

**MINUTES OF SPECIAL NODAL PROGRAM OVERSIGHT COMMITTEE MEETING
OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

7620 Metro Center Drive, Austin, Texas 78744, Room 206B

December 8, 2008 at 1:30 p.m.

Committee Members Present

Bob Helton
Jean Ryall
Miguel Espinosa
Nick Fehrenbach
A.D. Patton
Robert Thomas

Other Board Members

Mark Armentrout
Michehl Gent
Brad Cox
Jan Newton

ERCOT Staff

Ron Hinsley
Bill Wullenjohn
Matt Morais
Janet Ply
Chad Seely
Brandon McElfresh
David Forfia
Aaron Smallwood
Murray Nixon

Utilicast Nodal Review Team Members

Mike Cleary (Team Lead)
Dave Turner

Market Participants

Adrian Pieniazek
Randa Stephenson
Bob Spangler
Naomi Richard
Kay Trostle
Mark McMurray
Walt Shumate
Neil Schumack

Eric Goff
Kevin Gresham
Don Jones
Caryn Rexrode
Beth Garza

Call to Order

Mr Helton opened the meeting at approximately 12:30 p.m.

Executive Session

Mr. Helton adjourned into Executive Session at 12:33 p.m.
The meeting emerged from Executive Session at 1:15 p.m.

Bob Helton re-convened the Open Session of the meeting of the Special Nodal Program Committee (Committee) of the Board of Directors (Board) of Electric Reliability Council of Texas (ERCOT) at approximately 1:25 p.m.

Jean Ryall moved to approve the minutes for the November 17, 2008 meeting of the Committee, subject to the clarification that Robert Thomas was not in attendance at that meeting. Nick Fehrenbach seconded the motion. The motion passed by unanimous voice vote with Mr. Thomas abstaining.

Nodal Budget and Schedule Review

Mr. Hinsley stated the development phase of the nodal program was approximately 75% complete and that the remaining work is primarily comprised of the integration phases, which include testing, EDS and operational readiness. Mr. Hinsley noted that although ERCOT is presently in integration release 3, 95% of the integration work remains to be completed in the final two releases (i.e. 4 and 5). Mr. Hinsley stated that: 1) CIM XML is still anticipated to be delivered in January of 2009; 2) integration releases 3 and 4 are anticipated to be completed between 1/2009 and 8/2009; 3) the single entry model go-live is anticipated to take place from 7/2009-8-2009; 4) market trials anticipated to begin in 3/2010; 5) 168 hour test expected in 9/2010; and 6) the nodal "go-live" date to occur in 12/2010. Mr. Hinsley stated this schedule reflects longer integration testing periods relative to those originally anticipated.

Mr. Helton stated that the issue of Market Participant testing needs to adequately addressed, noting that it should be addressed with TPTF. Mr. Hinsley stated that he would discuss the matter with TPTF. Janet Ply noted the nodal team was examining the possibility of opening certain sections of the market in 2009 to facilitate the development of information for EDS.

Mr. Hinsley then described the budget process, noting it was derived pursuant to a "bottom-up" review. Mr. Hinsley stated the \$660 million estimate is comprised of the expected costs, a \$40 million contingency, facilities support, employee backfill and related indirect costs and interest costs. Mr. Hinsley stated that major factors behind the costs increases include IT infrastructure, labor costs, maintenance costs and licensing costs. Mr. Hinsley also noted that integration testing costs include quality costs related to program control have impacted the revised budget.

Several questions were asked regarding an apparent discrepancy in interest costs presented in the budget presentation. Specifically, Mr. Hinsley was asked to explain the difference between the interest figure represented in the original budget and the actual interest associated with the currently approved nodal budget (\$319 million), and how those figures compared to the interest costs associated with the revised nodal budget estimate of \$660 million. After some discussion of this issue by Mr. Hinsley, Steve Byone, ERCOT Chief Financial Officer arrived and stated that (1) the \$10.6 million figure was the interest expected to be incurred during the implementation period associated with the original \$125 million nodal budget and did not include interest expenses expected to be incurred after Nodal Program implementation but before all costs of implementation are recovered through the Nodal Surcharge, (2) the \$42.2 million figure included \$10.6 million of interest expected to be incurred during the original implementation period plus an additional \$31.6 million of financing charges related to higher implementation costs and interest expenses expected to be incurred after Nodal Program implementation but before all costs of implementation are recovered through the Nodal Surcharge, and (3) the \$99.6 million figure included \$10.6 million of interest expected to be incurred during the original implementation period plus an additional \$89.0 million of financing charges related to higher implementation costs and a longer implementation period as well as interest expenses expected to be incurred after Nodal Program implementation but before all costs of implementation are recovered through the Nodal Surcharge. Mr. Byone stated that an accurate comparison between the interest associated with the current approved nodal budget and the revised nodal budget estimate of \$660 million was \$42.2 million versus \$99.6 million, respectively.

Mr. Hinsley then discussed the \$40 million contingency in the revised nodal budget estimate of \$660 million, noting that ERCOT does not view the contingency as a readily available funding source and intends on managing the nodal budget below the contingency, which would put the budget at \$620 million.

Risks and Issues Review

Mr. Hinsley presented an overview of the major risks and issues to the Nodal Implementation Program. The top three issues identified by Mr. Hinsley were: 1) a delay in nodal would result in an increase in zonal PRRs, which may impact resources available for the nodal program; 2) a data base refresh is needed, which will take ~ 1 month to accomplish; and 3) integration generally; and 4) information lifecycle management is behind schedule and that could impact nodal go-live date – Mr. Hinsley noted this fourth item was a holdover from the prior months report. To address these issues, Mr. Hinsley stated: 1) ERCOT is assessing potential resource issues; 2) ERCOT is planning on conducting the refresh in 3/09 and is working with all nodal project teams to minimize impact; and 3) ERCOT is actively managing all integration issues; and 4) ERCOT is assigning a Project Manager to oversee this issue and has identified funding for the project.

Utilicast Nodal Program Review including Report #8

Mike Cleary (Utilicast Team Lead) stated the report expected to be issued on December 19, 2008, addressing the nodal schedule and budget was still being prepared. Mr. Cleary noted the report would address what went wrong, identify issues and risks, and the current state of the

program. With respect to what went wrong, Mr. Cleary stated the complexity of the program design was not understood very well and that resulted in inaccurate schedule and budget estimates. Regarding the current state of the program, Mr. Cleary noted that the project controls, PMO and project controller have improved. Concerns included the fact that the 75% completion figure reflected software issues, and that other project issues such as applications, testing, integration and EDS still remain. Mr. Cleary noted that 55% of the \$660 million revised budget estimate has been spent. He also stated the revised budget was a good, "not to exceed" estimate, but that budgets need to be challenged. With respect to schedule risks, Mr. Cleary noted the application implementing the Protocols is estimated to be complete in October 2009, which leaves only 90 days for integration. Mr. Cleary also noted that "scope creep" was a concern given that the nodal protocols are not fixed, and that this has the potential to impact schedule. Additional concerns included: 1) limited infrastructure and environments and limited personnel to address those issues; 2) Market Participant readiness; and 3) extension of Zonal market and potential for competing zonal projects. Mr. Armentrout requested that Mr. Hinsley devise a plan to manage approval of zonal projects. Bob Kahn noted that ERCOT is working with TAC on that issue.

In response to a discussion with Mark Armentrout regarding vendor impact on what went wrong, Mr. Cleary noted it was unusual that vendors wrote protocols and that he would look into vendor impact. Mr. Cleary also noted the risk associated with Market Participant readiness is mitigated via relationships and managing participation. In discussing vendor involvement during integration, Mr. Cleary noted that this is a concern, and that it is ERCOT's responsibility to drive vendors that are not providing adequate support. With respect to the adequacy of ERCOT staffing to complete the nodal project, Mr. Cleary stated the structure is adequate, and that Utilicast is evaluating individual capabilities. Mr. Cleary then noted that applications are fine within silos, but integration is an issue. He further noted that post-go-live capabilities are an issue to be aware of, including the capability to implement improvements.

Mr. Helton then asked about the process for the report, and Bill Wullenjohn stated that Utilicast would provide its report to Internal Audit on December 19, 2008. Internal Audit would in turn formally distribute Utilicast's report to the Nodal Subcommittee and other stakeholders on that date. Mr. Wullenjohn added that Utilicast would provide a formal presentation on the results of its final report to the Nodal Subcommittee and the Full Board on January 19, 2009, and January 20, 2009, respectively. Mr. Helton then noted that integration is a significant risk and that future Utilicast efforts should focus on that issue. Mr. Cleary noted there is a risk that integration may not support the Protocol requirements and that pushing integration to projects is preferable to waiting for full integration. Mr. Wullenjohn noted that Utilicast's Report #9 would be focused on system integration. Mr. Helton confirmed that integration should be the subject matter of the next report and that Utilicast should start as soon as possible in January to mitigate that risk. Mr. Helton noted that turnover and knowledge transfer issues could be addressed later.

Other Business

No other business items were raised.

The Open Session meeting adjourned at approximately 2:30 PM.



Matthew T. Morais
Committee Secretary