



**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, Room 206, Austin, Texas 78744  
January 21, 2009 at 7:30 a.m.

Pursuant to notice duly given, the special 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
Ballard, Don	OPUC	Residential Consumer
Cox, Brad	Tenaska Power Services	Independent Power Marketer (by phone)
Dalton, Andrew	Valero Energy Corp.	Industrial Consumer
Espinosa, Miguel		Unaffiliated
Fehrenbach, Nick	City of Dallas	Commercial Consumer (by phone)
Gent, Michehl		Unaffiliated, Vice Chairman
Helton, Bob	IPA	Independent Generator
Jenkins, Charles	Oncor Electric Delivery	Investor Owned Utility
Kahn, Bob	ERCOT President/CEO	
Karnei, Clifton	Brazos Electric Coop	Cooperative
Newton, Jan		Unaffiliated, Chairman
Patton, A.D.		Unaffiliated
Smitherman, Barry T.	Chairman	Public Utility Commission of Texas
Thomas, Robert	Green Mountain Energy	Independent Retail Electric Provider
Wilkerson, Dan	Bryan Texas Utilities	Municipal

Staff and Guests:

Adib, Parviz	APX
Bartley, Steve	CPS Energy
Bell, Wendell	TPPA
Brandt, Adrienne	Austin Energy
Brewer, Todd	Texas RE
Bruce, Mark	MJB Energy Consulting
Byone, Steve	ERCOT
Capezzuti, Nancy	ERCOT
Cleary, Mike	Utilicast
Crowder, Calvin	AEP Service Corp.
Doggett, Trip	ERCOT
Doolin, Estrellita	ERCOT



Drost, Wendell	AREVA
Farhangi, Anoush	Wal-Mart
Forfia, David	ERCOT
Gage, Theresa	ERCOT
Grable, Mike	ERCOT
Greer, Clayton	J. Aron
Harrell, Patty	DC Energy
Headrick, Bridget	PUCT
Hinsley, Ron	ERCOT
Huerta, Miguel	Smith Trostle
Kolodziej, Eddie	Customized Energy Solutions
Leady, Vickie	ERCOT
Magness, Bill	Casey, Gentz & Magness, LLP
Morelock, Kevin	Utilicast
Morris, Sandy	LCRA
Nixon, Murray	ERCOT
Oehler, Melissa	PUCT
Ogelman, Kenan	CPS Energy
Pieniazek, Adrian	NRG Texas
Roark, Dottie	ERCOT
Ryall, Jean	Constellation Energy
Seymour, Cesar	SUEZ
Smallwood, Aaron	ERCOT
Spanglow, Bob	Luminant
Wagner, Marguerite	PSEG Texas
Walker, DeAnn	CenterPoint Energy
Walker, Mark	NRG Texas (by phone)
Wittmeyer, Bob	DME
Wullenjohn, Bill	ERCOT

### **Call Open Session to Order (Agenda Item 1)**

Jan Newton, ERCOT Board Chairman, called the meeting to order at 7:35 a.m. and noted the antitrust admonition. She advised that the Public Utility Commission of Texas (Commission) announced at its open meeting on January 14, 2009 that the Commission expects to consider the Board's decision on the final Nodal schedule and budget at the Commission's open meeting on February 26, 2009. She further advised that the purpose of this meeting is for the Board to gather information prior to making its decision on these items at its meeting on February 17, 2009. Chairman Newton also clarified that the Board did not vote on the bonus compensation of Bob Kahn, ERCOT President and Chief Executive Officer (CEO), at its meeting yesterday (January 20, 2009), because Mr. Kahn expressed his desire that the Board not award him a bonus for 2008 given the Nodal delay.



## **Nodal Program Schedule and Budget (Agenda Item 2)**

Ron Hinsley, ERCOT Vice President and Chief Information Officer (CIO), described the supplemental Board Packet that was mailed on Friday, January 16, 2009, and supplemental budget material that was made available on Tuesday, January 20, 2009. He introduced Nodal Project Managers Murray Nixon (formerly of Duke Power), Linda Clarke (formerly working with Exelon, MISO, and PJM), Aaron Smallwood (ERCOT Nodal Controller) and Janet Ply (head of the Nodal PMO).

Ms. Ply described how the integrated schedule was developed, linking all tasks to create a comprehensive schedule and a critical path. She explained that the schedule does not provide a "risk of being X months late" type of view, but that the team takes confidence from not having slipped any critical-path items to this point. Mike Cleary, Utilicast, commented that the key is identifying and tracking risk items. Regarding critical-path questions from Dan Wilkerson, Mr. Hinsley explained that common information model (CIM) items are not on it because the integrated schedule showed the critical items were elsewhere, and Ms. Ply assured that near-critical-path items are also closely tracked, such as the outage scheduler, which is typically 4-7 days off the critical path.

Mr. Cleary explained that the prior, "silo" approach drove focus to the project with the most visible issues, and that did not mean the critical path was understood and followed. Mr. Cleary advised that now if serious risks develop into issues, they can be identified and brought before the Board more quickly. Andrew Dalton noted the confidence percentages that had been applied to the schedule, and inquired whether Nodal should be managed to a higher budget-confidence number, meaning a higher budget. Mark Armentrout, Chairman Newton, and Mr. Kahn, all expressed comfort with a lower number and then managing to it so that scope and cost are controlled.

Mr. Cleary added that his confidence has increased, but only if key risks are addressed. Brad Cox asked that the timing and sequence of risks be described, so that the Board knows when each is expected to be cleared. Mr. Cleary commented that the new budget is a reasonable not-to-exceed estimate and that the best estimate of project costs would be when the project was completed. He further stated that he believed that Staff developed a good schedule with good methodology and the project is achievable.

Ms. Ply completed her presentation with: a discussion of scope, noting specifically that reducing scope today and completing the Nodal Program piecemeal would actually increase work; a description of schedule assumptions, program controls, and the work remaining to be done on NMMS, EMS, MMS, MSS UI, COMS, integration, operational readiness, and EDS; and a vendor summary that noted improved performance in ABB systems and deliveries, renewed focus on Areva projects, and a commitment to ensuring that, when Nodal Program personnel need to provide data to vendors, they do so as soon as possible.

The Board took a brief break, and resumed at 9:10 a.m. with a budget discussion.



Mr. Hinsley described the budgeting process, the assumptions, and the cost elements. He noted that the financing estimate had been reduced, but the \$5.65 million reduction had been added to the contingency. In response to several Board questions about the contingency, Mr. Hinsley stated that a figure of approximately 20 percent was chosen since such an amount is appropriate for this stage of a complicated project. Mr. Dalton, Michehl Gent, Public Utility Commission of Texas (Commission) Chairman Barry T. Smitherman, Dr. A.D. Patton and Don Ballard each questioned whether the contingency is appropriate, focusing particularly on whether 20 percent should be calculated from all budget items or only the \$200 million or so that represents Program-controlled costs, and whether the Utilicast report stating that \$661 million is a "reasonable not-to-exceed" meant that reductions are possible. Mr. Kahn explained that he requested a Nodal budget and schedule that is realistic and can be met, even with existing known-unknown risks. He added that ERCOT could find that some dollars remain unspent, but recommended that the budget not be reduced now. Mr. Dalton expressed concern about whether the confidence levels in the Nodal schedule and the budget are synced, and whether ERCOT might take on unnecessary debt. Mr. Hinsley expressed confidence that the schedule is not padded, and stated that the Nodal team has challenged it several times. Kevin Morelock, Utilicast, commented that Ms. Clark and Ms. Ply are reviewing the integration area, and he expects they will develop a number that has more confidence, and could be lower, within a month.

Regarding projected spending/burn rate, Charles Jenkins commented that it looks low for the entire year of EDS testing, and Chairman Smitherman similarly noted that the risk of budget error seems to be front-loaded, greatly decreasing in late 2009 and early 2010. Mr. Hinsley acknowledged that the contingency should decrease over time. Mike Grable, ERCOT Vice President and General Counsel, returned to Mr. Ballard's question about budget-scrubbing and asked if it is possible that Nodal Program staff will revise numbers; Mr. Hinsley expressed that staff is scrubbing, and revisions are possible. Mr. Armentrout commented that individual line items can be examined, but that the 25 percent overall risk does not go away and the level of certainty would not reach 100 percent until actual use by market participants. Mr. Armentrout reported on his recent meeting with Bob Helton, Jean Ryall and Mr. Cleary and added that Mr. Cleary stated as his bottom line that line items could have been squeezed down, but the unknowns dwarf those types of savings and that Mr. Cleary recommended not reducing the overall number. Mr. Morelock confirmed that ERCOT has proposed a good not-to-exceed estimate, especially due to existing unknowns, but there may be opportunities as the program develops. Chairman Newton agreed, noting that large projects typically do not hit every line item, and that flexibility is needed.

Chairman Newton summarized three big items that the Board seemed to have identified: concerns over capital costs; concerns over debt; and the appropriate level and structure of any contingency. Steve Byone, ERCOT Vice President and Chief Financial Officer (CFO), and Mike Petterson, ERCOT Controller, initiated a discussion of operating versus capital expenses, and after brief discussion the Board agreed that ERCOT Staff should prepare two separate schedules: one focusing on the budget and cost within the Program, and another that shows the cash-flow necessary to complete and finance Nodal.



Regarding debt, the Board discussed the current 28 percent revenue-funding level for Nodal and how and whether to increase it; Mr. Jenkins, in summarizing the discussion, requested four things: (i) a scenario assuming a \$0.169 nodal surcharge through 2010; and (ii) March/April implementation of a revised \$0.226 surcharge; and against both of those cases, two possible fee levels to be put in place as of January 1, 2010: (a) the surcharge necessary to hit 40 percent revenue funding as of Go Live; and (b) the surcharge necessary to retire debt within four years of Go Live. Mr. Ballard and Mr. Dalton also requested the surcharges necessary to hit 50 percent and 60 percent revenue funding; Mr. Byone committed to providing the requested data.

Regarding contingency, Miguel Espinosa expressed that he had moderated his prior opposition to any contingency, and preferred to focus on strict controls, meaning that no contingency dollars be committed or spent without specific Finance and Audit (F&A) Committee and Board approval. Clifton Karnei and Mr. Helton expressed that Nodal Committee oversight would be more appropriate than F&A Committee involvement. Mr. Kahn agreed to abide by such a limitation. Mr. Ballard continued to express a desire for no stated contingency, believing that the project budgets may have built-in extras. Mr. Helton commented that a contingency is absolutely necessary given today's unknowns, and Chairman Newton agreed. Mr. Ballard expressed that Mr. Espinosa's controls increased his comfort, and again asked Staff to give the budget a hard scrub prior to the February Board meeting.

### **Other Business (Agenda Item 3)**

No other business was raised.

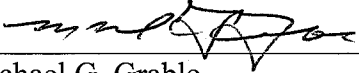
### **Executive Session (Agenda Item 4)**

Chairman Newton adjourned the meeting to Executive Session at approximately 11:08 a.m. and reconvened the open session at approximately 12:30 p.m.

### **Adjourn (Agenda Item 5)**

The meeting adjourned at approximately 12:31 p.m.

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