher, and stated that the market may have misconceptions about how hot September is relative to other months.

Bill Bojorquez, Vice President of System Planning, gave the System Planning Report. Chairman Smitherman asked about the projection of 8500 MW of wind capacity by the end of 2008, and Mr. Bojorquez agreed that the figure has been dropping due to withdrawn interconnection requests and delayed in-service dates for various wind projects.

6. Nodal Program Update

Mr. Hinsley gave an update on the Texas Nodal Market Implementation Program (TNMIP). He reported that the revised Nodal schedule will be presented at the October Board meeting instead of the September meeting. Mr. Hinsley noted that the current schedule did not allow for sufficient testing as functionality did not work as anticipated. Mr. Hinsley reported that now there is significant testing occurring and changes were made within the organization to help with



this issue. He commented that the new organization is better organized and there will be better dissemination of information and awareness going forward. He also noted several recent successes in TNMIP, including the congestion revenue right (CRR) annual auction.

Mr. Ferhenbach noted a continuing issue regarding how much time transmission service providers (TSPs) need to review data. Mike Gent asked whether the Board had ordered a stop to Nodal Protocol Revision Requests (NPRRs) that change system requirements; Mr. Hinsley replied in the affirmative, but also noted that specifications can change for other reasons. Mr. Armentrout noted that he has previously asked Mr. Hinsley to develop a list of NPRRs that have caused spec changes, and further requested faster escalation of issues if deadlines are not met.

Mr. Hinsley then noted that AREVA and ERCOT are making progress on the Common Information Model (CIM), but also that CIM is not the only vendor-related delay, and that the delays have various causes, including changing requirements. Mr. Hinsley then introduced a new Nodal reporting structure, and assured Ms. Newton that monthly spend and forecast reports will continue.

Mike Atkinson of AREVA gave an update on the status of the CIM. He reported that CIM is being tested at the vendor site and the vendor staff are resolving issues during the testing. He further reported that there have been significant improvements and that AREVA staff is onsite at ERCOT in order to deal with delays. Mr. Armentrout noted that communication seems to be better, and that the CIM project has advanced and now seems to be down into the final details of configuring and tuning. Commissioner Parsley asked why communication is improved, and Mr. Armentrout noted that it was a highly complex project with mismatched assumptions that needed to be addressed, and have been. Mr. Hinsley added that communication of requirements from ERCOT and progress from AREVA had both been issues but had improved, and that the biggest single change was AREVA changing out their project manager, which greatly improved communication. Commissioner Nelson added that she has been following the CIM project and is unhappy with its progress to date, but is hopeful that there is now a process that will get this done. Mr. Espinosa agreed, adding that he hoped both AREVA and ERCOT were working with a high sense of urgency, and also that there should be a post-TNMIP audit and lessons-learned project.

Chairman Smitherman then noted that Mr. Hinsley's presentation seems pessimistic regarding schedule and cost, but that the CIM discussion is more positive. Mr. Armentrout replied that CIM is only part of the picture; Mr. Hinsley agreed, noted that other vendor deliverables are at issue, and further agreed to Chairman Smitherman's request to look into inviting other vendors before the Board in the coming months.

Brad Cox commented that the Board needs to have an agreed oversight process in place, and noted that IBM is supposed to be the Board's independent reviewer of TNMIP but that there appears to have been a disconnect between positive reports and the current TNMIP status. He suggested an action item for Mr. Kahn – an analysis on vendor reports, and better and more detailed information to be given to the Board regarding Nodal. Commissioner Parsley and Ms. Newton both emphasized that the Board needs good and timely information. Mr. Hinsley agreed that all relevant information is forthcoming, and further noted recent efforts to cut the monthly



burn rate significantly. He also described a recent decision to ensure that all software bugs are caught early in testing, saving money and time down the road.

Several Board members expressed support for a special Board meeting to delve more deeply into the status of the Nodal Program. Ms. Newton specifically requested that it address the key risks to the Nodal program. Mr. Kahn agreed, but also noted that the recent Nodal reorganization is the first step to improving all aspects of the program and ensuring that information rises to the Board as it should.

Mr. Armentrout tasked Mr. Kahn with reporting back on an assessment of IBM's performance; the issues surrounding project status; and how to address the Board's desire for better and more detailed information. He thanked ERCOT staff for working through a difficult situation with Market Participants, vendors and the governmental bodies involved. He further wanted Staff to know that the Board of Directors supports them.

7. CPS1 Forecast

Mr. Saathoff gave a presentation on CPS1 Forecasting. He noted that in June the Board requested a forecast of CPS1 scores. Commissioner Parsley noted that CPS1 is important because it is a possible NERC violation to fall below the 100 with a rolling 12-month average, and ERCOT could be fined for those violations. Mr. Saathoff expressed confidence that ERCOT will not let CPS1 fall into a penalty range, by increasing ancillary services if needed.

Mr. Ballard asked about ancillary services and costs generally, and specifically with respect to wind. Mr. Bruce, TAC Vice Chairman replied there is nothing in development in the TAC process for such a report and that it would be a very labor-intensive project, and pointed to the GE Ancillary Services Study as the best work to date on this topic. He also noted that the Board receives monthly data on Ancillary Service costs in the Market Operations Report.

8. Oncor Renner Dynamic Reactive Project

Mr. Bojorquez provided the Board with a report on the Oncor Renner Dynamic Reactive Project. He reported that the Project has gone through normal review cycle which includes review by the RPG and TAC, and that both groups support the project.

Nick Fehrenbach moved to approve the Oncor Renner Dynamic Reactive Project. Mr. Karnei seconded the motion. The motion passed by voice vote with one abstention (Mr. Jenkins).

Lunch

The meeting adjourned for lunch at 12:40 p.m. Mr. Armentrout convened the meeting after the lunch break.



13. Other Business

A.D. Patton commented on his concern that too many costs are socialized, or uplifted, when their benefits appear to be purely local, and noted that his concern was raised by the VAR Support item on the agenda this month. He requested that TAC or ERCOT Staff review this issue. Mr. Karnei commented that this review should begin with the guidelines set by the Legislature and the PUCT, and Mr. Armentrout agreed that the item will be taken up on a future agenda.

10. Technical Advisory Committee (TAC) Report

Mr. Bruce reported on the following matters:

b. Protocol Revision Requests (PRRs)

PRR753 was pulled from the consent agenda. Mr. Bruce mentioned that this PRR had previously been sent back to TAC, and a revised version is back for approval today.

Mr. Fehrenbach understood that there was possible alternate language regarding the timeline for appeal as currently stated in Paragraph 21.4.11.2 *Appeal of TAC Action*. There was discussion about the appropriateness of an alternate authority being noticed if the TAC Chairman is unavailable. Mr. Fehrenbach wanted to substitute language saying the TAC Chair or vice Chair may appoint the advocate. Mr. Fehrenbach also wanted to clarify wording about “Date sent” vs. “Received by”. Mr. Armentrout stated that the entire process seems too complicated and should be simplified.

Mr. Armentrout moved to remand PRR753 back to TAC. Mr. Karnei seconded the motion.

Several Directors commented on the deadline for receipt of materials for review by the board to ensure that the Board is not surprised by last-minute material that could have been provided earlier. Mr. Grable suggested tabling PRR753 and allowing him, with Ms. Newton’s assistance, to submit a revised version that attempted to capture the stakeholder input and the Board’s discussion.

Mr. Armentrout withdrew his motion to remand PRR753 back to TAC and Mr. Karnei withdrew his second of the motion. Mr. Armentrout made the motion to table PRR753. Mr. Cox seconded the motion. The motion passed by unanimous voice vote with no abstentions.

PRR766 was discussed as an interim solution, in that it will not provide all functionality that the market requires in the long term. A long-term solution would be developed through the open PUCT rulemaking.

Mr. Kahn moved to approve PRR766. Mr. Helton seconded the motion. The motion passed by voice vote with 14 votes in favor, one opposed (Mr. Fehrenbach) and no abstentions.



a. **Nodal Protocol Revision Requests (NPRRs)**

It was noted that NPRR097 was tabled last month at the request of the PUCT Commission Staff. Mr. Grable stated that a memo was distributed incorporating text addressing PUCT and TRE Staff concerns about lack of metrics and enforceability, but further stating that PUCT and TRE Staff did not oppose NPRR097 so long as the appropriate metrics and enforceability provisions were incorporated into a following Nodal Operating Guide.

Mr. Gent moved to approve NPRR097 and submit the PUCT and TRE Staff document to TAC for their consideration. Mr. Helton seconded the motion. The motion passed by unanimous voice vote.

11. **Finance & Audit (F&A) Committee Report**

Clifton Karnei, F&A Committee Chairman, reported that the Committee meeting opened in Executive Session to review the Internal Audit goals and discuss EthicsPoint. He reported that the Committee approved the engagement of PricewaterhouseCoopers (PwC) for the 2008 Financial Statement audit and the 2009 SAS 70 audit.

Mr. Karnei also reported that the Committee approved the financing plan proposal recommended by ERCOT staff. The Board discussed the need to seek additional, interim debt financing to get through early 2009 until the Nodal timeline is finalized. Finally, he reported that with respect to the 2007 Favorable Variance, Mr. Ballard had agreed to withdraw his proposal to redirect the money to retail customers harmed by switches to providers of last resort (POLRs), and that the Committee's prior recommendation to use the funds to increase revenue contributions will be brought back to the Board in September.

12. **Human Resources & Governance (HR&G) Committee**

Ms. Newton, HR&G Chair, stated that the committee met and discussed the RW Beck Study. She reported there were substantial recommendations for ERCOT, mentioning specifically the following RW Beck recommendations:

- (1) Creation of a more of a structured and documented relationship between TAC and ERCOT staff. She reported the Committee is not in favor of accepting this recommendation at this time. The Committee would like to keep the process informal to facilitate the exchange of information;
- (2) Creation of a Board Executive Committee. She reported that in light of the hybrid nature of this Board, the Committee concluded that the recommendation was not conducive to ERCOT oversight because there would be issues around which market segments would be represented on such a Committee; and
- (3) Separation of the Finance and Audit Committee (F&A) into two separate committees. She reported that this recommendation should be deferred to F&A to see if the F&A Committee members believe it would be appropriate to split committees.

Ms. Newton reported that a draft revised Employee Ethics Agreement was reviewed by the



Committee and will be taken up again next month.

13. Other Business

Mr. Dalton gave an update from the Unaffiliated Director Compensation Subcommittee regarding unaffiliated directors' compensation. He reported that, due to meeting structure, since TRE meets at a different time, changes will have to be made regarding the allocation of costs, and that the changes will be presented to the HR&G Committee meeting next month.

Chairman Smitherman reported that the change of tax status of ERCOT from a 501(c)(4) nonprofit organization to a 501(c)(3) nonprofit organization was being studied. He noted that, pursuant to Internal Revenue Service (IRS) rules and regulations, 501(c)(3) organizations have stricter requirements around Board independence. He further noted that at some point, ERCOT will have enough debt to make 501(c)(3) status highly attractive. He requested the coordination between ERCOT's Finance and Legal Departments in order to try to accommodate the IRS requirements for 501(c)(3) organizations in order to achieve the financial benefits of tax-exempt financing.

14. Future Agenda Items

Chairman Armentrout requested that ERCOT Staff review the following issues for placement on the Future Agenda Items list:

- September – TAC Wind Report
- September – Nodal vendor record card – Executive Session
- September – Independent Director Compensation (to HRG)
- October – Independent Director Compensation (to the Board)
- October – Nodal Budget
- October – The process for allocating costs of ancillary services and transmission facilities

15. Executive Session

Mr. Armentrout adjourned the meeting to Executive Session at approximately 2:45 p.m.

16. Voting on Executive Session Items

Chairman Armentrout reconvened the open session at 4:50 p.m.

Mr. Karnei moved to engage PwC for the 2008 Financial Statement Audit. Mr. Wilkerson seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Karnei moved to engage PwC for the 2009 SAS 70 Audit. Mr. Wilkerson seconded the motion. The motion passed by unanimous voice vote with no abstentions.



Mr. Karnei moved to approve the Financing Plan Proposal authorizing staff to secure additional interim debt financing. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Adjournment

After the Executive Session ended, Mr. Armentrout adjourned the meeting at approximately 5:04 p.m.

General Session 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