



**DRAFT MINUTES OF THE 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
February 17, 2009 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.

Meeting Attendance:

Board Members:

Director	Affiliation	Segment
Armentrout, Mark		Unaffiliated
Ballard, Don	Office of Public Utility Counsel	Residential Consumer
Cox, Brad	Tenaska Power Services Co.	Independent Power Marketer
Crowder, Calvin	American Electric Power Service Corp.	Investor Owned Utility (Segment Alternate); Present from Agenda Item 11a through Conclusion of Meeting
Dalton, Andrew	Valero Energy Corp.	Industrial Consumer
Espinosa, Miguel		Unaffiliated
Fehrenbach, Nick	City of Dallas	Commercial Consumer
Gent, Michehl		Unaffiliated, Vice Chairman
Helton, Bob	International Power America Services	Independent Generator
Jenkins, Charles	Oncor Electric Delivery	Investor Owned Utility; Present Until Agenda Item 11a
Kahn, Bob	ERCOT	President and CEO
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 – Proxy for Clifton Karnei

Staff and Guests:

Anderson, Kenneth	Public Utility Commission of Texas
Bell, Wendell	TPPA
Benedict, Nathan	Office of Public Utility Counsel
Bivens, Danny	Office of Public Utility Counsel
Blakey, Eric	TXU Energy
Boren, Ann	ERCOT



Brandt, Adrienne	Austin Energy
Brenton, Jim	ERCOT
Brewster, Chris	City of Eastland
Bruce, Mark	FPL Energy LLC
Byone, Steve	ERCOT
Capezzuti, Nancy	ERCOT
Clemenhausen, Barbara	Topaz Power
Cochran, Seth	Sempra
Coleman, Katie	TIEC
Comstock, Read	Direct Energy
Crozier, Richard	City of Brownsville
Day, Betty	ERCOT
Doggett, Trip	ERCOT
Doolin, Estrellita	ERCOT
Dreyfus, Mark	Austin Energy
Drost, Wendell	Areva
Dumas, John	ERCOT
Fenoglio, Walt	EMMT
Fox, Kip	AEP
Gage, Theresa	ERCOT
Goff, Eric	Reliant
Grable, Mike	ERCOT
Grimes, Mike	Horizon Wind Energy
Grimm, Larry	Texas Regional Entity
Gurley, Larry	Energy Markets Cons.
Hinsley, Ron	ERCOT
Hobbs, Kristi	ERCOT
Ierullo, Bruno	ERCOT
Isser, Steve	Good Company & Associates
James, Judith	Texas Regional Entity
Jones, Brad	Luminant
Jones, Dan	Potomac Economics
Jones, Don	Reliant Energy
Jones, Liz	Oncor
Jones, Randy	Calpine
Khan, Salim	ABB Inc.
King, Kelso	King Energy
Kleckner, Tom	ERCOT
Leady, Vickie	ERCOT
Manning, Charles	ERCOT
McClendon, Shannon	TAC Vice Chair
Morris, Sandy	Lower Colorado River Authority
Nelson, Donna	Public Utility Commission of Texas
Oehler, Melissa	Public Utility Commission of Texas
Oldham, Phillip	TIEC
Petterson, Michael	ERCOT



Pieniazek, Adrian	NRG Texas
Rexrode, Caryn	Customized Energy Solutions
Roark, Dottie	ERCOT
Rowe, Evan	Public Utility Commission of Texas
Ryall, Jean	Constellation Energy
Saathoff, Kent	ERCOT
Seibert, Dave	ERCOT
Seymour, Cesar	Suez Energy
Trostle, Kay	Chaparral Steel, Nucor, CMC Steel Texas
Vashoe, Leticia	Platts
Wagner, Marguerite	PSEG Texas
Walker, DeAnn	CenterPoint Energy
Walker, Mark	NRG Texas
Wittmeyer, Bob	Denton Municipal Electric
Wullenjohn, William	ERCOT
Yager, Cheryl	ERCOT

Call Open Session to Order (Agenda Item 1)

At 10:06 a.m., Jan Newton, Chairman of the ERCOT Board, called the meeting to order and determined a quorum was present. Chairman Newton announced that the Board meeting was being streamed and recorded as a webcast by Texas Admin.com and that Technical Advisory Committee (TAC) members were invited to participate in this test webcast. Chairman Barry T. Smitherman called to order an open meeting of the Public Utility Commission of Texas (the Commission).

Consent Agenda (Agenda Item 2)

Protocol Revision Request (PRR) 782 was removed from the Consent Agenda, leaving the following remaining items on the Consent Agenda: the draft minutes for the regular Board meeting on January 20, 2009, and for the special Board meeting on January 21, 2009; and PRRs 793, 794 and 795. **Miguel Espinosa moved to approve the items on the Consent Agenda. Mark Armentrout seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Approval of Minutes (Agenda Items 3a and 3b)

The draft minutes for the regular Board meeting on January 20, 2009, and for the special Board meeting on January 21, 2009, were approved by the Board as part of the Consent Agenda (Agenda Item 2).

Chief Executive Officer Report (Agenda Item 4)

Bob Kahn, ERCOT President and Chief Executive Officer (CEO), reported that Luminant has announced the retirement of certain generating plants. He further reported that every December and May, ERCOT updates the reserve margin in relationship to the target and that every May



ERCOT updates the load forecast. In light of the Luminant announcement, he advised that ERCOT took another look at the reserve margin and, on a preliminary basis, ERCOT will still be above the target reserve margin over the next several years. Mr. Kahn also introduced ERCOT's new Vice President and Chief Compliance Officer, Chuck Manning. In addition, Mr. Kahn congratulated Don Ballard on his reappointment as Public Counsel by the Governor.

Operating Reports (Agenda Items 5a-d)

Chairman Newton reminded those in attendance that the Board held its regular Question and Answer (Q&A) Meeting for Board members regarding the Board materials on the afternoon of February 16, 2009. She opened up this portion of the meeting to additional questions.

Financial Summary Report (Agenda Item 5a)

Chairman Newton solicited additional questions regarding the Financial Summary Report, but there were none.

Market Operations Report (Agenda Item 5b)

Chairman Newton solicited additional questions regarding the Market Operations Report. Don Ballard noted the total load-weighted average price in January 2009 was about half of the amount for January 2008, pointed out the precipitous decline throughout the year and tracked by the decline in natural gas prices and other commodity prices, and mentioned that the top price in the South is \$34.69, which is an extraordinary number for the spot market. He concluded that it is good to see the market responding to price signals.

IT Report (Agenda Item 5c)

Chairman Newton solicited questions regarding the IT Report, but there were none.

Grid Operations and Planning Report, including Cost Update of Ancillary Service Methodology Change (Agenda Item 5d)

Kent Saathoff, ERCOT Vice President of System Operations, provided an update of the cost impacts of recent ancillary service methodology changes relating to non-spin procurement. Mr. Saathoff mentioned that when the Board passed the methodology in October 2008, ERCOT started purchasing twenty-four-hour non-spinning reserves. He advised that, surprisingly, the cost of non-spinning reserve decreased almost \$7 million over the past three months of November 2008, December 2008 and January 2009 over the same months from 2007-08. He observed that possible reasons for this cost decline could be: more certainty in the procurement since obligations are decided a month ahead for an entire month rather than a day ahead, and the decline in fuel prices over the last year and the slightly lower heat rate average in the balancing energy market affecting the non-spinning reserve offers. Chairman Smitherman mentioned that the decline in costs over the last three months was extremely notable and ERCOT Staff needed to look for meaningful key trends and also to communicate the good news to the media and the Legislature.

For scheduling reasons, Chairman Newton took agenda items out of order and asked for the Proposed Ancillary Service Methodology presentation (Agenda Item 6) to be delivered later in the General Session.



Nodal Program Update (Agenda Item 7)

Salim Khan, Senior Vice President and General Manager of Network Management Business Unit for ABB, Inc., provided an overview of ABB and gave a status update on ABB's involvement with the ERCOT Nodal Program. Mr. Khan explained that, in his experience working with other Independent System Operators, delays and increased costs are not unusual with projects like the Nodal Program. He added that there were growing pains and lessons learned, but the Nodal Program was in good shape now. Mr. Ballard inquired as to ABB's role in the ERCOT Nodal integration. Mr. Khan responded that all statements of work had been met and releases were on schedule and that he did not see any challenges at the moment and believed that ABB would be able to meet the schedule. Chairman Newton asked if Mr. Khan anticipated any challenges with integration. Mr. Khan responded that they would be difficult to anticipate, but that ABB saw no challenges at this time. He commented that ABB was fully supporting the work at ERCOT, that the "best of breed" approach had significant benefits and that changing the approach now would create greater risks.

Donna Nelson, Commissioner of the Public Utility Commission, asked if ABB would be willing to renegotiate its time and materials contract. Mr. Khan responded affirmatively. Chairman Smitherman asked about Mr. Khan's familiarity with the California ISO (CA ISO) experience with a central integrator. Mr. Khan responded that had CA ISO continued with ABB, he believed that CA ISO would not be in their current situation. Chairman Smitherman also inquired whether Mr. Khan would recommend engaging a firm as a system integrator at this point in the project. Mr. Khan responded that ERCOT had a unique application and would have a difficult time envisioning a firm acting as a system integrator at this time. He mentioned that he believed that ERCOT was on a good path right now, given its organizational changes. Mr. Armentrout asked what firm was responsible for CA ISO's EMS. Mr. Khan replied that ABB assisted with CA ISO's EMS. Mr. Armentrout also inquired as to the "best of breed" approach. Mr. Khan explained that "best of breed" would entail using world-class vendors with a centralized Common Information Model (CIM) strategy. With respect to the integration testing, Chairman Smitherman asked about the possibility of ABB's deliverables not synching with other vendors' products and about the process for remediating any issues between vendors. Mr. Khan responded that ABB would work to identify any glitches and work with parties whose software ABB was touching. Mr. Khan added that if it was a change that ABB must make, then ABB would do so, and if it was a change another vendor must make, then the other vendor must do so. He also mentioned that these issues will emerge as integration takes place under either a central integrator or the ERCOT-chosen approach. Chairman Smitherman asked about what happens when vendors are pointing fingers at each other. Mr. Khan replied that ABB is interested in the best outcome for ABB's business and that ABB would do everything in its capacity to collaborate with other vendors.

Mr. Armentrout asked Trip Doggett, ERCOT Senior Vice President and Chief Operating Officer, to include a section on vendor "finger pointing" on the vendor scorecard. Mr. Armentrout asked if CIM was a good idea. Mr. Khan replied that he believed it was -- there would be more standardized data, and since costs build up in the development of underlying systems, it would be better to minimize that and focus on CIM. Chairman Smitherman asked for a commitment from ABB to come on site at ERCOT if there were any problems. Mr. Khan replied that ABB



would and that ABB had been meeting with the ERCOT senior management team at least quarterly. He then concluded his presentation in the interest of time.

Mr. Doggett provided a presentation on the Texas Nodal Market Implementation – Integrated Schedule Review and noted the slightly different format of the presentation. He noted that 16 of 16 scheduled tasks on the Critical Path had been completed thus far and that 2262 of 2575 total scheduled tasks had been completed thus far. Mr. Doggett also addressed the audit points from Utilicast Report #8 and advised that there were opportunities to renegotiate contracts for the top five vendors by June 30, 2009, that the Project Managers developed lists of items that they would like to see regarding scope control and that a third-party negotiator would be hired. Commissioner Donna Nelson asked about the sequence and timing as it related to contract renegotiations and about whether it could occur sooner than June as it will be a factor in approving the Nodal Program budget. Mr. Doggett replied that he would review the schedule to determine if the contract renegotiations schedule could be moved up. Bob Thomas inquired as to the third-party negotiator. Mr. Kahn replied that ERCOT was preparing a request for proposal. Don Ballard inquired as to the reason that the Commissioners could not join the Board in Executive Session. Mike Grable, ERCOT Vice President, General Counsel and Corporate Secretary, explained that the law requires that the Commission hold an open meeting when two or more Commissioners are present and that a Commission open meeting should not be held during the Board's closed Executive Session. Chairman Smitherman noted that any approval by the Commission of a budget would be for a not-to-exceed amount and that the Commission expects ERCOT to continue to renegotiate contracts and to strive to lower costs. Commissioner Nelson cautioned about the potentially negative impression that a not-to-exceed budget would have on the Legislature. Mr. Doggett continued with his presentation and reviewed the Audit Points for Utilicast Report #8 materials. He mentioned that the Program risk will necessitate a different strategy to integration testing. He advised that scope control had been completed; that Mike Cleary of Utilicast, LLC, felt that Linda Clarke was a good choice as Nodal Enterprise Verification Lead; and that iTest and EDS environments will now be complete as of February 23, 2009. Chairman Newton commended Mr. Doggett on the new format of the presentation since it is important to have accountability. Bob Helton also expressed support for having accountability in the presentation, including the use of names. Mr. Helton also advised that the Special Nodal Program (SNP) Committee of the Board would be reviewing Critical Path and Near Critical Path items.

Ron Hinsley, ERCOT Vice President and Chief Information Officer, then addressed the data center space concerns. Mr. Hinsley advised that SAIC has been engaged, following up on storage needs review and that there was a plan for Information Lifecycle Management. He added that plans are underway for the existing data center to be expanded and a new data center to be built. He noted that the existing TCC-1 data center should be expanded by September 2009, that the plan to build the first of two data centers (that is, the South data center) is in production with an estimated completion date of February 2011, that there will be a parallel with the existing environment in October 2010 which will not be switched over until after the Nodal Program "go-live" date, and that a North data center is in discussions for completion by May 2011. In addition, Mr. Hinsley reported that all Nodal data capacity assumptions would be validated and monitored. He also noted that all such tasks are budgeted and that upcoming contract requests would include those for hardware for iTest and development to be presented to the Board in



March 2009, expansion of the TCC-1 data center to be presented in May 2009, IMM of Nodal to be presented in June 2009, and the South data center to be presented in September 2009. Michehl Gent inquired as to the limitations of the data center in Taylor and asked whether ERCOT would be back on track with these plans. Mr. Hinsley replied that as to the Nodal data capacity (Item 3 of the Nodal Program Update in the Board materials), there would be enough capacity for “go live” with Nodal. He commented that ERCOT can add more capacity with the frames that ERCOT has today.

Andrew Dalton asked whether having new people in leadership roles in the Nodal Program creates risk. Mr. Doggett responded that it does create some risk, but that the majority of those in new leadership roles appear to be working out well, and that ERCOT is on top of it and is ready to make changes quickly if necessary. Mr. Dalton also inquired as to whether ERCOT was losing any institutional memory. Mr. Doggett replied that yes, in some cases ERCOT is, but that this is part of the evaluation process when leadership decided to replace someone, and that he is confident the benefits of making necessary changes outweigh any lost knowledge.

Mr. Doggett turned to cost management of the Nodal Program and reviewed the spending trends, noting the wide variances between the actual and forecasted amounts. He advised that the variances will be analyzed, which could be due to a number of factors, and that he will bring a new report to the next Board meeting. Commissioner Nelson expressed her concern over the March 2009 forecast. Mr. Doggett replied the amount in March relates to a hardware contract which he could explain in greater detail later during Executive Session and that when the forecast is adjusted it appears that ERCOT will be under the \$12 million-per-month budget.

Mr. Doggett then discussed the analysis of the stand-alone benefits from the Nodal Program, contained in the Board materials. Mr. Doggett added that TPTF and TAC both have stated that the Nodal Program schedule is achievable. Mr. Helton advised that at the most recent SNP Committee meeting, after TPTF and TAC met, the Committee took a preliminary look at the Nodal Program schedule and budget and got most of the Committee’s questions answered. Chairman Smitherman requested that ERCOT staff develop an easy-to-understand way to display progress on the Nodal Program schedule, that is, where ERCOT is and where it ought to be.

Special Nodal Program (SNP) Committee Report (Agenda Item 8)

Mr. Helton reported that the SNP Committee recently reviewed the Nodal Program schedule and budget, as well as PRR799. He advised that he and Mr. Cleary discussed Utilicast’s Report #10, which will focus on integration. Mr. Helton further noted that the Committee reviewed individual projects to examine the relationship between functionality and the Protocols.

Utilicast Nodal Program Review including Report #9 and Status Update on Utilicast Recommendations (Agenda Items 8a and 8b)

Mr. Cleary proceeded to present Utilicast’s Nodal Program Oversight Report #9 related to System Integration Assessment, and noted that Utilicast rated the Nodal Program’s system integration to date (not the Nodal Program itself) as a “D”, mainly due to prior poor controls and



management. Mr. Cleary discussed the recommendations in the report, including getting the right people in the right place, and noted that the system integration is in the process of improving and is on the cusp of big change – contractors should roll off; employees will take the lead; and enterprise implementation is the effort now. Mr. Dalton advised that he was concerned about the leadership role changes and requested a continuous review process to make sure that ERCOT has the right people in the right places.

Mr. Cleary also noted that \$20 million had been spent and the Nodal Program was only 5-10% complete on integration. He clarified that much of the \$20 million was spent on other non-integration related projects, where the money spent had value even though it was spent on other projects. Mr. Doggett advised that, with regard to the \$20 million, there was a conscious decision to perform FAT testing with integration resources, and money was also spent on the enterprise integration project. Mr. Cleary mentioned that enterprise integration should not have a budget of that size. Mr. Helton advised that the SNP Committee would review the uses of the \$20 million further. Mr. Cleary commented that there was not a lot of historic coordination across projects and that, in some instances, the projects were built to out-of-date specifications, which created an increase of 20-50% of cost on the re-work. Commissioner Nelson asked about the projects being built to out-of-date specifications. Mr. Cleary replied that it was the way the individual solutions were originally set up to show progress at core functionality that was specific to each team; there was no coordination between teams, and there was not a focus on interfaces. Commissioner Nelson asked if there was appropriate coordination in place today. Mr. Cleary responded that yes there was, but that the Program has a way to go – in his opinion, the Program was 75% there, but the overall coordination and setting priorities was the other 25%. Miguel Espinosa and Brad Cox asked about the ways in which these issues are identified and the ways to track the progress. Mr. Cleary replied that a standard audit approach should be used.

Chairman Newton asked whether, if ERCOT implemented Utilicast's recommendations, ERCOT would be able to complete the Nodal Program on schedule and on budget. Mr. Cleary replied yes it would with the people that ERCOT is engaging. Chairman Newton asked if Nodal Program changes are being made in a timely fashion. Mr. Cleary responded affirmatively. He added that ERCOT owns the relationships with the vendors and needs to manage the process with the vendors. Don Ballard and Commissioner Nelson asked whether ERCOT could trim the budget and still achieve the same go-live date with the same quality. Mr. Cleary replied that he had a high level of confidence that the budget should be lower and that the Nodal Program could still be completed on time. He added that Utilicast gave the system integration a "D" since it was started too early in the process, was not well thought out, and did not have good leadership. He mentioned that ERCOT needs people on the Nodal Program team who have experience managing these vendors and that EAC numbers should be provided monthly. Mr. Cleary also cautioned that the budget cannot simply be slashed and that there will still be risks associated with the Nodal Program. He commented that the budget numbers are higher than he would expect them to be; however, this was a balancing act when considering if some of the risks materialize. He recommended that the process should be, at intervals, to re-examine needs and projections. He added that ERCOT is hiring people who have done this type of work previously, such as, with CA ISO, PJM, NY ISO or internationally. He recommended that some zonal people be moved into Nodal as part of ERCOT readiness. Mr. Cleary also noted, with regard to transitions and external work services, there should be no limit or specifications on file size and



that market systems cannot accept a combined bid and offer. He recommended not trying to have complicated systems of breaking files down and standardizing, but rather having agreement with the market. He further recommended that a definition of an acceptable transaction needs to be delivered to the market so that the market can prepare for the process.

Lunch (Agenda Item 9)

Chairman Newton adjourned the meeting for lunch at approximately 12:25 p.m. The meeting reconvened at approximately 1:10 p.m.

Nodal Budget and Schedule (Agenda Item 8c)

Chairman Newton noted that the Nodal Budget and Schedule (Agenda Item 8c) and Nodal Surcharge and Debt Financing (Agenda Item 11a) would be discussed together with the Nodal Budget and Schedule to be considered first.

Mr. Helton remarked that he had clarified the budget with Mr. Cleary and that this was the right not-to-exceed budget to move forward with since there are still some high risk issues. Chairman Newton agreed and mentioned that potential savings will still be pursued. She stated that the revised preliminary budget was \$658.7 million. Mr. Ballard asked about the difference between this revised proposed budget and last month's proposed budget. Mr. Doggett replied that the financing costs had decreased. Mr. Ballard stated that he had asked for the budget to be "scrubbed", that he was still concerned about the contingency in the budget, and that although he could appreciate the Board's retention of the right to refuse contingency spending, he could not support the budget. Mr. Doggett advised that the budget had been scrubbed and that in the process of doing so, several items were found that should have been included in the budget, but had been inadvertently omitted. Dr. Patton, Chairman Newton and Mr. Gent discussed the contingency in the budget. Chairman Smitherman noted that the contingency had been zeroed out in some projects, but not in others, and wanted to know more about the methodology used to develop the contingency numbers. Mr. Doggett replied that he preferred to see contingency at the Program level. Aaron Smallwood, Director of Nodal Finance, advised that the individual projects had allocated contingency numbers, but now contingency was noted at a Program level. He mentioned that there were line item changes in the prior \$319 million budget with a \$15 million contingency and that the associated contingency numbers had to be accounted for in the new budget. Mr. Armentrout commented that it would be better to pull the contingency out of the projects so that the project managers do not think of the contingency as theirs. He mentioned that having contingency at the Program level allows more financial control at the Board level before it can be allocated to the project level. Chairman Newton agreed that it was a better way to maintain control. Chairman Smitherman inquired as to the amount of contingency in the new budget. Mr. Armentrout mentioned that \$15 million contingency of the \$319 million budget was unusually small as a percentage of the budget and that a 25% contingency at the start of integration was not unusual. Mr. Doggett stated that he would expect 20% for a project of this size at this stage. Mr. Helton added that IBM had stated that the contingency in the \$319 million budget was too low and that he believed that 20% was appropriate for the unknowns and risk factors.



Mr. Dalton asked if there is a 75% possibility that the Nodal Program will be completed by December 31, 2010. Mr. Doggett replied that yes, there was. Chairman Newton mentioned that ERCOT has to go to the Commission to seek approval of the Nodal surcharge and that ERCOT should only have to do so once rather than needing to return later to the Commission for an increase if the budget was missed. She noted that ERCOT needed to ensure that the Nodal Program is doable, that Utilicast was advising the Board that the schedule and budget are achievable, and that ERCOT must ultimately meet the schedule and budget. Mr. Dalton inquired whether the budget had a 75% possibility of being met or it was a 100% guarantee that the budget could be met. Mr. Doggett replied that he had a very high confidence level (99%) that the costs would come in at or below the \$658.7 million budget. Commissioner Nelson mentioned that Mr. Kahn had stated at a Commission Open Meeting that ERCOT would not exceed that number. Dr. Patton, Mr. Armentrout, Mr. Helton, Mr. Doggett and Mr. Smallwood discussed the varying confidence level in the budget with and without contingency. Mr. Dalton asked how a 95%-confidence level could be reached with variables such as the system integration risks, Market Participant readiness and new people in leadership positions. Mr. Kahn responded that he asked the ERCOT staff in May to prepare an achievable budget and schedule. He further stated that the involvement of Utilicast and the involvement of experienced people being engaged to work on the Nodal Program reduce the risks. Mr. Cleary added that varying probability levels related to the completion of the Nodal Program on budget and on schedule relate to certain points in time. He further stated that assumptions may change and, if they do, then a re-examination needs to take place.

Mr. Cleary remarked that the key is not the amount of the budget, but rather that ERCOT has control over the budget. Mr. Helton remarked that for contingency dollars, he would expect to know how it would affect the Critical Path. Chairman Newton advised that she would expect that the staff would find the dollars within that project or expand the search for dollars before coming to the Board with a justification for any contingency money. Mr. Kahn mentioned that if there is an issue, it will be addressed well in advance, and that the Nodal Program Management Office reviews tasks on a weekly basis. Commissioner Nelson mentioned that when Mr. Kahn went to each group within the Nodal Program and asked for a realistic amount of money, there must have been some contingency built into the numbers. Mr. Kahn replied that he is not aware of any contingency built into the numbers and that ERCOT staff had been conservative with the budget. Dan Wilkerson commented that ERCOT is attempting a process that is like prospective ratemaking, because ERCOT faces many unknowns and does not know how much it will need to recover. He added that contingency should be tracked separately and that it should not be for staff to control. Commissioner Anderson noted that the idea that the Nodal Program ends on January 1, 2011, and gets paid off is somewhat illusory since there will be ongoing costs. He expressed his preference that ERCOT approve a budget number that would be a true cap above which ERCOT cannot come back to the Commission for a budget increase. Chairman Newton expressed support for Commissioner Anderson's statements on behalf of the Board. Mr. Dalton expressed his desire for more assurance. Chairman Newton acknowledged that the Board would like a 100% guarantee, but distinguished between the approval of the prior budget and the proposed one, noting that the Board is in a different position now with increased knowledge. Mr. Kahn added that, prior to May, there was no integrated schedule. He further advised that with ERCOT's current integrated schedule, he felt confident that ERCOT would not be exceeding its Nodal Program budget. Mr. Helton agreed that the integrated schedule has made a difference.



Mr. Helton moved to approve the Nodal Program budget and schedule as presented. Mr. Armentrout seconded the motion. Mr. Ballard remarked that he felt that the ratepayers would be squeezed at both ends. Mr. Gent expressed reservations about the contingency fund level in the budget being at 20% and the large budget total would cause all future budget reports to be “under budget”. Charles Jenkins mentioned that he shared some of Mr. Dalton’s concerns, but he believed that the proposed budget was a good budget for this schedule at this time. Mr. Wilkerson suggested that all budget tracking be done with numbers less the contingency. Mr. Kahn responded that ERCOT’s EACs would show the budget numbers without the contingency. Miguel Espinosa mentioned that he was initially averse to the concept of a contingency within the budget, but that he now understood that this would be the last Nodal Program budget. He added that he believed this proposed budget to be realistic to accomplish the goal at hand and that the contingency would now be tightly controlled with review by Mr. Cleary, then the SNP Committee, then the Finance and Audit (F&A) Committee, and finally the Board prior to the release of any funds. Nick Fehrenbach commented that there is a one-in-four chance that ERCOT will not make the budget and that if ERCOT does not, then the contingency will cover it. **Chairman Newton called for a vote on Mr. Helton’s motion. The motion passed by voice vote with no abstentions and three opposed (Messrs. Ballard, Dalton and Fehrenbach).**

Finance & Audit (F&A) Committee Report (Agenda Item 11)

Due to the related nature of the Nodal Budget and Schedule (Agenda Item 8c) and the Nodal Surcharge and Debt Financing (Agenda Item 11a), Chairman Newton proceeded with the Nodal Surcharge and Debt Financing discussion.

Nodal Surcharge and Debt Financing (Agenda Item 11a)

Mr. Espinosa advised that if it were not for the Nodal Program, ERCOT would not need debt financing. Steve Byone, ERCOT Vice President and Chief Financial Officer, reviewed five basic funding options to fund the proposed Nodal Program spending increase and described associated key assumptions, including the total proposed cost of \$658.7 (as discussed previously as part of the Nodal Program Budget and Schedule in Agenda Item 8c) of which \$526.4 million of net costs would need to be financed and recovered through the Nodal Surcharge. Mr. Byone advised that the net cost figure of \$526.4 million was calculated by reducing the total proposed cost of \$658.7 million by: (1) \$92.6 million of financing costs which were calculated using an assumption of recovering the Nodal Program spending increase through a flat-fee option (referenced as Option 2a in the Board materials), and (2) \$39.7 million in “interdependent” project costs - that is, projects that would have been undertaken even without the Nodal transition and which are recovered through the System Administration Fee. Mr. Byone further reviewed the historical capital expenditure revenue funding options provided in the Board materials. Mr. Espinosa advised that the F&A Committee considered the five funding options and voted to recommend Option 2 (the Flat-Fee Option) to the Board (whether the numbers would fall out according to Option 2a or 2b dependent on the Commission’s decision in the interim surcharge docket). Mr. Dalton asked which option is most closely reflected in the proposed budget and whether any option could lower or affect the proposed budget. Mr. Byone responded that Option 2a is reflected in the proposed budget and that other options could affect



the proposed budget. Mr. Wilkerson mentioned that the dates for final payoff will slide based on the total expenses. **Mr. Espinosa moved to accept the F&A Committee's recommendation to the Board and to approve an increase in the Nodal Surcharge rate consistent with Option 2 (the Flat-Fee Option). Mr. Armentrout seconded the motion.**

Mr. Ballard remarked that he was uncomfortable with Option 2 because of the revenue funding percentage falling below 40 percent and that he preferred Option 4, but would support Option 3, due to the lower debt-to-equity ratios. He requested that the Board consider the debt-to-equity ratio and that Option 2 was not appropriate for ERCOT at this time. Dr. Patton mentioned that Option 3 presumes the actions of the Commission although he agreed that the level of indebtedness may not reflect well on ERCOT amongst its peers. Mr. Dalton commented that with Option 3, compared to Option 2, finance costs could be reduced and that every dollar ERCOT can save is important. Mr. Espinosa noted that the surcharge almost doubles between Option 2 and Option 4. Charles Jenkins mentioned that the capital costs of generators should be considered as these costs also ultimately end up with consumers. Mr. Dalton stated that benefits needed to be achieved for consumers, directly or indirectly. Brad Cox supported Mr. Jenkins' comments and added that, to Mr. Dalton's point, Option 2 does the best job of aligning costs with investment life, and that the other Options would be imposing prepayments at a higher rate, ultimately impacting the consumer. He added that the savings with the other Options would be largely illusory. Mr. Gent commented that Option 2 would be more conducive to agreement among the interested parties to ERCOT's rate filing. Mr. Fehrenbach suggested a step rate in 2010 since the rate still flows down to consumers, reduces the rate shock, reduces financial costs and saves consumers money. He pointed out that the System Administration Fee increases when the Nodal Program goes live and that this would provide some stability.

Chairman Newton called for a vote on Mr. Espinosa's motion. The motion passed by voice vote with no abstentions and three opposed (Messrs. Ballard, Dalton and Fehrenbach).

Investment Standard (Agenda Item 11b)

Mr. Byone advised that the F&A Committee considered revisions to the ERCOT Investment Corporate Standard. He explained that the revisions focused on improving credit quality, liquidity and the definition of who bears the risk of loss. He stated that the F&A Committee recommended selecting Option B under the alternative choices for treatment of "Investment Losses" within the Standard, but without the last clause of Option B as it had been drafted for the Board Packet (that is, to strike "while all other losses are borne by ERCOT, Inc."). **Mr. Espinosa moved to accept the F&A Committee's recommendations to the Board and to approve ERCOT's Investment Corporate Standard with the recommended revisions. Dr. Patton seconded the motion. In response to a question by Mr. Armentrout, Mr. Espinosa clarified that this Investment Standard would continue to be reviewed and was a work in progress. The motion passed by unanimous voice vote with no abstentions.**

Market Participant Guarantee Agreements (Agenda Item 11c)

Mr. Byone advised that the F&A Committee had considered revisions to the ERCOT standard form Market Participant Guarantee Agreement and Foreign Market Participant Guarantee



Agreement. Mr. Byone further advised that that F&A Committee recommended to accept the revisions to these standard Agreements and to make these standard Agreements effective immediately. Finally, Mr. Byone stated that if the proposed changes were approved staff would target replacement of existing agreements within the next 60 days. **Mr. Espinosa moved to accept the F&A Committee's recommendations to the Board and to approve the revisions to these standard Market Participant Guarantee Agreements. Mr. Armentrout seconded the motion.** Mike Grable, ERCOT Vice President and General Counsel, noted that a decision was made at the F&A Committee meeting to strike the last sentence in the "Key Factors Influencing Issue" Section of the Board decision template for this Agenda Item to avoid confusion. Bob Thomas inquired whether the change in waiver of defenses would allow Market Participants to pay first, then submit to alternative dispute resolution later. Mr. Grable confirmed that he would ensure that the Protocol language is, or would be, explicit in that regard. **The motion passed by unanimous voice vote with no abstentions.**

Treatment of Investment Losses (Agenda Item 11d)

Mr. Byone mentioned that the F&A Committee had considered the proposed ERCOT request to formalize past policy direction of the Board during the fourth quarter of 2008 relating to the treatment of investment losses ERCOT experienced on investment funds place with The Reserve. He further stated that the F&A Committee recommended acceptance of this policy related to treatment of investment losses that: (1) ERCOT bear losses recorded on investment funds offered by The Reserve rather than uplift or otherwise share the losses with Market Participants and Texas Regional Entity; and (2) ERCOT pay Market Participants and Texas Regional Entity a reasonable, market-based rate of interest for the time that funds are held by ERCOT on their behalf. **Mr. Espinosa moved to accept the F&A Committee's recommendation and to approve the proposed treatment of investment losses. Mr. Armentrout seconded the motion.** Mr. Dalton and Mr. Gent asked about the amount of estimated loss with The Reserve. Mr. Byone replied that the known loss has been booked at approximately three percent of the amount on deposit or \$1.3 to \$1.4 million and that the total amount not yet returned to ERCOT, and therefore at risk of loss, totaled approximately \$10 million. Chairman Newton added that ERCOT expects to receive more funds from The Reserve, but that ongoing litigation against The Reserve may affect the final amount received by ERCOT. Mr. Byone pointed out that further Protocols changes would be necessary to address the treatment of any future losses. **The motion passed by unanimous voice vote with no abstentions.**

H.R. & Governance (HR&G) Committee Report (Agenda Item 12)

Mr. Armentrout provided the HR&G Committee Report and advised that the Committee had conducted a review of recruiting strategy, completed its Self-Assessment, and reviewed the Market Participant Survey for which the Committee requested the addition of trend analysis. He also requested that the Board give consideration to Bylaws changes and that those requested changes be submitted to Mr. Grable by June. He added that the Committee considered ERCOT's bandwidth for engineering studies and would like further work to be completed on an elastic staffing strategy by working with outsourcing partners.



Adoption of 2009 Key Performance Indicators Matrix (Agenda Item 12a)

Mr. Armentrout and Dr. Patton discussed the HR&G Committee's review of the 2009 Key Performance Indicators (KPI) Matrix and advised that the Committee recommended to the Board that the KPI Matrix be approved with changes on the first page of the KPI Matrix from 10% to 5% for advanced metering and from 5% to 10% on the last item for regulatory and stakeholder issues, and added that the detailed subsections would be managed by ERCOT staff. **Mr. Armentrout moved to accept the HR&G Committee's recommendations and approved the 2009 KPI Matrix as modified. Mr. Kahn seconded the motion.** Mr. Helton mentioned that the advance metering change only applied to the 2009 KPI Matrix since advanced metering will likely become more critical in 2010. Mr. Ballard noted the importance of advanced metering and that it was critical to be ready for advanced metering. Mr. Kahn agreed. **The motion passed by unanimous voice vote with no abstentions.**

Proposed Ancillary Service Methodology (Agenda Item 6)

John Dumas, ERCOT Operations Planning Manager, presented the proposed Ancillary Services methodology changes for 2009. Mark Bruce, Technical Advisory Committee (TAC) Chair, mentioned that TAC endorsed the Responsive Reserve Service (RRS) and Non-Spinning Reserve (NSRS) changes. Mr. Bruce noted that the Load acting as a Resource (LaaR) study had been completed, which supports that LaaR can provide 50% of RRS up to a total RRS of 2800 MW, and there will be a new study to determine if LaaR can exceed 50% of any level. **Mr. Armentrout moved to approve the 2009 Ancillary Services methodology changes as presented. Mr. Gent seconded the motion.** Mr. Saathoff advised that ERCOT staff participated in the study and was fully supportive. Mr. Dalton thanked Mr. Bruce for pursuing the LaaR issue and inquired about the timing of the new study. Mr. Bruce responded that he did not have a timeframe for the study. Mr. Dalton asked that TAC provide the Board with a report next month, if possible, with respect to the timing of these studies and that he would like to see more Operating Reserves online by this summer. **Mr. Armentrout modified his motion to include Mr. Dalton's request that TAC provide the Board with a report next month, if possible, with respect to the timing of these studies. The motion passed by unanimous voice vote with no abstentions.**

Technical Advisory Committee Report (Agenda Items 10 and 10a-d)

Chairman Newton invited Mark Bruce, TAC Chair, to report on recent TAC activities.

Mr. Bruce noted that PRRs 793, 794 and 795 had been approved previously with the Consent Agenda (Agenda Item 2) and that PRR 782 had been removed from the Consent Agenda.

PRR782 – Clean-up and Corrections to Terminology and Transaction Timings in Protocol Section 15, Customer Registration [Texas Standard Electronic Transaction (Texas SET) Working Group]. Proposed effective date: March 1, 2009. No budgetary impact – the requirements are managed under Project No. 60008 Terms and Conditions not limited to Texas SET changes and Performance Measurements; no additional full-time equivalents needed; no system changes required; existing business processes can



accommodate this PRR; no impact to grid operations. This PRR corrects and clarifies the transaction timing descriptions to make them consistent with current processes and Retail Market Guide Appendix D, Transaction Timing Matrix. PRR782 was posted on October 2, 2008. On November 20, 2008, the Protocol Revision Subcommittee (PRS) unanimously voted to recommend approval of PRR782 as revised by the Retail Market Subcommittee (RMS) comments. On December 18, 2008, PRS unanimously voted to endorse and forward the PRS Recommendation Report and Impact Analysis to TAC for approval. On January 8, 2009, TAC unanimously voted to recommend approval of PRR782 as recommended by PRS.

Mr. Fehrenbach mentioned that PRR782 had been revised to include a new sentence. **Mr. Fehrenbach moved to approve PRR782 as modified. Dr. Patton seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Protocol Revision Requests (PRRs) 798 & 799

PRR798 – Update Trading Hub Conversion [ERCOT] – URGENT. Proposed effective date: Upon ERCOT Board Approval. No budgetary impact; no additional full-time equivalents needed; no system changes required; existing business processes can accommodate this PRR; no impact to grid operations. This PRR synchronizes the ERCOT Protocols to reflect the 2009 Commercially Significant Constraint (CSC) definitions, approved by the ERCOT Board on October 21, 2008, as they affect the Trading Hub calculations for 2009 (several transmission buses moved between Congestion Zones). As such, the calculation for converting transactions at Trading Hubs to existing Congestion Zones is revised. PRR798 and its corresponding Impact Analysis were posted on January 12, 2009. On January 14, 2009, the motion to grant Urgent status to PRR798 passed via email vote. On January 22, 2009, PRS voted to recommend approval of PRR798 as submitted and forward PRR798 and its Impact Analysis to TAC. There was one (1) abstention from the IOU Market Segment. On February 5, 2009, TAC voted to recommend approval of PRR798 as recommended by PRS and effective upon ERCOT Board approval with two (2) abstentions from the IOU and IREP Market Segments.

Mr. Helton moved to approve PRR798. Dr. Patton seconded the motion. The motion passed by unanimous voice vote with one abstention (Calvin Crowder).

PRR799 – ERCOT CEO Approval of NPRRs and SCRs Prior to Posting on MIS [ERCOT] – URGENT. Proposed effective date: Upon ERCOT Board Approval. No budgetary impact; no additional full-time equivalents needed; no system changes required; existing business processes can accommodate this PRR; no impact to grid operations. This PRR mandates ERCOT CEO approval before NPRRs may be posted to the MIS. This PRR also mandates ERCOT CEO approval for SCRs that impact system functionality for the Nodal Market. This PRR also allows an appeal mechanism for the submitter of the NPRR or SCR if the ERCOT CEO's decision is to reject the NPRR or SCR. PRR799 was posted on January 19, 2009. On January 21, 2009, the motion to grant PRR799 Urgent status passed via email vote. On January 22, 2009, PRS unanimously voted to recommend approval of PRR799 as amended by ERCOT comments and as revised by PRS. On



February 5, 2009, TAC voted to recommend approval of PRR799 as revised by TAC with three (3) abstentions from the IREP Market Segment.

Mr. Armentrout moved to approve PRR799. Dr. Patton seconded the motion. Mr. Fehrenbach made a friendly amendment to approve the revised version distributed earlier in the meeting, which Mr. Armentrout and Dr. Patton accepted. The motion passed by unanimous voice vote with no abstentions.

System Change Request (SCR) 745 (Agenda Item 10b)

SCR745 – Retail Market Outage Evaluation and Resolution – URGENT. Proposed effective date: upon system implementation. Budgetary impact \$1 to 3 million; an additional two full-time equivalents are needed for ongoing support of the additional hardware and monitoring capabilities; impacts to NAESB, Paperfree, TCH-EAI, all Retail Database Servers, and Training and Database Monitoring; ERCOT will conduct system monitoring training efforts during implementation, document new procedures and additional outage monitoring capabilities for retail applications, and database server connections will be implemented; no impact to grid operations. SCR745 will allow ERCOT to implement a high-availability solution to retail market outages that provides active system failover and redundancy. SCR745 was posted on May 12, 2005. On June 15, 2005, the Retail Market Subcommittee (RMS) unanimously voted to recommend approval of SCR745 with the scope to perform a full evaluation of the retail systems and determine possibilities for resolving and eliminating ERCOT retail system outages. On July 13, 2005, RMS voted to expand the scope of the SCR to include recommended solutions with one (1) abstention from the Independent Retail Electric Provider (IREP) Market Segments. On August 10, 2005, RMS voted to recommend approval of SCR745 and restated that SCR745 should remain a priority of 1.1 with one opposing vote from the Consumer Market Segment. RMS also voted to recommend approval of the impact analysis with one abstention from the Consumer Market Segment. On August 24, 2005, the Protocol Revision Subcommittee (PRS) unanimously voted to support RMS' recommendation of a priority 1.1 and rank of 30. On September 8, 2005, TAC voted to recommend approval of SCR745 as recommended by RMS with one (1) opposing vote from the Investor Owned Utility (IOU) Market Segment and eight (8) abstentions from the Municipal (2), Consumer (4), and Independent Power Marketer (IPM) (2) Market Segments. On October 6, 2005, TAC voted to grant Urgent status to SCR745 with one (1) abstention from the IPM Market Segment. On October 18, 2005, the ERCOT Board unanimously voted to remand SCR745 to TAC. On November 3, 2005, TAC unanimously voted to remand SCR745 to RMS. On November 9, 2005, RMS voted to recommend the approval of two (2) subprojects and a priority of 1.1 and rank of 8 for Subproject One, and a priority of 1.2 and rank of 58.5 for Subproject Two. On December 1, 2005, TAC unanimously voted to recommend approval of two subprojects with a priority of 1.1 and rank of 8 for Subproject One, and a priority of 1.2 and rank of 58.5 for Subproject Two. On December 13, 2005, the ERCOT Board unanimously voted to approve Phase I and II of SCR745 and tabled Phase III. After completion of Phase I and II of SCR745, Phase III of SCR745 was revisited by ERCOT and stakeholders. On December 9, 2008, the Texas Data Transport Working Group (TDTWG) filed comments to recommend that SCR745 be closed without proceeding with



Phase III. On December 10, 2009, RMS filed comments to recommend that SCR745 be closed without proceeding with Phase III per TDTWG comments. On January 9, 2009, TAC filed comments concurring with RMS recommendation that SCR745 be closed without proceeding with Phase III.

Mr. Bruce noted that SCR745 was posted in May 2005 to address root causes of unplanned retail systems outages with hardware installations and other changes to eliminate single points of failure, that it had been addressed with hardware and other backstops, and that TAC recommended its approval. He further noted that TAC recommended that this SCR be closed without proceeding to Phase III and that ERCOT staff concurred. **Mr. Armentrout made a motion to approve SCR745. Mr. Espinosa seconded. The motion passed by unanimous voice vote with no abstentions.**

Executive Session (Agenda Item 17)

Due to scheduling issues, Chairman Newton asked that the TAC Report be continued after Executive Session and adjourned the meeting to Executive Session at approximately 3:20 p.m. She reconvened the meeting to General Session at approximately 4:50 p.m.

Vote on Matters from Executive Session (Agenda Item 18)

Mr. Helton moved to approve the Identity and Access Management Project Revision presented under Agenda Item 17f. Mr. Armentrout seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Mr. Helton moved to approve the Nodal not-to-exceed contract presented under Agenda Item 17d. Dr. Patton seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Technical Advisory Committee Report (Agenda Items 10 and 10a-d) -- Continued

Mr. Bruce continued with the TAC Report and advised of TAC actions with regard to Nodal Implementation, recommendation of approval of PRR799 for management of project scope and resources, the retirement of the charter of the Texas Nodal Transition Plan Task Force (TPTF), and TPTF's planned dissolution at the March 5, 2009 TAC meeting. Mr. Bruce also addressed prioritized wind integration issues, the monthly update of the Renewable Technology Work Group (RTWG), the development of the first quarterly CREZ report to the Commission, and preparations for the upcoming Wind Workshop III this spring.

Appeal Regarding PRRs 776 & 791 (Agenda Item 10c)

Mr. Bruce provided the procedural history of PRRs 650, 776, 791 and 776 and of the TIEC appeal of the TAC action of tabling PRRs 776 and 791. Mr. Dalton inquired as to TAC voting actions. Mr. Grable expressed the view that a failed vote is not an action of TAC. **Mr. Dalton moved to approve that, for purposes of the Bylaws, an appealable action to the Board includes the outcome of any vote at TAC or TAC subcommittee. Mr. Ballard seconded the**



motion. The Board members discussed the motion. Mr. Grable advised that TAC is required to take one of three actions: approve, reject or remand, and that, in his opinion, a failed motion to take one of those three acts is not itself an act of TAC. Mr. Armentrout inquired whether the Board should vote on a Protocol not passed by TAC or whether the Board should send it back to TAC with strongest instruction to act. Mr. Thomas inquired whether the motion should apply to both TAC and TAC subcommittee votes. Mr. Dalton responded that it should apply to both. Mr. Helton recommended that TAC may want to review the Protocol language to address this situation. Mr. Grable noted that Section 21 could and should be modified to address the "limbo" concern. Mr. Bruce mentioned that when a PRR fails, TAC usually tries again for its passage. Mr. Dalton clarified that a vote is an action of TAC or TAC subcommittees for purposes of the Bylaws. Mr. Fehrenbach mentioned issues that could arise with multiple votes. Mr. Dalton replied that they would not be frequent issues. Mr. Helton mentioned that he had reservations about voting on a PRR that was not passed by TAC. Mr. Cox commented that he believed "tabling" the issue meant that the matter was still with TAC. Mr. Crowder mentioned that, from a governance perspective, it was not clear when an issue comes to closure at TAC. Mr. Grable noted that "tabling" should be interpreted to mean that the issue was being deferred. He also clarified that Mr. Dalton's motion referred to the interpretation of the Board's Policies and Procedures rather than the Bylaws. **Mr. Dalton agreed that the reference in his motion should be to the Board's Policies and Procedures. Mr. Thomas offered a friendly amendment that the action would be appealable from the TAC subcommittee to TAC and then to the Board, which Mr. Dalton accepted. The motion failed with four in favor (Messrs. Dalton, Ballard, Fehrenbach and Thomas) and one abstention (Dr. Patton).**

Dr. Patton moved to instruct TAC to bring both PRRs 776 & 791 forth for vote. Chairman Newton noted that such a motion predetermines TAC's course of action in this matter. **The motion was withdrawn pending discussion.**

Mr. Grable acknowledged that this situation was procedurally unusual and supported clarifying revisions to the procedure. Chairman Smitherman suggested that the presentations on this matter be allowed. Mr. Bruce introduced Phillip Oldham on behalf of the appellant TIEC, Brad Jones of Luminant as the TAC Advocate, and Beth Garza of Potomac Economics on behalf of the IMM. Mr. Oldham presented TIEC's position on the appeal. Mr. Wilkerson inquired why PRRs 776 and 791 should be linked. Mr. Oldham replied that he did not think they should be. Mr. Jones presented the TAC position on the appeal. Ms. Garza provided the IMM's position on the appeal. **Mr. Helton moved to approve PRRs 776 and 791. Mr. Kahn seconded the motion.** Mr. Thomas asked about the cost to the market and whether a Commission rule or PRR at TAC would be appropriate. **Mr. Armentrout made a friendly amendment that ERCOT staff should report back to the Board on the consequences.** Dr. Patton noted that load management and advanced metering would become increasingly important and he would support the motion. Mr. Fehrenbach noted that he was concerned about the way that the issue made its way to the Board and requested that the PRRs be voted on separately. He added that he had a substantive issue with PRR791 and that he believed that the voting should not take place until the Board was given the financial impact information associated with the PRRs. Mr. Dalton disclosed to the Board in an effort to maintain transparency that his employer, Valero, is a member of TIEC and he served as Chair of TIEC, and further that he had discussed these relationships with Mr. Grable in advance of the meeting and they had both concluded that this relationship did not present a



conflict of interest. Mr. Bruce noted that PRR791 is not ready since there is no version in the record. Mr. Wilkerson commented that he did not believe that the PRRs belonged together and that the proper treatment would be to vote for PRR776 only and send PRR791 back to TAC for further vetting. Chris Brewster of the City of Eastland stated that the Commission has a scarcity pricing rule and his calculation of impact to load was in excess of \$700 million and he asked that Board pass PRR776, but vote against PRR791. Chairman Newton noted that she was not comfortable with this appeal coming to the Board without TAC input. She recommended that PRRs 776 and 791 be remanded to TAC and require that TAC bring them back to the Board next month to be appealed to the Commission as soon as possible. **Mr. Helton withdrew his prior motion. Mr. Helton then moved to remand PRRs 776 and 791 to TAC and to require that TAC bring these PRRs back to the Board next month to be appealed to the Commission as soon as possible. Mr. Kahn seconded the motion.** Chairman Smitherman noted that PRR791 had not been vetted at the Commission and asked TAC to visit with the Commission and educate the Commission on PRR791. Mr. Ballard expressed his strong dissatisfaction with the process. **The motion passed by voice vote with one opposed (Mr. Dalton) and no abstentions.**

Mr. Dalton made a motion to reconsider PRR776 and to approve the version that failed by one vote. Mr. Fehrenbach seconded the motion. Mr. Bruce noted that the version of PRR776 that is subject to the motion is not memorialized since it is not a final document and on the table at TAC. **Mr. Dalton withdrew his motion.** He inquired about a way that it might be memorialized.

Texas Regional Entity – SAR-001 (Agenda Item 13)

Judith James, Texas Regional Entity (Texas RE) Standards Manager, discussed the Texas RE's request for approval of ERCOT to participate and have a one-quarter vote in the Regional Standards Processes. **Mr. Armentrout made a motion to approve ERCOT to participate and have a one-quarter vote in the Regional Standards Processes. Mr. Crowder seconded the motion. Mr. Gent made a friendly amendment that ERCOT staff file a new SAR proposing to raise the ERCOT (ISO Segment) vote from 1/4 to one vote, which was accepted by Mr. Armentrout and Mr. Crowder. The motion passed by unanimous voice vote with no abstentions.**

Board Member Ethics Agreement (Agenda Item 14)

Mr. Grable reviewed the revisions to the Board Member Ethics Agreement and requested comments or concerns from the Board Members.

Appeal Regarding PRRs 776 & 791 (Agenda Item 10c) – Continued

Mr. Dalton requested that the Board clarify its prior instructions to TAC in Agenda Item 10c with regard to PRRs 776 and 791. **Chairman Newton moved to clarify the Board's prior instructions to TAC in Agenda Item 10c with regard to PRRs 776 and 791, specifically, that TAC review and vote on the most complete versions of PRR776 individually, and of PRR791 individually, and of both PRR 776 and 791 jointly, with the intent that the issue return to the Board next month. Mr. Wilkerson seconded the motion. The motion passed**



by unanimous voice vote with no abstentions.

Board Member Ethics Agreement (Agenda Item 14) – Continued

Mr. Grable noted that the revisions included a sunshine provision as to relationships between Directors and vendors and that he clarified was not a disqualification standard. He added that the Board decides the content of these Ethics Agreements. Mr. Grable solicited comments. There were none at this time. He advised that new Board Members Ethics Agreements with these revisions would be formalized and a vendor list would be circulated to the Directors. Chairman Newton inquired about the ownership of stock by Unaffiliated Directors. Mr. Grable replied that there was an absolute prohibition as to ownership of Market Participant stock by Unaffiliated Directors and that this topic would be discussed in further detail during the annual ethics presentation at the Board Strategic Planning Event the following day.

Other Business (Agenda Item 15)

No other business was raised.

Future Agenda Items (Agenda Item 16)

No future agenda items were discussed.

Adjournment (Agenda Item 19)

Chairman Newton adjourned the meeting at approximately 6:40 p.m.

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