

**DRAFT MINUTES OF THE
TEXAS REGIONAL ENTITY ADVISORY COMMITTEE**
Room 206, Met Center, 7620 Metro Center Drive, Austin, Texas 78744
May 19, 2009

Committee Members

Michehl R. Gent ¹ , Chair		Unaffiliated
A.D. Patton, Vice Chair		Unaffiliated
Mark Armentrout		Unaffiliated
Danny Bivens ²	Office of Public Utility Counsel	Residential Small Consumer
Jan Newton		Unaffiliated
Barry T. Smitherman	Chairman, Public Utility Commission of Texas	

Other Attendees

Larry Grimm, Texas RE CEO and CCO
Susan Vincent, Texas RE Director, Legal Affairs
Victor Barry, Texas RE Director, Compliance
Todd Brewer, Texas RE Senior Financial Analyst
Ryan Clay, Texas RE Senior Paralegal
Nancy Capezzuti, ERCOT VP and CAO
Steve Byone, ERCOT VP and CFO
Ryan Bassett, PwC
Sean Barry, PwC (Via telephone)
Mark Bruce, MJB Energy Consulting
Bridget Headrick, PUCT
Jennifer Windler, LCRA
Eric Goff, Reliant Energy

Call to Order and Executive Session

Chair Gent called the open session of the Texas Regional Entity ("Texas RE") Advisory Committee ("Committee") meeting to order at approximately 10:00 a.m. and immediately recessed the meeting for an Executive Session.

Open Session Reconvened

At 10:14 the Committee returned to open session.

CEO Market Compensation Structure

Mark Armentrout moved for the Committee to approve a revised compensation structure for the Texas RE CEO, Larry Grimm, that is tied into the 2009 Goals and Key Performance Indicators (as discussed in executive session); Jan Newton seconded the motion. The motion was approved by unanimous voice vote.

¹ Miguel Espinosa designated Michehl Gent as his proxy for this meeting.

² Don Ballard designated Danny Bivens as his alternative representative for this meeting.

Approval of Minutes

Jan Newton made a motion to approve the minutes from the April 21, 2009 Committee meeting; Dr. A.D. Patton seconded the motion. The motion passed by unanimous voice vote.

Texas RE Update

Larry Grimm provided the Committee with a Texas RE administrative update, including information he learned during the NERC Board of Trustees (BOT) and Members Representative Committee meetings on May 5th and 6th. He informed the Committee that:

- The NERC BOT approved the Texas RE Standard Authorization Request giving ERCOT ISO a ¼ of a vote
- The draft 3-Year Performance Assessment of NERC and regional entities (REs) is posted for public comment on the NERC website
 - NERC recommends that RE compliance programs (and CEO compensation) report to independent directors
 - Workshop in Denver for comments today (May 19th)
 - Each RE board has the option to approve, by June 30th, the RE's assessment and any response to the NERC evaluation, recommendations, and proposed changes to bylaws, rules, and procedures
- NERC's Proposed 2010 Business Plan & Budget proposes:
 - ~40% increase over 2009
 - 55.5 new FTEs
 - NERC staff asked by the NERC BOT to submit revised alternative budgets under various assumptions, with explanations of what work would not be accomplished under each such assumption
 - Could impact RE budgets, particularly:
 - CIP audits of nuclear facilities
 - Technical feasibility exception requests to CIP standards
 - FERC is proposing ~42 engineers and 8 attorneys in its 2010 budget
 - Texas RE draft 1 2010 Business Plan & Budget submitted to NERC on May 8th; 2nd draft to be submitted on May 29th

The Committee generally discussed the possible structural separation of Texas RE, and Mr. Armentrout requested that Susan Vincent contact Mike Grable from ERCOT and prepare a brief report on the definition of "Independent" director used by other REs and ISOs.

Finance & Audit Issues

Recommend Acceptance of 2008 Audited Financial Statements

Todd Brewer informed the Committee that the audit of the 2008 Texas RE financial statements was complete. He reminded the Committee that this was the first year for a full financial statement audit for the Texas RE division and that a materiality threshold of \$2,000 had been used for the audit.

Ryan Bassett from PriceWaterhouseCoopers (PwC) confirmed that PwC had completed its audit of the 2008 Texas RE financial statements and was prepared to issue an unqualified opinion. Mr. Bassett and Sean Barry (also from PwC, who joined the Committee discussion via telephone) reviewed the key audit and reporting matters with the Committee. Mr. Bassett described the three audit adjustments proposed by PwC. Mr. Barry stated that Texas RE had

done a nice job on the financials, and acknowledged that the first two adjustments were not related to mistakes or any weakness in its segregation of duties. Mr. Barry suggested that, particularly as Texas RE contemplates structural separation, Texas RE should address the segregation of finance duties. Mr. Bassett and Mr. Barry answered the Committee's questions and concluded that PwC expects to issue their opinion following acceptance of the opinion by the Texas RE Board of Directors.

Mr. Armentrout asked Mr. Grimm to make a recommendation to the Advisory Committee for strengthening of the internal controls and appropriate segregation of duties, assuming Texas RE remained a division of ERCOT.

Jan Newton moved to recommend the 2008 Audited Financial Statements to the Board; Mark Armentrout seconded the motion. The motion passed by unanimous voice vote.

2010 Business Plan & Budget Review

Mr. Grimm informed the Committee that Texas RE submitted the first draft of its 2010 Business Plan & Budget (BP&B) to NERC on May 8, 2009, and the second draft was due May 29, 2009. Mr. Grimm provided a brief overview of the 2010 BP&B and asked the Committee members for any questions. Mr. Grimm noted that Texas RE had included the Committee's previous recommendation to increase its reserves, from 60 to 75 days, and referred the Committee to the budgetary comparisons to the other regional entities. Mr. Armentrout stated that Clifton Karnei previously asked Texas RE staff to develop budget comparisons of regional entity expenses per gigawatt hour (GWH), and referred the Committee members to the charts showing this comparison. Mr. Armentrout asked Texas RE staff to provide a comparison of 2008 actual expenses to 2009 budgeted expenses by regional entity, and Mr. Brewer agreed to prepare this comparison.

Ms. Newton explained that although the Committee was originally concerned about Texas RE's request for a 25% increase in funding from 2009, Mr. Grimm had sufficiently justified the requested amount by providing appropriate detailed explanation to the Committee. Ms. Newton commended Mr. Grimm for maintaining the low cost structure at Texas RE and reminded Texas RE that the Committee expected Texas RE to maintain an efficient structure and strive to have its annual expenses begin to flatten out. Dr. Patton commended Texas RE for its hard work and the excellent reports from NERC and asked that Texas RE continue to focus on performing well and maintaining reliability efficiently.

In response to a question by Chairman Smitherman, Mr. Grimm confirmed that he would review the 2010 BP&B in more detail and answer questions at the up-coming Texas RE Board of Directors meeting. Chairman Smitherman asked Mr. Grimm to explain Texas RE's sources of funding. Mr. Grimm responded that the statutory fee from NERC was based on net energy for load, similar to the ERCOT Administrative Fee. Chairman Smitherman asked if Texas RE has anticipated what would happen if the net load went down. Ms. Vincent stated that the NERC fee (including the portion paid by NERC to Texas RE) that ERCOT paid was fixed annually to be a flat fee, based upon load, but she was not sure of whether the fee that ERCOT collected from the market participants would be affected by changes in load. Steve Byone, ERCOT VP and CFO, joined the Committee at approximately 11:07 p.m. to help explain the collection and funding of the NERC fee. Mr. Byone explained that ERCOT collected the fixed NERC fee, based upon a PRR that was approved in 2008. He explained that the PRR provided for a fixed fee that ERCOT billed to market participants based upon their previous year's load. Because of

this change, ERCOT would collect the exact amount it would then pay to NERC, regardless of the current year's load.

Governance Discussion

Mr. Grimm reviewed a Mobilization for Structural Separation presentation with the Committee. The Committee discussed a possible structural separation and, in response to a question by Ms. Newton asking about future IT support for Texas RE, Mr. Grimm acknowledged that Texas RE would probably need to negotiate a contract with ERCOT for IT services, at least for some period of time after separating.

Mr. Armentrout stated that the work associated with the possible separation of Texas RE from ERCOT ISO would be extremely time-consuming for Texas RE staff to continue working on alone, and suggested that they seek outside counsel for this matter. Mr. Grimm agreed with Mr. Armentrout's suggestion. Mr. Armentrout strongly encouraged ERCOT to work with Texas RE, through the Memorandum of Understanding (MOU), to provide services to assist Texas RE with any separation transition. Ms. Capezzuti, ERCOT VP and CAO, confirmed that ERCOT was committed to continuing to assist Texas RE, even as it separated from ERCOT. In response to a question from Ms. Newton asking if Texas RE thought that separation from ERCOT ISO was still the right thing to do, Mr. Grimm and Ms. Vincent responded yes.

Chairman Smitherman informed the Committee that the Public Utility Commission of Texas (PUCT) would undergo Sunset review in 2011 and he believes that ERCOT ISO will be a part of that process, regardless of House Bill 2421. The Chairman also confirmed to the Committee that the PUCT was indifferent to Texas RE separating based just on appearances, but if Texas RE will be placed at a disadvantage in the eyes of NERC if it does not separate, then Texas RE should move forward with the separation, even if this is difficult to accomplish.

Adjournment

Chair Gent adjourned the Texas RE Advisory Committee at approximately 11:27 a.m.

Susan Vincent
Corporate Secretary