



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

Electric Reliability Council of Texas, Inc.
7620 Metro Center Drive, Austin, Texas
August 28, 2008 Room 206
2:00 p.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:

<u>Director</u>	<u>Affiliation</u>	<u>Segment</u>
Armentrout, Mark		Unaffiliated, Chair
Ballard, Don	OPC	Consumers/Residential & Small Commercial
Bartley, Steve	CPS Energy	Segment Alternate – Municipal
Cox, Brad	Tenaska Power Services	Independent Power Marketers
Crowder, Calvin	AEP Service Corp.	Segment Alternate – Investor Owned Utilities
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
Kahn, Bob	ERCOT	ERCOT
Karnei, Clifton	Brazos Electric Coop	Cooperatives
Newton, Jan		Unaffiliated
Patton, A.D.		Unaffiliated
Ryall, Jean	Constellation Energy	Alternate – Independent Power Marketers
Smitherman, Barry T.	Chairman	Public Utility Commission of Texas
Thomas, Robert	Green Mountain Energy	Independent Retail Electric Providers

Staff and Guests:

Adib, Parviz	APX
Bell, Wendell	TPPA
Bivens, Danny	Office of Public Utility Counsel (OPC)
Blakey, Eric	TXU Energy
Brewster, Chris	City of Eastland
Bruce, Mark	FPL Energy
Byone, Steve	ERCOT
Capezzuti, Nancy	ERCOT



Carroll, Marianne	BMC
Coleman, Katie	TIEC
Cote, Daryl	ERCOT
Dreyfus, Mark	Austin Energy
Doggett, Trip	ERCOT
Gage, Theresa	ERCOT
Goff, Eric	Reliant
Grable, Mike	ERCOT
Greer, Clayton	J Aron
Hinsley, Ron	ERCOT
Jones, Liz	Oncor
Jones, Pam	ERCOT
Kolodziej, Eddie	Customized Energy Solutions
Leady, Vickie	ERCOT
Loudan, Russell	Shell Energy, North America
Nelson, Donna	Public Utility Commission of Texas (PUCT)
Ogelman, Kenan	CPS
Ply, Janet	ERCOT
Richards, Naomi	Lower Colorado River Authority (LCRA)
Roark, Dottie	ERCOT
Sampson, Chip	Allied
Saathoff, Kent	ERCOT
Schubert, Eric	BPEC
Smallwood, Aaron	ERCOT
Stephenson, Randa	Luminant
Tamby, Jeyant	SCS
Totten, Jess	PUCT
Trefny, Floyd	Reliant
TroxteLL, David	ERCOT
Wagner, Marguerite	PSEG Texas
Westbrook, Susan	ERCOT
Weston, Tisa	ERCOT
Whittle, Brandon	DBET
Wullenjohn, William	ERCOT

1. Call to Order/Announcements

Chairman Mark Armentrout called the Special Meeting of the ERCOT Board of Directors to order at 2:00 p.m. The Chairman welcomed all participants to the meeting and reminded everyone that the purpose of the meeting was to discuss the Nodal program and to gain a deeper understanding of the program's status. He asked all Board members to speak with candor and provide their input.

Chairman Armentrout drew focus on three main issues with regard to the Nodal program: (1) ERCOT and the Board need to work with all groups especially Market Participants for the benefit of Texas ratepayers; (2) the Nodal program would benefit the market from consumers to



producers; and (3) the project was intended to develop a world-class nodal system for the ERCOT regional marketplace.

Chairman Armentrout also pointed out that there needs to be a continuous, open line of communication between the Nodal program and the Board. He acknowledged that a lot of work has been done to this point and he asked that everyone continue to work hard until the Nodal program is completed.

Chairman Armentrout further commented that in the last week he has reviewed all past Board meeting minutes that reference the Nodal program, including all presentations that had been provided. He concluded that ERCOT staff had been telling the Board since Spring 2008 that the January 1, 2009 deadline would not be met, and further noted that the Nodal program had never had a green status overall.

The Chairman turned the meeting over to Bob Kahn, ERCOT President and Chief Executive Officer. Mr. Kahn assured the Board that ERCOT is taking the Nodal program very seriously and that ERCOT staff and contractors have undertaken a massive analysis and review effort not just recently, but since May, when ERCOT had become aware, and immediately announced, that the deadline would not be met. He assured the Board that quality is still critical to ERCOT and the market. He advised that ERCOT is currently developing an integrated schedule which they are planning to take to the Texas Nodal Transition Plan Task Force (TPTF) by September 8, 2008. He explained that since May 2008, new leadership has been put into place and a new Project Management Office has been established. He commented that ERCOT staff is confident that ERCOT can complete the Nodal program; the only issue is the timing.

Mr. Kahn reported that ERCOT has implemented new controls and accountability regarding the Nodal program. He added that all matters related to the Nodal program cost and time must be approved by Ron Hinsley, and then by Mr. Kahn. He further added that when a Nodal program milestone is missed, Mr. Kahn will be notified and will take appropriate action. He pointed out that the ERCOT ISO will be the first ISO in the country that will have a Market Management System (MMS) model that will provide daily reports for a single point of entry. A.D. Patton asked about whether there would be an overall cost-benefit analysis of the Nodal program to the market and rate payers when the project is completed. Mr. Kahn replied that in the long run the Nodal program will be beneficial to the market and will ultimately save money.

Barry T. Smitherman, PUCT Chairman, commented that communication is the most important skill in business and that he had not understood that the Nodal program completion timeline was not going to be met. He pointed out that as recently as the Board meeting in May 2008, the Nodal program status overall was amber and green, then at the Board meeting in June 2008, the Board was told that the deadline would not be met. Mr. Smitherman stressed that there needs to be an open line of communication regarding scope, costs and the timetable. Mr. Gent added that the program needs leadership in terms of people affirming that it will be done, and putting themselves on the line and guaranteeing it.

Don Ballard commented that at the Board meeting in January 2008, the Nodal program had a total budget of \$300 million with a \$15 million contingency. He requested that ERCOT provide



the revised budget for the Nodal program quickly. He also requested the ERCOT provide the timelines for Nodal program testing. Mr. Ballard also noted that the Information Technology (IT) organizational chart reflected three or four open management positions and expressed concern that both ERCOT IT and TNMIP be fully staffed and functional. In addition, he requested that a “post mortem” review be completed after Nodal goes live. He further recommended that the ERCOT contract negotiation teams, including the Legal and Finance Departments, be fully integrated and engaged into the review of the Nodal program vendors. Mr. Kahn replied that there is an Executive Committee meeting scheduled for next week and that they intend to go over the Nodal program schedule that will ultimately be presented to TPTF. In addition, he replied that the IT Department vacancies have been addressed – Mr. Hinsley has moved to oversee the Nodal program, David Forfia has been moved to the IT Department, and the vacancies are openings that were created within the last two to three weeks. Mike Grable, ERCOT Vice President and General Counsel, commented that ERCOT lawyers were currently reviewing all Nodal program vendor contracts and would work with Nodal program employees to attempt to manage vendor performance.

2. Nodal Program Update

Ron Hinsley, ERCOT Chief Information Officer, referred the Board to the previously provided Texas Nodal Program Update. He reiterated that he has taken over direct responsibility of the Nodal program and is fully dedicated to Nodal’s success. He further added that he is fully aware that the Nodal program needs attention, but he is confident that the project will be completed. He addressed background reasons as to why the Nodal program had been challenged from the start, including the completion deadline being set before the development of business requirements, and the joint decision between the Market Participants and ERCOT to go with the “Best of Breed” and CIM approaches, both of which require extensive integration efforts.

Messrs. Espinosa, Ballard and Karnei asked if the Nodal Protocol Revision Request (NPRR) process needed to be changed in order to limit requirement changes. Mr. Hinsley replied that appropriate limits are already in effect and that NPRRs are only a part of the delay. Andrew Dalton asked if the NPRRs did not have an effect on time, whether they had an impact on scope because he believes that the project went from green to red quickly. Mr. Hinsley stated that they could have, but that confirming Protocol traceability is also an ongoing effort.

Mr. Hinsley reviewed the newly developed delivery approach for the Nodal program and discussed the revamped program structure. He noted that an integrated schedule is being developed and the projects within Nodal have been reorganized into core and supporting activities, with core projects having accountability for all aspects of project delivery. He further noted that the Project Management Office (PMO) had been rebuilt to support the size and complexities of the Nodal program and provide consistency in processes. In response to a question from A.D. Patton, Mr. Hinsley explained that regression analysis assists with re-testing to confirm that there were no problems further down in the process and that it was important to allow sufficient time for testing, especially with various vendors providing different deliverables. He also added that there would be improved vendor management.



Jan Newton noted that the current slides show basic management points and requested a context for those things that may have changed in the last few months due to budget and/or timeline issues. Mr. Kahn indicated that the slides reflect the current status and that there will likely be more changes so the basic management points will be continually changed. Dr. Patton inquired about the critical activities of the Nodal program. Mr. Hinsley responded that a large percentage of EMS and MMS development is complete; however, some releases remain to be delivered. Mr. Hinsley emphasized that there is significant work remaining, including work related to NMMS and settlements and billing.

Chairman Armentrout announced a break and reminded attendees that there would be no votes at this meeting, so the meeting would go into executive session, then go back into open session to adjourn the meeting. Mr. Grable commented that the executive session would be strictly limited to the posted agenda topics and that there could be further open session discussion.

3. Executive Session

The Meeting went into executive session at 3:18 p.m.

The Chairman concluded the executive session portion of the Meeting at 5:00 p.m. and reconvened into open session.

4. Reconvene Open Session

On the topic of key Nodal program issues and risks, Mr. Hinsley discussed the two that are appropriate for open discussion. First, he commented that traceability of Protocols was a significant risk because there is not complete certainty that all of the Protocols are covered. Chairman Armentrout asked Mr. Hinsley to report back to the Board on this matter. Second, Mr. Hinsley explained that stakeholder relations was included because ERCOT wants to make sure that market and Board needs are met through the Nodal program. Mr. Grable noted that ERCOT staff is aware of expenditures made by the Market Participants and that they have enormous stakes in the successful completion of this project. Chairman Armentrout expressed his concern that Midwest ISO experienced similar communication and implementation issues relating to market readiness. Mr. Kahn advised that ERCOT has received good feedback on its training and readiness update, while Brad Cox cautioned that a rocky start to the Nodal program could cost his segment of power marketers significant expenses. Ms. Newton stressed that a plan to manage expectations of all affected parties was necessary.

Mr. Grable mentioned that there were two items discussed in executive session that he requested the Board defer and discuss in open session. The first item was Mr. Patton's question about the possible greyboxing of Nodal Protocols, a topic that would be taken up at the September Board Meeting. The second item was Ms. Newton asking Mr. Hinsley if, at this point, ERCOT had confidence in its ability to deliver the Nodal market. Mr. Hinsley stated that he was confident he could. He explained that risks have been identified and ERCOT staff is working on them.



Mr. Kahn noted that based on the last Board meeting and this meeting, there appeared to be a question of confidence going forwarded. He explained that ERCOT staff would be focused on delivering success and improving communications.

The Chairman adjourned the Meeting at 5:15 p.m.

A handwritten signature in black ink, appearing to read "Michael G. Grable", written over a horizontal line.

Michael G. Grable
Corporate Secretary