

DRAFT MINUTES OF THE

TEXAS REGIONAL ENTITY ADVISORY COMMITTEE

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

June 15, 2009

Committee Members

Michehl R. Gent, Chair		Unaffiliated
A.D. Patton, Vice Chair		Unaffiliated
Mark Armentrout		Unaffiliated
Miguel Espinosa		Unaffiliated
Don Ballard	Office of Public Utility Counsel	Residential Small Consumer
Jan Newton		Unaffiliated
Barry T. Smitherman	Chairman, Public Utility Commission of Texas	

Other Directors

Brad Cox	Tenaska Power Services	Independent Power Marketer
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Other Attendees

Larry Grimm, Texas RE CEO and CCO
 Susan Vincent, Texas RE Director, Legal Affairs
 Victor Barry, Texas RE Director, Compliance
 Mark Henry, Texas RE Manager, Compliance Audits
 Ryan Clay, Texas RE Senior Paralegal
 Chris Humphreys, Texas RE Critical Infrastructure Protection Analyst
 Derrick Davis, Texas RE Corporate Counsel
 Nancy Capezzuti, ERCOT VP and CAO
 Mark Bruce, MJB Energy Consulting
 Bridget Headrick, PUCT
 Ben Wells, Hillco
 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 11:05 the Committee returned to open session.

Approval of Previous Minutes

Don Ballard made a motion to approve the minutes of the May 19, 2009 Committee meeting; Jan Newton seconded the motion. The motion passed by voice vote with one abstention from Miguel Espinosa.

Separation Discussion

The Committee generally discussed issues regarding the legal separation of Texas RE from ERCOT. In response to a reminder by Miguel Espinosa that Texas RE would need an internal audit mechanism for any new legal entity, Larry Grimm explained that Texas RE was assessing the proper mechanism for an internal audit function at Texas RE. Mr. Espinosa asked Texas RE staff questions about the estimated cost for separation and whether a continued Memorandum of Understanding with ERCOT was possible after separation. Ms. Newton noted that FERC staff had indicated that Texas RE's receipt of Information Technology (IT) services from ERCOT was a potential concern for FERC. The Committee then discussed possible changes that could be made to the MOU between ERCOT and Texas RE if Texas RE separated from ERCOT. Mr. Armentrout stated that Texas RE's separation from ERCOT will be complex, and Texas RE should continue receiving as many services as necessary from ERCOT initially upon any separation. Mr. Grimm said that he understood that the MOU going forward was fairly flexible, so Texas RE could phase out the services provided by ERCOT as they were no longer needed. Mr. Armentrout said that he understood from ERCOT staff that Texas RE could legally continue receiving all the services that are currently in the MOU, except the ERCOT employee 401K plan, if needed.

Chair Gent noted a concern about how the separation could result in a loss of information that ERCOT ISO Board receives on reliability issues. Dr. Patton suggested Texas RE should continue to provide the ERCOT ISO Board with Compliance reports to ensure reliability is maintained in the ERCOT region. Mr. Grimm noted that once separated, Texas RE would not be able to report any confidential information (about other registered entities) other than Protocol compliance activities to the ERCOT ISO Board. Dr. Patton acknowledged his fiduciary responsibility to ERCOT ISO, but reiterated the need for the Board to access compliance information. Ms. Vincent explained that ERCOT ISO should probably provide pertinent compliance information to the ERCOT ISO Board, in its role as the Texas essential organization and ISO.

In response to Mr. Ballard's question about whether the separated Texas RE would have a stakeholder process, Mr. Grimm confirmed that it would be required, and that the structure would likely be similar to NERC with an independent board of trustees, but have a members representative committee.

Dr. Patton stated that he was not opposed to separation, but he wanted ERCOT ISO Board to receive monthly Texas RE compliance reports. In response to Chairman Smitherman's question to Dr. Patton asking if he were to receive a future Texas RE compliance report (as an ERCOT ISO Board member), would he use that information to change how ERCOT operates, Dr. Patton said he would absolutely.

Ms. Newton told the committee that she fully supports the complete separation of Texas RE from ERCOT ISO because in her opinion there is an unavoidable conflict of interest with the processing of compliance violations. Mr. Espinosa said that his view is the same as Ms. Newton's view.

Mr. Espinosa made a motion to recommend approval of the legal separation of Texas RE from ERCOT; Jan Newton seconded the motion.

Brad Cox stated that he had some concerns if Texas RE were to continue to monitor, assess, and report Protocol compliance if it were separated from ERCOT. Mr. Ballard said that he was not ready to vote for separation today, because he first needed more information.

The Directors discussed the possible effects that Texas RE separation could have on ERCOT ISO's role in reliability. Chairman Smitherman said that there had been debate about the how

proactive ERCOT ISO staff should be, and he thought that ERCOT ISO should be more proactive.

The motion to recommend approval of the legal separation of Texas RE from ERCOT passed by voice vote with one vote against by Michehl Gent, and one abstention from Don Ballard. The Committee recognized that the separation would be a multi-step process and would require additional review and approvals of documents by the Board and regulators.

Vote on Matters from Executive Session

CEO Market Compensation Structure

Mark Armentrout moved for the Committee to approve a revised compensation structure (Option #8) 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.

Finance & Audit Issues

Recommend Acceptance of 2010 Business Plan & Budget

Chair Gent asked Mr. Grimm about the differences in this version of the Business Plan & Budget from the previous version. Mr. Grimm briefly reviewed the changes with the Committee. Mr. Grimm also reminded the Committee that the 2010 Texas RE Business Plan & Budget contains the basic assumptions that 1) NERC will conduct the Critical Infrastructure Protection (CIP) Technical Feasibility Exceptions (TFE), and 2) NERC will conduct all nuclear power plant compliance audits in the ERCOT region in 2010, and that these items could be changed by the NERC Board of Trustees.

Chair Gent moved to recommend the 2010 Business Plan & Budget to the Board; Mr. Armentrout seconded the motion. The motion passed by unanimous voice vote.

Recommend Amended Memorandum of Understanding (MOU) with ERCOT

Ms. Vincent informed the Committee that the primary differences in the Amended MOU were caused by Texas RE's new office space at the Terrace II. In response to a question from Mr. Espinosa asking who signed the lease at the Terrace, Ms. Vincent informed the Committee that ERCOT ISO had signed the lease, but Texas RE would need to negotiate to assume the lease if separated from ERCOT ISO.

Mr. Ballard asked if Texas RE continued to commingle Texas RE funds with ERCOT ISO funds. Ms. Vincent reminded the Committee members that Texas RE's operating funds and bank accounts were separated in December 2008.

Chair Gent made a motion to recommend approval of the Amended Memorandum of understanding with ERCOT; Mark Armentrout seconded the motion. The motion passed by unanimous voice vote.

Adjournment

Chair Gent adjourned the Texas RE Advisory Committee at approximately 11:47 a.m.

Susan Vincent
Corporate Secretary