



**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  
June 16, 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; Proxy for Robert Thomas beginning at Agenda Item 12
Cox, Brad	Tenaska Power Services Co.	Independent Power Marketer
Dalton, Andrew	Valero Energy Corp.	Industrial Consumer
Espinosa, Miguel		Unaffiliated; Until Agenda Item 25
Fehrenbach, Nick	City of Dallas	Commercial Consumer
Gent, Michehl		Unaffiliated, Board Vice Chairman
Helton, Bob	International Power America Services	Independent Generator
Jenkins, Charles	Oncor Electric Delivery Company	Investor Owned Utility
Kahn, Bob	ERCOT	President and Chief Executive Officer
Karnei, Clifton	Brazos Electric Power Cooperative Inc.	Cooperative
Newton, Jan		Unaffiliated, Board Chairman
Patton, A.D.		Unaffiliated
Smitherman, Barry T.	Public Utility Commission of Texas	Commission Chairman
Thomas, Robert	Green Mountain Energy Company	Independent Retail Electric Provider
Wilkerson, Dan	Bryan Texas Utilities	Municipal; Proxy for Clifton Karnei beginning at Agenda Item 23

Staff and Guests:

Adami, Steve	SUEZ
Anderson, Kenneth	PUCT Commissioner
Ashley, Kristy	Exelon



Barrow, Les	CPS Energy
Bell, Wendell	TPPA
Brandt, Adrienne	Austin Energy
Bruce, Mark	MJB Energy Consulting
Byone, Steve	ERCOT
Capezzuti, Nancy	ERCOT
Cleary, Mike	ERCOT
Clemenhagen, Barbara	Topaz
Comstock, Read	Direct Energy
Crowder, Calvin	AEP Service Corp.
Crozier, Richard	Brownsville
Cutrone, Chris	OPUC
Day, Betty	ERCOT
Delenela, Ann	ERCOT
Doggett, Trip	ERCOT
Doolin, Estrellita	ERCOT
Dreyfus, Mark	Austin Energy
Drost, Wendell	Areva
Durrwachter, Henry	Luminant
Fox, Kip	AEP
Gage, Theresa	ERCOT
Goff, Eric	Reliant
Hackett, David	KEMA
Headrick, Bridget	PUCT
Hobbs, Kristi	ERCOT
Howard, Richard	ERCOT
Jones, Don	Reliant
Jones, Randy	Calpine
King, Kelso	King Energy Consulting
Kleckner, Tom	ERCOT
Kolodziej, Eddie	Customized Energy Solutions
Leady, Vickie	ERCOT
Manning, Charles	ERCOT
McClendon, Shannon	TAC Residential Consumer Representative
Morgan, Richard	ERCOT
Nelson, Donna	PUCT Commissioner
Ogelman, Kenan	CPS Energy
Pieniazek, Adrian	NRG Texas
Ply, Janet	ERCOT
Reid, Walter	Wind Coalition
Rich, Katie	PUCT
Roark, Dottie	ERCOT
Ryall, Jean	Constellation Energy
Saathoff, Kent	ERCOT
Seibert, Dave	ERCOT



Seymour, Cesar	SUEZ
Shirley, Mike	TXU Cities Group
Stauffer, Tara	ERCOT
Troxell, David	ERCOT
Walker, Mark	NRG Texas
Wells, Ben	Hillco
Wittmeyer, Bob	DME
Wullenjohn, Bill	ERCOT

**Call Open Meeting of Public Utility Commission of Texas to Order; and Call Open Session to Order and Announce Proxies (Agenda Item 1)**

Barry T. Smitherman, Public Utility Commission of Texas (Commission) Chairman, called to order an open meeting of the Commission to consider matters which have been duly posted with the Texas Secretary of State for June 16, 2009. Immediately thereafter, Jan Newton, Board Chairman, called the Board meeting to order at approximately 10:10 a.m., pointed out the Antitrust Admonition, and determined a quorum was present. Chairman Newton also reminded the Board that the bill requiring Internet broadcasting of ERCOT public meetings had been passed and that the Board had voluntarily opted to webcast its meetings prior to the bill's passage.

**Consent Agenda (Agenda Item 2)**

The following items were handled in the consent agenda:

- Item 3 – Approval of May 20, 2009 Board Meeting Minutes;
- Item 12a – Protocol Revision Requests (PRRs) 796, 802 and 809; and
- Item 12b – Nodal Protocols Revision Request (NPRR) 172.

NPRR141 was removed from the consent agenda for consideration under Agenda Item 12b.

**Dan Wilkerson moved to approve the items on the Consent Agenda. Bob Kahn seconded the motion. The motion passed by unanimous voice vote on all items except for three abstentions solely with regard to the approval of the minutes (Miguel Espinosa, Nick Fehrenbach and Charles Jenkins).**

**Approval of Minutes (Agenda Item 3)**

The May 20, 2009 Board Meeting minutes were approved as part of the Consent Agenda under Agenda Item 2.

**Chief Executive Officer (CEO) Report (Agenda Item 4)**

Bob Kahn, ERCOT President and CEO, noted that all Board members received a copy of the 2008 ERCOT Annual Report with their Board materials.



Mr. Kahn further noted that the Annual Capacity Demand and Reserve Report was released along with the Long-Term Forecast and that Dan Woodfin, ERCOT Director of System Planning, would be providing a presentation on that report later in the meeting. He added that a slide had been included to address A.D. Patton's question from the Board's Question and Answer (Q&A) Session held on the prior day related to other generation beyond the approximately 13% that do not have interconnection requests.

The last item Mr. Kahn addressed was the 2009 Operating Budget (Budget). He explained that ERCOT projected a revenue shortfall for 2009, ERCOT took this matter very seriously, and ERCOT's goal was to balance the Budget. He indicated there would be discussion on this topic during both Open and Executive Sessions of the Board meeting.

### **Financial Summary Report (Agenda Item 5)**

Chairman Newton reminded those in attendance that the Board held its regular Q&A Meeting regarding the Board materials on the afternoon of June 15, 2009. She opened this portion of the meeting to additional questions regarding the Financial Summary Report, Market Operations Report, Information Technology (IT) Report, and Grid Operations and Planning Report.

Chairman Newton invited comments or questions regarding the Financial Summary Report. Michehl Gent, Vice Chairman, asked Steve Byone, ERCOT Vice President and Chief Financial Officer (CFO), about the seventh slide of the Financial Summary Report which indicates dramatically increasing base operations project expenditures. Mr. Byone advised that the budget was created with costs which were levelized over the years and confirmed that expenditures are expected to increase over the second half of the year, primarily due to the initiation of the Met Center project.

### **Update on 2009 Operating Plan (Agenda Item 5a)**

Mr. Kahn explained to the Board that the projected revenue shortfall of approximately \$5 million consists of less megawatt hour sales than anticipated and fewer vacancy savings that originally planned due to better efficiency in hiring people and fewer people voluntarily leaving due to the current economy. He advised that ERCOT will take appropriate actions to balance the Budget, that the ERCOT Executive Team will closely review and "scrub" the Budget monthly to determine ways to eliminate the shortfall, and that ERCOT plans to use its sales tax refunds to pay down its debt. Mr. Kahn explained that ERCOT's forecast is prepared on an annual basis and that the annual-to-date megawatt hour sales have been lower than the forecast, that is, 308 million megawatt hours. He noted that the economic data used for the forecast includes some six-month lagging data and some national data in the load forecast and that he believed that 312 million megawatt hours would be a reasonable, but perhaps low, basis for the forecast. Chairman Smitherman requested confirmation that the Budget is separate from the Nodal budget. Mr. Kahn confirmed that the Budget is the 2009 operating budget.

Mike Petterson, ERCOT Controller, provided the Board with an update on the 2009 Operating Plan.



Commissioner Donna Nelson asked about the total number of ERCOT employees. Mr. Petterson and Nancy Capezzuti, ERCOT Vice President and Chief Administrative Officer (CAO), replied there are approximately 700 ERCOT employees and an additional 30 Texas Regional Entity (Texas RE) employees. Commissioner Nelson asked about the percentage of the Budget which is attributed to employee cost, such as salaries and benefits. Mr. Petterson replied that approximately slightly more than 33% to approximately 40% of the Budget is related to employee cost. Commissioner Nelson inquired about the processes are in place to review the current number of employees and their jobs to determine if any are no longer necessary as revenue decreases. Mr. Kahn responded that employee performance is constantly being reviewed, that employees are placed on performance plans as needed, and that involuntary terminations occur monthly due to poor performance. He further responded that a “deep dive” was conducted at the end of 2007 to review every task performed at ERCOT and to determine whether or not that task needed to be performed. He advised that, due to the deep dive, departments were reorganized as appropriate. Mr. Kahn further advised that ERCOT is conducting the same deep dive currently to review tasks and determine ERCOT’s needs for Nodal go-live. Commissioner Nelson noted that a significant portion of ERCOT staff was assigned to zonal projects and asked whether ERCOT was evaluating its zonal staff for transition to the Nodal Program. Mr. Kahn replied that such an evaluation was currently underway. Commissioner Nelson asked if ERCOT had ever conducted an audit of its employees. Mr. Kahn responded that ERCOT did have R.W. Beck conduct an audit about one and one-half years ago. Commissioner Nelson mentioned that her understanding was that the R.W. Beck audit was simply a salary analysis. Mr. Kahn responded that the R.W. Beck audit was not a salary analysis. He further responded that R.W. Beck reviewed ERCOT’s staffing for future needs in relation to a nodal transition and that R.W. Beck concluded that ERCOT staffing was reasonable. Commissioner Nelson further inquired if that audit was conducted prior to the start of the transition from the zonal system to the nodal system. Mr. Kahn responded that the audit was conducted because ERCOT was in the middle of transition to the nodal system.

Chairman Newton advised that, from the Board perspective, there appear to be two issues at hand. She noted that the first issue is the transition from the zonal system to the nodal system and that when ERCOT is at the peak of the transition, more employees are needed to staff both the zonal system and the nodal system. She also noted that once the transition is complete, there should be a leveling off or decline in the number of employees to staff the nodal system and that ERCOT was reaching a convergence of integration. Chairman Newton reported that Mr. Kahn and Mike Cleary, ERCOT Senior Vice President and Chief Technology Officer (CTO), have conveyed to her that they are reviewing the migration on a position-by-position basis and are committed to keeping expenses down as much as possible. Chairman Newton identified the second issue as being the marked decline in revenue due to the decrease in load which has been driven by economic conditions and weather. She advised that ERCOT has no control over the revenue from load and that ERCOT staff is attempting to take actions to make up for the projected revenue shortfall. Commissioner Nelson questioned whether ERCOT was doing a thorough enough analysis to correct the projected revenue shortfall. She suggested that ERCOT review its staff carefully for possible staff reductions. Mr. Kahn provided his assurance that in reviewing the Budget for potential cost savings, everything is “on the table,” including contractors, projects and travel. Commissioner Nelson reminded Mr. Kahn that if ERCOT did



not “scrub” the Budget, then the Commission would do so as the Commission has final approval of the Budget.

Bob Helton commented that, with regard to Budget cuts, reductions in training and development should not be directed toward operations training, as ERCOT is responsible for the reliability of the grid, and the staff must be trained continuously for this purpose. Trip Doggett, ERCOT Senior Vice President and Chief Operating Officer, and Kent Saathoff, ERCOT Vice President of System Planning and Grid Operations, explained that the current budgeted level of operations training should be sufficient.

Don Ballard noted that, at the Finance and Audit (F&A) Committee earlier in the morning, Mr. Kahn committed to “scrub” the Budget and to review all options for Budget cuts, including a reduction in force.

Chairman Smitherman asked Mr. Byone if the payments to banks include interest and principal in the ERCOT Vendor Activity Report. Mr. Byone advised that the payments represent both interest and principal. Chairman Smitherman asked for the interest and principal to be listed separately in the report which Mr. Byone agreed to do. He also asked Mr. Byone to comment on the disparity between payments to the banks over the last three years versus the current year. Mr. Byone advised that the reports provided to the Board are not being used the way they were originally intended. He noted that while the report shows payments to the banks, the impact of borrowings and repayments under the revolving credit agreements is not readily apparent and could be misleading when comparing payments across years. Chairman Smitherman said that he would like a tool that would show a snapshot of interest paid over time and for periods to assist with discussing the appropriate balance of debt and equity and to reflect recent improvements in debt payments and reduced borrowings. Mr. Byone agreed to create such a report.

### **Market Operations Report (Agenda Item 6)**

Chairman Newton invited comments or questions regarding the Market Operations Report. Mark Armentrout asked if the dates for baseline and forecast for the Advanced Metering Project are completion dates. Betty Day, ERCOT Director of Markets, stated that they are completion dates. She stated that the dates listed in the Execution Schedule are from the end of May 2009, that the current number for the “Detailed Designs Complete” is now 75% rather than 50%, and that the overall development should be complete by July 24, 2009. Mr. Armentrout asked who has ownership of the requirements document. Ms. Day responded that the Markets Group is responsible for the document. Mr. Armentrout asked if there had been any requests to change the requirements. Ms. Day responded that there were requests from the market for additional enhancements, but that the Markets Group requested those enhancements be deferred so that the target of project completion by November 14, 2009, can be met. Mr. Armentrout requested confirmation that the Advanced Metering Project will support one million meters this fall. Ms. Day confirmed that it will and that the Advanced Metering Project will be scalable so it could be developed beyond that goal. Mr. Armentrout requested a deep dive into the Advanced Metering Project in either August or September 2009. Ms. Day noted that there had been some interest in developing a retail panel to discuss price trends at ERCOT with the Board. After input from Board members, Chairman Newton asked that Ms. Day assist in getting the panel scheduled.



### **Information Technology (IT) Report (Agenda Item 7)**

Chairman Newton invited comments or questions regarding the IT Report. Chairman Newton commended ERCOT on the data contained in IT Report and advised that these were the best results that she had seen since she had been on the Board. Richard Morgan, ERCOT Interim Chief Information Officer, responded that the ERCOT team is working diligently to support reliability. Mr. Armentrout inquired about the handling of the hardware for the Nodal transition within the complexity of the facilities changes and the Advanced Metering Schedule being listed as a risk. Mr. Morgan replied that, with respect to the test environment, ERCOT staff is carefully monitoring these matters to make sure that the schedules work together. He added that, for the market part of the systems, the nodal and zonal systems use basically the same system for testing and production. Ms. Day added that the detailed test plan for Advanced Metering has been provided to the Nodal Program.

### **Grid Operations and Planning Report (Agenda Item 8)**

Chairman Newton invited comments or questions regarding the Grid Operations and Planning Report. There were none.

### **2009 Long-Term Demand and Energy Forecast and Capacity, Demand and Reserves Calculation (Agenda Item 9)**

Dan Woodfin, ERCOT Director of System Planning, provided a report on the 2009 Long-Term Demand and Energy Forecast and Capacity, Demand and Reserves Calculation. Mr. Gent pointed out that Mr. Kahn referred to national data in relation to ERCOT's forecasts and indicated that the national data did not fully apply to ERCOT or Texas and asked if that was specifically the same economic data Mr. Woodfin had referenced in his calculation. Mr. Woodfin replied that some of the indicators are nationally based from a series of equations that model the entire global economy for the most part. He also mentioned that ERCOT reviewed data on a county-by-county level for those counties in the ERCOT Region and that some national data was taken into account. Chairman Smitherman noted that there are units described in the report that may have an interconnection agreement and a permit, but have not started construction and asked that Mr. Woodfin provide more detailed information on those units in future reports.

Mr. Armentrout asked for a reminder on the nature of ERCOT's Load acting as a Resource (LaaR) serving as response reserves in the load forecast capacity. Mr. Woodfin responded that it can be as much as half of the responsive reserve requirement and reflects the amount actually available currently. Mr. Saathoff responded that ERCOT has approximately 1300 to 1400 MW that qualify as LaaRs, but that not all qualified LaaRs bid to provide the service, and that the 1115 MW reflect what has been bid into the responsive reserve market and accepted. Mr. Armentrout asked if the recent changes to LaaRs created by Technical Advisory Committee (TAC) have been factored into the forecast, or if that still needed to be done. Mr. Saathoff replied that the change was the allowance of ERCOT to fill up to half of the responsive reserve requirement whether the requirement is 2300 MW or 2800 MW. There had previously been an 1150 MW cap on LaaRs providing the service.



Mr. Karnei asked if the assumption of 50% on the non-synchronous ties was normal or if the activity varied and inquired about the assumption on the switchable units. Mr. Woodfin responded that the 50% assumption for non-synchronous ties was normal and that information from switchable unit owners indicated almost all of the unit's capacity would be available to ERCOT.

### **Nodal Update (Agenda Item 10)**

Mr. Cleary provided the Board with an update on the Nodal Program, now known as the ERCOT Enhanced Reliability & Markets (EERM) Implementation Program. Mr. Cleary noted that ERCOT had made significant progress with certain vendors and advised that some milestones had been missed, but this had not been affecting the critical path, core function issues, or the budget. With regard to the Credit Monitoring and Management (CMM) System, Mr. Armentrout asked for assurance that testing CMM 4.1, followed by CMM 4.2, CMM 4.3 and CMM 4.4, was necessary. Mr. Cleary responded that initially the CMM was all one piece of code and that piece was divided into logical parts so that testing could be completed and pieces could go into production. Mr. Cleary explained that a severity 1 or 2 defect in a software system indicated that a critical function is broken and that the system could not go live and that a severity 3 defect indicated that a manual work around is required.

With regard to those milestones that had been missed, Mr. Wilkerson asked about the one which had the biggest impact on the critical path and about the available "float" in relation to the overall schedule. Mr. Cleary replied that he is most concerned with the CMM System which has eight (8) days of float and that the CMM System activity is monitored daily. Mr. Cleary added that ERCOT would be attempting to get the milestones back on track by the next Board meeting.

Chairman Smitherman asked whether the ERCOT market has a common vision of the nodal market at the time of go-live. Mr. Cleary responded that the vision comes from a number of initiatives. He advised that once the market trials begin, it will be more obvious the status of the program and its capabilities.

Commissioner Nelson asked about whether ERCOT has considered what happens to Market Participants if they are not ready for go-live. Mr. Cleary responded affirmatively and advised that the readiness piece of the Program (training, managing technical issues and measurements) should provide all Market Participants with the ability to be prepared for go-live. Commissioner Nelson requested that if there are Market Participants that are not prepared for go-live, particularly if their readiness jeopardizes the Program timeline, then the Commission and the Board should be advised to provide them an opportunity to address the matter. Chairman Newton commented that it will be critical that ERCOT timely determines how to define the success of the Program and that communications be effective early in the process.

Chairman Newton asked if the Request for Proposal (RFP) had been issued for a replacement for Utilicast, LLC, as the independent third-party consultant on the Nodal Program. Bill Wullenjohn, ERCOT Director of Internal Audit, replied that the RFP was distributed on June 2, 2009 and that the due date for responses was June 18, 2009. He added that the vendor selection will be decided





on July 15, 2009 with a start date of early August 2009.

Mr. Byone provided the monthly financial review for the Nodal Program.

Chairman Newton thanked Mr. Cleary for his transparency, particularly in identifying risk with the Nodal Program.

### **Special Nodal Program Committee Report (Agenda Item 11)**

Mr. Helton, SNP Committee Chair, stated that the SNP Committee met yesterday and considered the following matters:

- SNP Committee Meeting Length, which will be lengthened to three hours for future meetings;
- NPRR Parking Deck, which the SNP Committee will continue to address next month;
- Nodal Implementation Team (NIT) Charter, which the SNP Committee will continue to address next month;
- SEM Go-Live Procedures; and
- Enhanced Reliability Program Update.

Mr. Helton noted that progress was being made, but there were still some risks which were being closely monitored with regard to the Nodal Program. Commissioner Nelson requested that the Commission be apprised of any matters that could lead to a Nodal Program delay.

Mr. Ballard commented that it was important that the new NIT should not be directly akin to the Texas Nodal Transition Plan Task Force.

### **Lunch (Agenda Item 13)**

The meeting adjourned for lunch at approximately 11:50 a.m. and reconvened at approximately 12:40 p.m.

### **Technical Advisory Committee (TAC) Report (Agenda Item 12)**

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

#### **a. Protocol Revision Requests (PRRs)**

PRRs 796, 802 and 809 were approved as part of the Consent Agenda (Agenda Item 2).

#### **b. Nodal Protocol Revision Requests (NPRRs)**

NPRR172 was approved as part of the Consent Agenda (Agenda Item 2).

- **NPRR141 – TSP Energy Storage for Reliability (formerly “TSP and/or DSP Energy Storage for Reliability”) [AEP].**



**Proposed Effective Date:** Upon Texas Nodal Market Implementation.

**CEO Determination:** Necessary prior to the Texas Nodal Market Implementation Date.

**ERCOT Impact Analysis:** No budgetary impact; no staffing impacts; no impacts to ERCOT computer systems; no impacts to ERCOT business functions; no impact to grid operations and practices.

**Revision Description:** This NPRR inserts new paragraph (f)(iii) in Section 10.3.3.1, Data Responsibilities, to clarify that metering of energy flows from TSP owned battery storage technology is not required for Settlement. This new paragraph will be limited to the Presidio substation Facilities.

**Procedural History:** NPRR141 was posted on July 21, 2008. On August 21, 2008, the Protocol Revision Subcommittee (PRS) voted to table NPRR141 until the Public Utility Commission of Texas (PUCT) issued a decision regarding the AEP filing. There was one (1) opposing vote from the Investor Owned Utility (IOU) Market Segment and two (2) abstentions from the IOU and Municipal Market Segments. On April 23, 2009, PRS unanimously voted to recommend approval of NPRR141 as amended by the Transition Plan Task Force (TPTF) comments. On May 21, 2009, PRS unanimously voted to endorse and forward the PRS Recommendation Report and Impact Analysis to TAC. On June 4, 2009, TAC unanimously voted to recommend approval of NPRR141 as amended by ERCOT comments.

Mr. Patton asked why NPRR141 was necessary if the matter has already been resolved and was limited to one situation. Mr. Bruce responded that NPRR141 was necessary in the Protocols to clarify that the energy produced from the battery installation will not be used for settlement purposes because otherwise it would be metered and settled. Chairman Smitherman added that the Commission Order on the matter stated that this was a transmission asset rather than a generation asset.

Nick Fehrenbach advised that he requested NPRR141 be removed from the Consent Agenda and that he felt NPRR141 should not specifically mention the Presidio substation. He added that he could not predict if there would ever be another Board-approved transmission reliability project, but if there is, there should be no reason to change the Protocols again to allow for a second Board-approved transmission reliability project. **Mr. Fehrenbach moved to approve NPRR141 with an amendment that Section 10.3.3.1(f)(iii) should read, "Energy charge and discharge and associated losses for the ERCOT Board-approved storage devices installed as part of a transmission reliability project."**

Dr. Patton disagreed with Mr. Fehrenbach's motion stating that if NPRR141 is not particularized to the one Board-approved transmission reliability project, then he would vote against the motion. Dr. Patton mentioned that he believed that these modifications amount to a socialization if it is not particularized. Mr. Helton agreed with Dr. Patton stating that the future of storage is unknown, that a transmission provider should not be set up to compete with the current competitive models for generation, and that this is the reason for the specific language of NPRR141. Mr. Helton mentioned that he would vote in favor of approval of NPRR141 as presented.



Mr. Fehrenbach addressed the socialization issue by noting that this is a Board-approved storage device transmission reliability project, but that does not mean that any entity can begin using a battery and not have the generation metered. He further stated that it would have to be a Board-approved storage device transmission reliability project.

**Mr. Gent seconded Mr. Fehrenbach's motion.**

Mr. Bruce provided some insight on the stakeholder review of NPRR141, including Mr. Fehrenbach's requested amendment, and explained that there was no clear indication as to the treatment of storage devices.

Mr. Armentrout commented that he would vote against Mr. Fehrenbach's motion because it may not be clear in the future whether battery storage technology is applied in the process of solving a distribution problem. He suggested that NPRR141 be remanded back to TAC. Chairman Smitherman asked Mr. Bruce about the timing implications if NPRR141 was remanded to TAC. Mr. Bruce stated that NPRR141 would sync with the Nodal Protocols and would not go into effect until Nodal is implemented. Chad Seely, ERCOT Corporate Counsel, commented that one of the ordering paragraphs in the Final Order of PUC Docket No. 35994 indicated that the Commission's decision in the Presidio case is not precedential with respect to any subsequent application, proceeding, or process for determining whether a similar battery or other energy storage facility is a transmission asset eligible for inclusion in TCOS.

**Chairman Newton called for a vote on Mr. Fehrenbach's motion which was seconded by Mr. Gent. The motion failed with three Board members in favor (Messrs. Fehrenbach, Gent and Dan Wilkerson) and with twelve Board members opposed (Messrs. Armentrout, Ballard, Brad Cox, Andrew Dalton, Miguel Espinosa, Helton, Charles Jenkins, Kahn, Karnei and Bob Thomas, Chairman Newton and Dr. Patton).**

**Mr. Armentrout then made a motion to approve NPRR141 as presented. Mr. Helton seconded the motion. The motion passed by voice vote with one Board member opposed (Mr. Ballard) and two abstentions (Messrs. Fehrenbach and Thomas).**

- **NPRR173 – Reduce the Minimum Quantity for Ancillary Service Offers [DSWG].**  
**Proposed Effective Date:** Upon Texas Nodal Market Implementation.  
**CEO Determination:** No opinion on whether or not NPRR173 is necessary prior to the Texas Nodal Market Implementation Date.  
**ERCOT Impact Analysis:** No budgetary impact; no staffing impacts; no impacts to ERCOT computer systems; no impacts to ERCOT business functions; no impact to grid operations and practices.  
**Revision Description:** This NPRR reduces the minimum requirement for Ancillary Service Offers.  
**Procedural History:** NPRR173 was posted on April 8, 2009. On April 23, 2009, PRS voted to recommend approval of NPRR173 as submitted with one (1) abstention from the Independent Generator Market Segment. On May 21, 2009, PRS unanimously voted to endorse and forward the PRS Recommendation Report and Impact Analysis to TAC. On



June 4, 2009, TAC voted to recommend approval as recommended by PRS with one (1) abstention from the Independent Generator Market Segment.

Mr. Gent and Mr. Dalton discussed the number of current LaaRs which fall into the category of less than one megawatt, which Mr. Saathoff confirmed were twenty (20) as referenced in the decision template.

**Mr. Armentrout moved to approve NPRR173 as presented. Mr. Dalton seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

**c. PUCT Quarterly Report**

Mr. Bruce provided the Board with TAC's PUCT Quarterly Report. Mr. Kahn commented that the Planning Report is updated every month and advised that as of the end of May 2009, instead of the approximate 48,000 megawatt (MW) capacity of wind generation projects in various stages of the Generation Interconnection Process as noted in the Report, current wind generation capacity under study had declined to approximately 39,000 MWs.

**d. Texas Renewables Integration Plan (TRIP)**

Mr. Bruce provided the Board with an update on the TRIP. Mr. Gent pointed out that NERC published a report called Integration of Variable Generation that covers many of the same issues the TRIP covers.

Mr. Dalton noted that Market Design (MD) 1 and MD6 surround the allocation of ancillary services with different levels of wind and asked about the status of the nearer term solution to the allocation issue. Mr. Bruce responded that TAC was asked to review the allocation issue and that the issue has been inserted as a component of the TRIP and it is the intent of the Renewable Technologies Working Group (RTWG) of TAC that every time a new ancillary service or a change to an ancillary service is brought up will be filtered as far as the manner in which they are tested, solved and followed up. Mr. Dalton stated that he would prefer to have those issues looked at more quickly and robustly now rather than part of a longer term plan.

Mr. Dalton also noted that on MD13 there was an indication there was going to be a follow up by the RTWG on the effectiveness of PRR773 and asked when that update would be available. Mr. Bruce responded that a series of steps would need to be taken before meaningful data would be available, the timeline for updates would be set. Mr. Dalton requested that TAC provide data prior to the November 2009 Board meeting due to his concerns about the great variability in wind and in an effort to maintain reliability.

Commissioner Kenneth Anderson of the Commission requested clarification on "long-term" in MD3 and MD4. Mr. Bruce responded that there are several items that need to be included in the TRIP and that he feels the "long-term" covers two to three years.

Mr. Bruce noted that TAC was soliciting feedback from the Commission and the Board on the prioritization of issues. Mr. Armentrout suggested for prioritization of issues that TAC determine



if the issues: (1) affect reliability, open access to the market or customer choice; (2) are long-term or near-term; and (3) have a high, medium or low impact. He added that it would be helpful to know if the project would be implemented by ERCOT or the Market Participants. He recommended that TAC make this type of analysis for prioritization and also pointed out that the most important issue is System Operations (SO) 13.

e. **ERCOT Planning Charter**

Mr. Bruce provided an update on the ERCOT Planning Charter.

With regard to the issue of generation interconnections as it relates to the Planning Charter, Mr. Bruce disclosed to the Board that, in addition to serving as FPL's agent on TAC, he also represented Cottonwood Energy, which is a generator that has an interest in interconnecting generally and in the Kelson CCN docket particularly, before the Legislature.

He noted that TAC requested that he come to the Board for direction.

Mr. Bruce reviewed TAC topics for future Board meetings and noted that the NOGRR update will be provided at the August 2009 Board meeting.

**Finance & Audit (F&A) Committee Report (Agenda Item 14)**

Mr. Karnei, F&A Committee Chair, stated that the F&A Committee met earlier in the morning and considered the following matters:

- Internal Audit Status Reports;
- Update on Timeline for 2010 Internal Audit Plan;
- Update on Proposed 501(c)(3) Conversion and Tax-Exempt Financing;
- Update on Debt Financing and Liability Risk Management;
- Update on 2009 Operating Plan;
- 2010 Strategic Planning and Budget Assumptions;
- External Audit Services Request for Proposal;
- Update on Changes to Memorandum of Understanding with Texas RE;
- Annual Report of Financial Institutions that are also Market Participants; and
- Update on Investments.

He noted that the F&A Committee had no action items to present to the Board at this meeting.

Chairman Newton requested more details on the timing of the plan to have ERCOT apply for 501(c)(3) tax-exempt organizational status. Vickie Leady, ERCOT Corporate Counsel, responded that proposed amendments to the current ERCOT Articles of Incorporation will be presented for vote by the Board at this meeting and is one step in completing the application to become a 501(c)(3) organization. She further responded that ERCOT anticipates the 501(c)(3) application itself to take two to three months to be prepared and completed after the proposed amendments are approved, assuming that the Corporate Members vote in favor of the proposed amendments. She added that after the application is complete, the application would be filed with



the Internal Revenue Service (IRS) and that the IRS' review process could take up to a year, possibly less if expedited status is granted by the IRS.

Mr. Petterson provided the Board with an update on the 2010 Strategic Planning and Budget Assumptions. Chairman Smitherman noted that the name of the Nodal Program had been changed to EERM. Mr. Cleary explained that the reason for the change stemmed from the move to a single-enterprise solution that would pull the Zonal and Nodal teams together. Chairman Smitherman observed that the Texas Legislature is most familiar with the "Nodal Program" terminology. Commissioner Nelson asked if ERCOT had done any strategic planning for longer periods of time, such as two- or five-year periods. Mr. Petterson responded that the budget ERCOT is seeking approval is for one year, but it also includes a five-year projection. Commissioner Nelson inquired about the use of a mission statement or other long-term planning document. Mr. Kahn advised that ERCOT revisits its Strategic Plan annually in January, that ERCOT will also do so half-way through the year starting in 2010, and that ERCOT staff reviews it continually. Commissioner Nelson asked whether ERCOT integrated strategic planning with its budget process. Mr. Kahn replied affirmatively.

Chairman Newton requested that ERCOT and Texas RE both work under the same budget assumptions due to the shared services agreement between Texas RE and ERCOT regarding Texas RE standing separate from ERCOT. Mr. Byone advised that the Texas RE Board's approval during the prior day of the Texas RE's budget under the assumption that Texas RE would remain a division of ERCOT was new information to ERCOT and that the presentation provided to the Board was prepared prior to receiving this new information. Mr. Petterson responded that the budget assumptions would be modified to be the same for ERCOT and Texas RE in future budget presentations.

Commissioner Nelson asked if ERCOT was prepared to use historic data only as its method to determine the System Administration Fee. Mr. Byone responded that ERCOT planned to propose a standard method in the next System Administration Fee filing that would eliminate revenue variability relative to approved budgets going forward. Mr. Armentrout inquired about including a statement regarding assumption of revenue for 2010 in the projection. Mr. Byone replied that as a non-profit entity ERCOT is a zero-sum organization, that a budget cost structure would be developed and approved, and that a billing rate could be established to collect that level of revenue on a fixed-determinant basis. Mr. Armentrout reminded the Board that four years ago the Board approved a flat fee and then the fee was later decreased by the Commission. Mr. Byone advised that ERCOT was not assuming a flat fee in planning for 2010; rather, assumptions will be made based on work ERCOT has been asked to perform, ERCOT will price (budget) that work, and the Board will ultimately direct ERCOT as to the level of its expenditures through the budget approval process. Mr. Karnei suggested that ERCOT either could: start with a flat-fee assumption with an analysis of services that would be reduced or eliminated; or build a budget up from zero and determine its effect to the fee. Mr. Petterson sought confirmation that the Board is not looking for a flat-fee budget. Chairman Newton explained that the July numbers would be a preliminary preview only. Mr. Armentrout suggested that ERCOT continue to provide services and keep costs low as possible. Commissioner Nelson noted that ERCOT is viewed as a quasi-state agency and that ERCOT is expected to maintain its workload with its current employees. She reminded the Board that the budgets are scrubbed at



the Texas Legislature and that ERCOT will be going through Sunset Review. Mr. Kahn advised that the projections were prepared based on historical load, that the fee will be scrubbed, but that it stops swings in revenue. Commissioner Nelson stated that the fee is paid for by the people of Texas. Chairman Newton mentioned that the Board echoes Commissioner Nelson's concerns and added that no one has the luxury in today's times to operate "as is". She noted that the Board is looking to ERCOT staff to support this position. Chairman Newton requested that large expected expenditures be noted in the projections, for instance, the new facility. Mr. Gent requested that he would like to review a budget that illustrates what ERCOT needs to "keep the lights on" and to meet the commitments that ERCOT has already made.

### **H.R. & Governance (HR&G) Committee (Agenda Item 15)**

Mr. Armentrout, HR&G Committee Chair, stated that the HR&G Committee met earlier in the morning and considered proposed amendments to ERCOT's current Articles of Incorporation and a call for a Special Meeting of the ERCOT Corporate Members to assist ERCOT in its proposed conversion to a 501(c)(3) tax-exempt status. **Mr. Armentrout moved to approve the proposed amendments to ERCOT's current Articles of Incorporation and a call for a Special Meeting of the ERCOT Corporate Members. Mr. Karnei seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

Mr. Armentrout stated that the HR&G Committee also discussed the following matters:

- Executive Compensation and Benefits;
- Summary of Employee Benefits, which included a discussion of the timely need to perform a benchmark study against other ISOs and local companies with a completion goal of first quarter 2010 with a target of making any changes for calendar year 2011;
- Proposed Amendments to Bylaws, which included a discussion (without any action, endorsement or recommendation by the HR&G Committee) of the following proposals:
  - Elimination of the two-year waiting time after ceasing ties with Market Participants prior to joining the Board as an Unaffiliated Director or becoming the next CEO;
  - Change from four elected members to two elected members from each of six Segments for TAC representation;
  - Chair and Vice-Chair of TAC must be employees of a member of ERCOT; and
  - Extension of expense benefits to all of the consumer representatives for Board meetings and training; and
- External Relations Update.

Mr. Cox suggested that the proposed amendments to the Bylaws be distributed to TAC and to Market Participants for input and suggestions. He encouraged the concept of holding open-house meetings for stakeholders for this purpose. Mr. Armentrout requested that ERCOT Legal prepare a schedule for approval of Bylaws amendments.

### **Legislative Update (Agenda Item 16)**

The update was distributed as part of the Board materials.



Mr. Armentrout reminded the Board that they were provided with a copy of the External Relations update summary in their Board materials and that ERCOT's Sunset Review will begin shortly. He encouraged ERCOT to stay in step with the Commission and to provide accurate and full disclosure. Mr. Ballard inquired whether the webcasting and the potential Texas RE separation could be part of the Sunset Review self-evaluation so that ERCOT could receive Legislative guidance.

Mr. Ballard requested guidance from ERCOT Legal on the definition of "public meetings" for purposes of the newly passed legislation requiring webcasts of ERCOT public meetings. Mr. Bruce advised that some TAC work groups have closed meetings and asked that ERCOT Legal give consideration to these meetings in its analysis.

### **Other Business (Agenda Item 17)**

No other business was raised.

### **Future Agenda Items (Agenda Item 18)**

Chairman Newton invited discussion on future agenda items. The following items were discussed:

- July 2009 – TAC Update on LaaRs Study, requested by Mr. Dalton;
- August 2009 – TAC Update on the Nodal Performance Measurements Overview (including update on NOGRR 025);
- August 2009 – TAC Update on Wind Metrics, requested by Mr. Armentrout;
- August/September 2009 – Advanced Metering "Deep Dive", requested by Mr. Armentrout and Mr. Ballard;
- September 2009 – AMS Report, requested by Mr. Ballard;
- October 2009 – Update on Effectiveness of PRR776, requested by Mr. Ballard;
- Fall 2009 – Overview of Expected Nodal Performance Impacts to IT, requested by Chairman Newton;
- Fall 2009 – Update on Wind Low Voltage Ride-Through Study, requested by Dr. Patton;
- To be determined – Retail Market Competition Pricing panel presentation; and
- Removal of "Status of Plan to Address Nodal Vendor 'Finger Pointing'" (End-to-End Testing) from the Board's future agenda items to the Special Nodal Program Committee's future agenda items.

Mr. Armentrout requested an outside consultant to provide a presentation to the Board on the Smart Grid Discussion proposed agenda item for the October 2009 Board meeting. Chairman Smitherman noted that he would separate the Smart Grid Discussion into three parts – EERM at the wholesale level, Advanced Metering at the retail level and the CREZ grid.

### **Executive Session (Agenda Items 19 to 24)**





Chairman Newton adjourned the meeting to Executive Session at approximately 2:20 p.m. Chairman Smitherman closed the open meeting of the Commission at such time. She reconvened the meeting to General Session at approximately 5:00 p.m.

**Vote on Matters from Executive Session (Agenda Item 25)**

Chairman Newton called for a vote on matters from Executive Session.

**Mr. Armentrout moved to approve the Executive Session Contract Matter resolutions as presented in the Board Packet as Agenda Items 22c and 22d. Mr. Kahn seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

**Mr. Helton moved to approve the Executive Session Contract Matter resolution as presented in the Board Packet as Agenda Item 22b. Mr. Kahn seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

**Adjourn (Agenda Item 26)**

Chairman Newton adjourned the meeting at approximately 5:05 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