

**MINUTES OF THE BOARD OF DIRECTORS OF
THE TEXAS REGIONAL ENTITY DIVISION OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

Texas Room, Comfort Suites Hotel- Austin Airport, 7501 E. Ben White Blvd., Austin Texas 78744

August 18, 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	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
Barry T. Smitherman	Chairman, Public Utility Commission of Texas	
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider
Dan Wilkerson	Bryan Texas Utilities	Municipal

Commissioners and Segment Alternates

Mark Walker	NRG Texas	Independent Generator
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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
 Lee Anne Porter, ERCOT Director, Compensation & Benefits
 Kent Saathoff, ERCOT VP System Operations
 Mark Bruce, FPL Energy
 Mark Dreyfus, Austin Energy
 Ken Donohoo, Oncor
 Tim JohnPress, Ascendte Advisors
 Jason Haas, Public Utility Commission of Texas (PUC)
 Randa Stephenson, Luminant

Mark McMurray, Direct Energy
Liz Jones, Oncor Electric Delivery Company

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 **3:00 p.m. on August 18, 2008**. Chair 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 July 15, 2008 meeting; Michehl Gent seconded the motion. The motion passed by unanimous voice vote.

CEO Report

Larry Grimm provided the Board with an update of Texas Regional Entity activities over the previous month. Mr. Grimm told the Directors that Joe McClelland, Director of the Office of Electric Reliability of the Federal Energy Regulatory Commission (FERC) had visited with Texas RE staff and with the Public Utility Commission of Texas on August 5, 2008. During his visit, Mr. McClelland revealed his three primary areas of concern:

- Cyber Security: Fears many in the industry are not taking this threat to the bulk power system (BPS) infrastructure seriously
- Wind: Believes that large penetrations of wind generation present a serious threat to the reliability of the BPS
- Situational Awareness: Discussed FERC's Situation Awareness room and the type of data desired and being received by FERC

Mr. Grimm also informed the Directors that:

- The Texas RE 2009 Business Plan & Budget was approved by the North American Electric Reliability Corporation (NERC) Board of Trustees (with no material changes) on July 30, 2008 and would be submitted to FERC for final approval
- The Texas RE Compliance Hotline (similar to ERCOT's EthicsPoint) became operational August 12, 2008 and is available via the Texas RE webpage
- Texas RE management would be participating in a leadership workshop on August 20, 2008 with Tim JohnPress to improve team building, communications, and work prioritization
- Texas RE staff would be meeting with FERC and NERC staff on August 27 and 28 in Washington D.C. to discuss issues and progress to date and to attend a workshop hosted by FERC staff on audit and investigation processes

Dr. Patton asked Mr. Grimm why the August meetings were being conducted by FERC and not NERC. Mr. Grimm explained that NERC staff will be present at both August meetings, but the meetings were an opportunity for Texas RE and other Regional Entities to have a direct dialogue with FERC staff. The Directors discussed the role of FERC, NERC and Texas Regional Entity, at length.

Compliance Report

Mr. Grimm asked the Directors if they had any questions about the August 18, 2008 Texas RE Compliance Report. Ms. Newton asked how the exemption for wind-only QSEs from the SCPS2 measure had been approved. Victor Barry explained that this had been approved through the normal ERCOT stakeholder process, and Mr. Helton explained that this had been primarily due to legislation encouraging wind development – long before ERCOT had 5,000 MW of wind – and had been approved by ROS, TAC, and the Board.

Chairman Smitherman joined the Directors at approximately 3:10 p.m.

Dr. Patton questioned why the CPS1 score was declining and the Directors discussed the historic score and trend briefly. Brad Cox stated that the Board has never adopted a target for the CPS1 score and suggested that the Board look at the cost and benefit of having a score that was higher than the 100 that was required by the NERC standards and determine an optimal target. Chair Armentrout told the Directors that ERCOT would present an explanation of the CPS1 historic score and anticipated future trend during the ERCOT Board meeting on Tuesday.

Kent Saathoff, ERCOT VP of System Operations, responded to a question from Dr. Patton regarding the July 2008 SCPS2 Scores on Slide 11 of the Compliance Report and explained that the process by which Ancillary services are normally arranged.

Dr. Patton asked why the wind-only QSEs were not charged with the cost of the Ancillary Services required by the intermittent generation, and Mr. Armentrout told him that this topic should be addressed during the ERCOT Board meeting.

Larry Grimm responded to questions by Dr. Patton about the Resource Plan Performance Metrics on slide 14 of the Compliance Report. Chairman Smitherman asked whether he and the other Directors should be concerned when a market entity fails two consecutive times. Mr. Grimm confirmed that the current ERCOT Protocols allow a market entity to fail four consecutive times (four months in a row) before Texas RE can issue a violation notice, copying PUC staff, and require the market participant to submit a mitigation plan.

Texas RE Violation Tracking Report

Mr. Gent expressed concern regarding entities “D” and “E” on the July 2008 Violation Tracking Report, since these violations had occurred over six months ago and they had not yet submitted a mitigation plan to Texas RE. Chair Armentrout added that several of the violations for entity D had a “severe” violation severity level. Texas RE staff informed the Directors that certain entities were not yet cooperating with Texas RE.

Robert Thomas noted that the information, contained in the Violation Tracking Report did not clearly reflect when there was a risk to the bulk power system. Mr. Thomas asked and Mr. Grimm agreed to try to modify the report to demonstrate where the ERCOT bulk power system (BPS) stands from a risk standpoint. Ms. Newton noted that the report was a “work in process” and might need revamping and requested that the violations from February 2008 with a severity level of “severe” be addressed more thoroughly.

Chair Armentrout asked Mr. Grimm about Texas RE's obligations to communicate to the ERCOT Board and the ERCOT ISO during hypothetical scenarios involving risk to system reliability. Mr. Grimm agreed that Texas RE would contact the ISO if there were an imminent threat to the BPS in the ERCOT region. Mr. Grimm also informed the Board that Texas RE has

the authority to issue a Remedial Action Directive, if needed, but that the ERCOT SIO would also be aware of the threat to the grid, because of its real-time monitoring activity. The Board discussed Texas RE's process of reporting risks and threats to the ERCOT BPS.

In response to a question by Mr. Thomas regarding whether Texas RE had all necessary tools in place to respond to a severe event, Mr. Grimm responded that in a severe event, Texas RE would need to work with the ISO. Bob Kahn, ERCOT President and CEO, asked Mr. Grimm if Texas RE would have to go through NERC before speaking to ERCOT ISO. Mr. Grimm responded that, because of its real-time monitoring, the ISO would most likely already know of a severe event well before Texas RE.

In response to a question from Mr. Ballard regarding how long the settlement discussions have taken between Texas RE and market entity D and market entity E on the Violation Tracking Report, Mr. Grimm responded that those discussions have been on-going for about three months now. Mr. Ballard said that is too long.

The Directors stated that they wanted clarity on the meaning of the terms on the Violation Tracking Report, such as "severe." Chair Armentrout asked Texas RE staff to include a glossary of terms with future monthly Violation Tracking Reports, and Mr. Dalton requested that Texas RE staff also include a base penalty schedule. Charles Jenkins suggested that the report include whether the event was a first time event or if it was on-going. Dan Wilkerson asked Mr. Grimm if the required time-line to submit a mitigation plan depended on the severity of the event. Mr. Grimm confirmed that the response and mitigation plan submittal time periods were the same for all violations, regardless of severity level, but that the Regional Entities had requested that NERC consider more risk-based processes.

Financial Report

In response to a question from Chairman Smitherman asking what expense items were included in the Consultant account category on the July Income Statement, Mr. Grimm responded that the Consultant account category consists of shared services between Texas RE and ERCOT, external legal fees, and Board of Directors' fees. Mr. Grimm confirmed for Chairman Smitherman that the current Consultant category burn-rate was going to likely be consistent for the rest of the year. In response to a question by Chair Armentrout asking if Texas RE had accounted for the costs associated with the services performed for Texas RE by ERCOT in the 2008 Texas RE budget, Todd Brewer stated that the costs associated with the Consultant account category are expected to be about \$300,000 higher for 2008 than anticipated, because of the finalization of the Memorandum of Understanding with ERCOT.

Chair Armentrout asked Texas RE staff to separate the ERCOT-related costs from the general Consultant costs in the future.

In response to Chairman Smitherman's questions about outside counsel arrangements, Ms. Vincent confirmed that Texas RE had retained David Brown with K&L Gates LLP in Austin, Texas and had retained one FERC attorney that was not in Texas.

Texas RE Advisory Committee Report

Mr. Gent referred the Directors to the Texas RE Advisory Committee Charter, included in the materials.

Miguel Espinosa made a motion to approve the Texas RE Advisory Committee Charter as recommended by the Texas RE Advisory Committee; Bob Kahn seconded the motion.

Mr. Gent reminded the Board that the Committee Charter would continue to be a work in progress. The motion passed by unanimous voice vote.

Chair Armentrout asked for the Texas RE Advisory Committee members and Texas RE staff to discuss only the items covered in the Committee Charter when conducting Committee meetings.

Board of Directors 2008 & 2009 Meeting Schedule

In response to a question from Mr. Dalton referring to how frequently the Texas RE Advisory Committee will meet, Mr. Gent stated 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.

Mr. Ballard asked the Board if the Committee members could phone in to the Committee meeting in the future. Ms. Vincent reminded the Directors that telephonic meetings were prohibited by the ERCOT bylaws (except in the case of urgent items), but she said that Texas RE could establish a call-in number for Committee and Board meetings, by which the Directors could listen and ask questions, so long as the Directors knew that they will be unable to vote on any matters via telephone.

Future Agenda Items


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

Executive Session

At 3:59 p.m., Chair Armentrout adjourned the open session meeting and the Board went into executive session. In response to a suggestion by a Market Participant Director, Chair Armentrout agreed that it would be a good idea for Market Participant Directors to exit the room during executive sessions of the Committee. Chair Armentrout informed all persons present that since there were no voting items to consider after the executive session concluded the Board meeting would not be reconvened in open session.

Adjournment

Chair Armentrout adjourned the executive session portion of the Board meeting at 4:08 p.m.



Susan Vincent
Corporate Secretary