



**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
August 18, 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
Brown, Deryl	Hudson Energy Services	Independent Retail Electric Provider Segment Alternate
Cox, Brad	Tenaska Power Services Co.	Independent Power Marketer
Crowder, Calvin	AEP Service Corp.	Investor Owned Utility Segment Alternate
Dalton, Andrew	Valero Energy Corp.	Industrial Consumer; Proxy for Nick Fehrenbach
Espinosa, Miguel		Unaffiliated
Gent, Michehl		Unaffiliated, Board Vice Chairman
Helton, Bob	International Power America Services	Independent Generator
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
Wilkerson, Dan	Bryan Texas Utilities	Municipal

Staff and Guests:

Anderson, Kenneth	Public Utility Commission of Texas
Bell, Wendell	TPPA
Berry, Ron	ERCOT
Brandt, Adrienne	Austin Energy
Bruce, Mark	MJB Energy Consulting



Byone, Steve	ERCOT
Capezzuti, Nancy	ERCOT
Cleary, Mike	ERCOT
Crozier, Richard	Brownsville Public Utilities
Doggett, Trip	ERCOT
Doolin, Estrellita	ERCOT
Fox, Kip	AEP
Gillmore, Gina	ERCOT
Grable, Mike	ERCOT
Gresham, Kevin	E.On Climate and Renewables
Hancock, Misti	ERCOT
Jackson, Pat	Cities
Jeter, J. M.	Senator Harris
Jones, Don	Reliant
King, Kelso	King Energy
Lane, Terry	LS Power
Leady, Vickie	ERCOT
Manning, Charles	ERCOT
McAndrew, Thomas	Enchanted Rock
McRae, Russ	AREVA
Morehead, Juliana	ERCOT
Morgan, Richard	ERCOT
Morris, Sandy	LCRA
Moss, Steven	Optim Energy
Nelson, Donna	Public Utility Commission of Texas
Ogelman, Kenan	CPS Energy
Oldham, Phillip	TIEC
Philips, Marji	PSEG ER&T
Pieniazek, Adrian	NRG Texas
Reid, Walter	Wind Coalition
Roark, Dottie	ERCOT
Saathoff, Kent	ERCOT
Smith, Mark	TXI
Stephenson, Randa	Luminant
Troutman, Jennifer	AEP Energy Partners
Wagner, Marguerite	PESG Texas
Walker, DeAnn	CenterPoint Energy
Walker, Mark	NRG Texas
Wullenjohn, William	ERCOT

Call Open Session to Order and Announce Proxies (Agenda Item 1)

Jan Newton, Board Chairman, called the meeting to order at approximately 10:10 a.m., pointed out the Antitrust Admonition and determined a quorum was present. 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 August 18, 2009.

Consent Agenda (Agenda Item 2)

The following items were handled in the consent agenda:

- Part of Agenda Item 12a – Protocol Revision Request (PRR) 820; and
- Agenda Item 12b – Nodal Protocol Revisions (NPRRs) 175, 176, 177, 178, 180, 182 and 187.

Agenda Item 3 (Minutes), part of Agenda Item 12a (PRRs 787 and 819), and Agenda Item 12c (RMGRR 079) were removed from the Consent Agenda.

Miguel Espinosa moved to approve the items on the Consent Agenda. Mark Armentrout seconded the motion. Andrew Dalton inquired whether any of the NPRRs had an impact on the budget or the Nodal Go-Live date. Bob Kahn, ERCOT President and Chief Executive Officer (CEO), responded that all of the NPRRs presented had been reviewed and that they may have a slight impact, if at all. **The motion passed by unanimous voice vote with no abstentions.**

Approval of July 21, 2009 Minutes (Agenda Item 3)

Mike Grable, ERCOT Vice President and General Counsel, noted that A.D. Patton had submitted suggested revisions to Agenda Item 8 of the July 21, 2009 Minutes (Minutes) which had been circulated by hard copy to the Board. Mark Bruce, Technical Advisory Committee (TAC) Chairman, announced that he also had suggested revisions to Agenda Item 11f of the Minutes. Mr. Grable requested that the vote on the Minutes be delayed until all of suggested revisions could be circulated to the Board.

CEO Report (Agenda Item 4)

Mr. Kahn advised that he provided the Finance and Audit (F&A) Committee with an overview of the proposed 2010 Budget at the F&A Committee's Special Meeting on the prior day. Mr. Kahn explained that ERCOT staff acknowledged the current, difficult economic times and that ERCOT is working diligently to keep the System Administration Fee as low as possible. He noted that ERCOT staff may be modifying the proposed 2010 Budget to respond to questions received at the F&A Special Meeting and noted that a request for the Board's approval of ERCOT's proposed 2010 Budget should be expected in September 2009.

Mr. Kahn discussed the impact of ERCOT's mission on the State of Texas. He noted that ERCOT has actively managed costs to keep a flat to declining fee over the last several years. He added that ERCOT has benefitted from load growth, but it has meant more demand for ERCOT's services. He highlighted the "return on investment" in ERCOT – arguably the best deregulated electric market in the world; a robust retail market; the anticipated Nodal market implementation; the finalization of the interim advanced metering project; the Competitive Renewable Energy Zone (CREZ) study which assisted the advancement to the renewable energy



in Texas; the carbon emissions study performed at Chairman Smitherman's request which assists market and regulators in discerning the impact of carbon emissions legislation on ERCOT and ratepayers; the prudent and orderly exit of generation units through Reliability Must Run (RMR) studies and contracts; and the development of data and statistics to all dimensions of the market. He then addressed the "need" challenges that ERCOT faces in 2010, such as: (a) the ability to collect and manage advanced metering data for up to six million customers; (b) employing adequately skilled staff to ensure compliance with over 800 specific NERC requirements and to support over 80 NERC-related projects (which are expected to exceed 34,000 hours of preparation); (c) planning efforts related to the integration of renewables (that is, the "horsepower issue"); and (d) in addition to maintaining and adequacy of the grid's reliability, planning for increased distributed variable generation (renewable or otherwise), advanced metering, smart grid technologies, energy storage, demand response, switchable units, plug-in hybrids, and carbon regulation which will ultimately affect the power flow on the electric grid.

Mr. Kahn discussed ERCOT's cost containment measures and referred to the cost-reduction steps taken with the 2009 approved Budget, the January 2009 approved flat fee, decreased staffing projections, and reduction of training, development, and business expenses. Mr. Kahn reminded the Board that further cost-reduction steps were taken in March 2009 to address the expected revenue shortfall. Furthermore, Mr. Kahn advised that ERCOT had undertaken the following steps to cut costs: reducing outside services; renegotiating hardware and software licenses; reducing debt and associated costs; re-evaluating vacant positions and freezing hiring where appropriate; delaying or eliminating capital projects and reducing other expenses. He advised that approximately \$5.7 million in cost savings were identified. He noted that ERCOT is continuing to watch and evaluate expenses on a monthly basis. He clarified that the aforementioned tasks taken by ERCOT were just starting points for preparation of the 2010 Budget.

Mr. Kahn discussed the three 2010 budget options for consideration:

- (1) 2010 Management Recommendation which eliminates 23 employee positions relative to the preliminary budget and unchanged core and non-core services;
- (2) 2010 Moderate Service Reduction which eliminates 31 additional employee positions, unchanged core service levels and degradation or elimination of some non-core services; and
- (3) 2010 Flat Revenue Requirement which eliminates 48 additional employee positions and degradation or elimination of some core and non-core services.

Mr. Kahn advised that capital projects are impacting the 2010 Budget, including the development of the new Data Center and Control Center in Bastrop and the expansion of the existing Data Center and addition of a new Data Center in Taylor. Mr. Kahn explained the necessity for expenditures in Data Center projects. He noted that ERCOT has been near capacity with its Data Center equipment since 2003. He further explained that such equipment should be replaced every five years due to changes in technology and the decrease in reliability of the equipment with age.



Mr. Kahn emphasized the challenges with the implementation of the Nodal market and the need for defect resolution and for critical enhancements which will need to be implemented following Nodal Go-Live. Mr. Kahn also briefly mentioned the need for a parking deck. He then discussed the implications of Nodal Go-Live and the 2011 Budget review process. Mr. Kahn noted that ERCOT undertook a Deep-Dive Task Analysis, which resulted in some functions being combined and gaining some efficiencies, but that ERCOT needed to and will do more. Therefore, he mentioned, in preparation for 2011 Budget and Nodal Go-Live, ERCOT needed to start with a clean slate while focusing on statutory and Commission mandates, for instance, funding the Independent Market Monitor (IMM). He mentioned that ERCOT faces challenges relating to renewables and the smart grid, and to review carefully the associated costs. Mr. Kahn also suggested the reduction in Board and Board Committee meetings, the Board Question and Answer (Q&A) session prior to Board meetings and the elimination of the annual Board Retreat to reduce costs.

Approval of July 21, 2009 Minutes (Agenda Item 3) – Continued

Chairman Newton directed the Board's attention to the revisions to the Minutes that had been distributed to them in hard copy. **Mr. Kahn moved to approve the July 21, 2009 Minutes with revisions suggested by Dr. Patton and Mr. Bruce. Bob Helton seconded the motion. The motion passed by unanimous voice vote with one abstention (Mr. Dalton).**

Financial Summary Report (Agenda Item 5)

Chairman Newton reminded those in attendance that the Board held its regular Question and Answer (Q&A) Session regarding the Board materials on the afternoon of August 17, 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. There were none.

Market Operations Report (Agenda Item 6)

Chairman Newton invited comments or questions regarding the Market Operations Report. Mr. Helton asked about the Balancing Energy Services slide, specifically with regard to the need for graphs of comparative Out-of-Merit Capacity (OOMC) and Out-of-Merit Energy (OOME) costs, and suggested that this information would provide a more complete picture of the causes and effects on the market, including balancing energy and price signals. Trip Doggett, ERCOT Senior Vice President and Chief Operating Officer, agreed and stated that examples would be provided at the next Board meeting which would likely include OOMC, OOME and ancillary service capacity costs as well as congestion management by interval. Don Ballard noted that TAC is scheduled to report on the evaluation of the effectiveness of PRR776 in October 2009 and that he expected that ERCOT staff would also assist with this report.



IT Service Availability Metrics Report (Agenda Item 7)

Chairman Newton invited comments or questions regarding the IT Service Availability Metrics Report. There were none.

Grid Operations and Planning Report (Agenda Item 8)

Chairman Newton invited comments or questions regarding the Grid Operations and Planning Report. Dr. Patton noted that, as part of the Board materials this month, the slide showing the correlation of wind generation and load for South and West zones illustrated remarkable differences. Kent Saathoff, ERCOT Vice President of System Planning and Grid Operations, advised that the wind generation in the South zone more closely coincides with peak demand. He noted that, in response to a Board member's question during the Board Q&A Session, actual wind data for July and August 2009 (that is, wind generation as a percentage of total wind capacity) was distributed to the Board members by hard copy.

Emergency Interruptible Load Service (EILS) Update (Agenda Item 9)

Mr. Saathoff presented the EILS update. Clifton Karnei noted that the Board materials indicate that the estimated direct Value of Lost Load (VOLL) for the April 17, 2006 load shedding event has been calculated between \$14.8 million and \$22.4 million. He continued that the Board materials further indicate that ERCOT has procured EILS at a total cost of \$27 million since February 2008, thereby putting ERCOT "under water" for approximately between \$5 to \$13 million. Mr. Saathoff confirmed this calculation – that is, comparing just the cost of EILS to the VOLL – but pointed out that VOLL does not include many intangible costs of power outages. Mr. Karnei asked about the expected frequency of loss of load. Mr. Saathoff responded that statistically a system should be designed for a loss-of-load event once every ten years, but hopefully such an event would occur less frequently. Mr. Karnei suggested that the period for comparing the cost of the EILS program to the economic value of lost load would be better extrapolated over a similar period of ten years. Mr. Saathoff agreed. Chairman Smitherman noted the estimated impact of \$3 billion in lost economic activity associated with a two-hour blackout in Los Angeles about two years ago. Mr. Saathoff speculated that the \$3 billion estimate likely quantifies the intangible factors that ERCOT has not attempted to quantify. Chairman Smitherman commented that EILS is just one product in a suite of reliability products (for instance, in addition to responsive reserves and Load acting as a Resource (LaaR)) and that EILS should be compared to other products in order to maintain reliability. He added that EILS should not be analyzed in a vacuum. Mr. Armentrout agreed with Chairman Smitherman's comments.

Mr. Armentrout inquired about the length of the test interruption for the live test of an EILS participant. Paul Wattles, ERCOT Senior Market Operations Support Specialist, stated the test is for over a full 15-minute settlement interval. Mr. Armentrout inquired about the 150 to 310 megawatts of EILS. Mr. Wattles responded that there was less activity during the economic downturn from February to May 2009, but that there was a rebound during the summer months. He added that there has been quite a bit of new activity so he declined to confirm that the amount was leveling out. Mr. Armentrout asked whether these megawatts show up on capacity statistics. Mr. Saathoff advised that they are strictly an operational tool for use as a last resort before a



load-shed event, that they are not counted as interruptible load in ERCOT's Capacity Demand Reserve (CDR), and that this method of accounting for them is a good topic for further discussion. Dr. Patton remarked that the one-event-in-ten-years index does not reflect dynamic, real-life events and that the events may occur more than once in ten years. He added that he was not aware of any system that has collapsed from lack of installed capacity and that the one-event-in-ten-years index devalues inappropriately the value of EILS. Michehl Gent, Board Vice Chairman, inquired about the maximum number of available megawatts. Mr. Wattles replied that ERCOT is currently in the 250-megawatt range. Mr. Helton mentioned that he agreed with Chairman Smitherman regarding the need to review the "whole tool box".

Chairman Smitherman commented that, in prior legislation, he believed that ERCOT was directed to include demand response in the CDR. Mr. Saathoff responded that ERCOT does include demand response that is administered through other programs (such as LaaR) and that are carried out at the retail level. Mr. Wattles replied that HB 3639, passed in the 2007 Legislative Session, directed ERCOT to include a line item for the energy efficiency measures that were being implemented by the Transmission/Distribution Service Providers (TDSPs), which is included in ERCOT's CDR, but there was no specific directive on EILS. Mr. Grable clarified that it was HB 3693 and this bill addressed energy efficiency and did not include demand response.

Nodal Update (Agenda Item 10)

Mike Cleary, ERCOT Senior Vice President and Chief Technology Officer, provided the Board with an update on the Nodal Program. Mr. Cleary advised that, earlier in the morning, TAC approved certification for Single Entry Model (SEM) Go-Live. He noted that the credit system continued to present issues in the end-to-end testing. He explained that the structure and leadership of the Nodal Program Management Office (PMO) had changed and that Jason Iacobucci had been recruited to be the new Nodal Program Manager. Chairman Newton noted that the Board has been concerned about vendor delivery and the working relationships between vendors. Mr. Cleary responded that the vendors are critical to the success of the Nodal Program. Chairman Newton added that it is critical that everyone work together as a team. Chairman Smitherman inquired as to the number of full-time equivalents (FTEs) who are working on the Nodal Program currently and who will be needed for 2010 and Nodal Go-Live. He noted that ERCOT's 2010 administrative budget indicated 739 FTEs, which was approximately the same number in the 2009 budget, and that ERCOT budgeted 546 and 670 FTEs in 2006 and 2007, respectively. Mr. Cleary responded that there was no distinction between Nodal and base operations FTEs in the 2010 budget, but that he could provide the numbers of FTEs who contribute to the Nodal Program. He estimated that approximately 300 FTEs plus about 140 independent contractors contribute to the Nodal Program. Steve Byone, ERCOT Vice President and Chief Financial Officer, clarified that page 18 of the Budget materials identify 739 FTEs with 521 and 23 devoted to Zonal operations and Zonal projects, respectively, and 195 devoted to the Nodal Program in 2010.

Chairman Smitherman stated that he was concerned about 2011 and beyond and that the 2010 budget should not be discussed in a vacuum. He asked whether all 195 FTEs would be needed after Nodal Go-Live and whether the overall FTE count could return to 700. Mr. Cleary



responded that the FTE total could return to 700. Chairman Smitherman called attention the FTE numbers under “Position Growth” related to “Staffing” on page ten of the Budget materials and explained that many have been operating under the assumption that the FTE count would decline to less than 750 after Nodal Go-Live. Mr. Cleary acknowledged Chairman Smitherman’s concerns. Chairman Newton requested that ERCOT staff provide information necessary for the Board’s full understanding of the budget not only for Nodal implementation, but also after implementation. Mr. Armentrout requested that the staffing chart be refreshed with this in mind. Nancy Capezzuti, ERCOT Vice President and Chief Administrative Officer, agreed to provide an updated staffing chart. Mr. Karnei inquired about the level of engagement by Market Participants. Mr. Cleary responded that progress has been made, but one Market Participant had issues that could be explained.

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

Special Nodal Program (SNP) Committee Report (Agenda Item 11)

Mr. Helton, SNP Committee Chairman, stated that the SNP Committee met on August 17, 2009, and considered the following matters:

- PMO Nodal Update;
- Market Readiness Update;
- Integration Testing Update;
- Protocol Traceability Update; and
- NPRR Parking Deck.

He mentioned that he visits ERCOT’s Taylor facility on occasion and that he has observed good team work within the Nodal Program.

NPRR Parking Deck (Agenda Item 11a)

Mr. Bruce presented the request for approval of the NPRR Parking Deck (Parking Deck). He advised that TAC heard all of the Board’s concerns and shares those concerns; however, TAC continues to recommend the Parking Deck as it did last month. He added that TAC acknowledged that the Parking Deck was not a perfect process, but that it did provide the most transparency and certainty and that it was the best available process. Chairman Newton expressed the Board’s appreciation for TAC addressing this matter again and noted that TAC’s vote was unanimous this time. She inquired where the process should reside. Dr. Patton advised that last month he was vocal about the Board not being the appropriate level for this process; however, he explained that, after consultation with ERCOT staff, he changed his position and he advocated that the Board level was the most feasible and efficient place for this process. He added that ERCOT needed a strategic plan for the Nodal rollout and suggested that the appropriate parties develop a careful structure and a build-out plan that can be correlated with NPRRs as they come along. Mr. Helton agreed with Dr. Patton. He remarked that no one is yet sure what issues will develop and that no one will know until some market trials have occurred. Chairman Newton acknowledged Dr. Patton’s suggestion regarding a strategic plan and requested that the Board recommend to the SNP Committee that work begin on such a



framework. **Mr. Helton moved to approve the Parking Deck as presented. Brad Cox seconded the motion.** Mr. Kahn noted that market trials could trigger hundreds of NPRRs and that the Board would approve the NPRRs at each Board meeting, but would not know which of them had been implemented. He asked whether white papers could be drafted at the TAC level and whether TAC could bring them to the Board in one group for the next release. Mr. Bruce responded that TAC could do so, but that would create a jam in the process at TAC, at the Board and the Commission. He added that there was procedural value to certainty within the process.

Chairman Smitherman called attention to the 2010 Budget materials, specifically the financial forecast for significantly increased capital spending over the next few years, and the real cost consequences on the System Administration Fee. He added that current assumptions outside of ERCOT anticipate that costs will decrease after Nodal Go-Live. He likened this situation to the purchase of a new car since most buyers would assume there would be no maintenance costs immediately after purchase. Chairman Newton agreed. Mr. Cleary noted the complexity of the markets and the significant moving costs of the enhancements which would impact the Fee – that is, a change to one application will ripple through all applications. Dan Wilkerson stressed the importance of strategic vision. Mr. Dalton noted that the Parking Deck may be premature since no one knows the issues that the market trials will reveal. Mr. Armentrout mentioned that the market views ERCOT as an inexpensive software developer. The Board members continued to discuss the Board's options with regard to the Parking Deck. Chairman Newton called for a vote on the pending motion. **The motion passed by voice vote with nine Board members in favor (Messrs. Armentrout, Ballard, Deryl Brown, Cox, Nick Fehrenbach by proxy to Mr. Dalton, Helton, Kahn and Karnei and Chairman Newton), four opposed (Messrs. Dalton on his own behalf, Miguel Espinosa, Gent and Wilkerson), and two abstentions (Calvin Crowder and Dr. Patton).**

Lunch (Agenda Item 13)

For scheduling convenience, Chairman Newton adjourned the meeting for lunch at approximately 12:20 p.m. and reconvened it at approximately 1:07 p.m. At that time, Mr. Grable explained his interpretation of the Bylaws as to how a motion could pass with nine Board members in favor, four opposed, and two abstentions. He also advised that ERCOT Legal has proposed a Bylaw revision to clarify the voting-percentage requirements.

TAC Report (Agenda Item 12)

Chairman Newton invited Mr. Bruce to provide a report on recent TAC activities.

Wind Metrics Development Update (Agenda Item 12f)

In the interest of time, Mr. Bruce suggested the Wind Metrics Development Update could be deferred until next month since no voting items were scheduled to be presented at this meeting and since it could be addressed as part of the Board's upcoming renewable technologies workshop. Chairman Newton asked if the Board found this deferral to be acceptable. No objections by Board members were raised.



PRRs (Agenda Item 12a)

PRR820 was approved as part of the Consent Agenda (Agenda Item 2).

- **PRR787 – Add Non-Compliance Language to Qualified Scheduling Entity (QSE) Performance Standards (formerly “Add Violation Language to QSE Performance Standards” [IPA].**

Proposed Effective Date: September 1, 2009.

CEO Determination: No opinion on whether or not PRR787 is necessary prior to the Texas Nodal Market Implementation Date (TNMID).

ERCOT Impact Analysis: 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.

Revision Description: This PRR adds language to the Protocols that defines if and when a non-compliance event occurs in regards to QSE performance standards.

Procedural History: PRR787 was posted on December 3, 2008. On January 22, 2009, the Protocol Revision Subcommittee (PRS) unanimously voted to refer PRR787 to the Reliability and Operations Subcommittee (ROS). On February 19, 2009, PRS unanimously voted to table PRR787 until the March 19, 2009 PRS meeting. On March 19, 2009, PRS unanimously voted to refer PRR787 to ROS with instructions to return to PRS in one (1) month. On April 23, 2009, PRS unanimously voted to refer PRR787 back to ROS. On May 21, 2009, PRS voted to recommend approval of PRR787 as amended by the May 19, 2009 ROS comments and as revised by PRS. There were three (3) abstentions from the Municipal, Independent Generator, and Consumer Market Segments. On June 18, 2009, PRS unanimously voted to recommend approval of PRR787 as amended by the June 17, 2009 Luminant comments, the June 8, 2009 Wind Coalition comments and as revised by PRS. On July 9, 2009, TAC unanimously voted to recommend approval of PRR787 as amended by the July 8, 2009 ERCOT comments.

Dr. Patton, who removed PRR787 from the Consent Agenda (Agenda Item 2), inquired about whether PRR787 was an appropriate change at this time, specifically, with the proposed references to Texas RE. Mr. Bruce stated that TAC voted unanimously in favor of PRR787 and that the clarity in the PRR787 language was necessary. He acknowledged that if a separation between Texas RE and ERCOT responsibilities occurred in the future, then all Protocols would need to be reviewed with this in mind and that PRR787 would be flagged for this type of future review. **Dr. Patton moved to approve PRR787 as presented.** Chairman Newton suggested that it might be more efficient for the Board to approve all PRRs collectively. **Dr. Patton withdrew his motion.**

- **PRR801 – Manual TCR Adjustments [ERCOT].**

Proposed Effective Date: September 1, 2009.

CEO Determination: No opinion on whether or not PRR801 is necessary prior to the TNMID.

ERCOT Impact Analysis: 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.



Revision Description: This PRR revises Section 7.5.3.1, Annual and Monthly Auction Summary, to provide a description of the process used by ERCOT to achieve revenue neutrality in the monthly TCR auction.

Procedural History: PRR801 and its corresponding Impact Analysis were posted on February 9, 2009. On February 11, 2009, the motion to grant Urgent status failed via PRS email vote. On March 19, 2009, PRS unanimously voted to table PRR801. On April 23, 2009, PRS unanimously voted to recommend approval of PRR801 as amended by the Wholesale Market Subcommittee (WMS) 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 remand PRR801 to PRS to clarify revenue neutrality issues and for TAC to reconsider PRR801 after WMS has endorsed a procedure document. On June 18, 2009, PRS voted to recommend approval of PRR801 as amended by the June 17, 2009 WMS comments. There was one (1) opposing vote from the Independent Generator Market Segment and one (1) abstention from the Investor Owned Utility (IOU) Market Segment. On July 9, 2009, TAC voted to recommend approval of PRR801 as amended by ERCOT comments. There was one (1) opposing vote from the IOU Market Segment and one (1) abstention from the IOU Market Segment.

Mr. Gent asked for more information about the reason that the IOU segment opposed PRR801. Mr. Bruce declined to offer an opinion for the opposing vote, but recalled that the vote was cast by American Electric Power (AEP). Calvin Crowder clarified that it was his understanding that AEP, not the entire IOU segment, opposed PRR801 since AEP's TAC representative believed that the current Protocols sufficiently addressed this topic and that PRR801 was unnecessary.

- **PRR805 – Adding POLR Customer Class and AMS Meter Flag to the Database Query Function on the MIS [Texas SET].**

Proposed Effective Date: Upon system implementation.

CEO Determination: No determination as PRR processed prior to CEO review procedure.

ERCOT Impact Analysis: \$50-100K budgetary impact; project required – estimated time requirement is 2-3 months; no additional full-time equivalents needed – resources involved in implementing PRR805 are actively engaged in the Nodal project; impacts to Texas Market Link (TML) (Retail Application), Information Services Master (ISM), TIBCO, and Retail Application Programmatic Interface (API), Web Services, and Enterprise Information Services (EIS); no impact to existing business processes; no impact to grid operations.

Revision Description: This PRR will add POLR Customer class and the AMS meter flag to the database query function on the MIS.

Procedural History: PRR805 was posted on March 6, 2009. On April 23, 2009, PRS voted to recommend approval of PRR805 as submitted with one (1) abstention from the Independent Power Marketer (IPM) Market Segment. On May 21, 2009, PRS unanimously voted to endorse and forward the PRS Recommendation Report, Impact Analysis, and Cost Benefit Analysis to TAC and to recommend a priority of 2-High and a rank of 32. On June 4, 2009, TAC voted to recommend approval of PRR805 with priority of 2-High and a rank of 32 as recommended by PRS. There was one (1) abstention from the Independent Generator Market Segment. On July 21, 2009, the ERCOT Board remanded PRR805 to TAC. On August 6, 2009, TAC unanimously voted to recommend approval of PRR805 as revised by TAC.



Mr. Bruce noted that TAC addressed on remand the Board's questions from the prior Board meeting regarding customer privacy issues with the identification of the Provider of Last Resort (POLR) Customer class. He added that comments on this issue were filed by a coalition of Retail Electric Providers (REPs) and that Commission staff reviewed these matters, particularly, the requirements of the Commission's Substantive Rules. He advised that it was the unanimous opinion of TAC that there was no customer privacy issues present with the identification of a POLR Customer class. Mr. Bruce reminded the Board that, at the prior Board meeting, Mr. Fehrenbach requested that TAC address the lack of definition of "POLR Customer class" in the Protocols. He advised that the language of PRR805 had been modified since the prior Board meeting to refer to "POLR Customer class" as defined in the Commission's Substantive Rules. Mr. Bruce noted that TAC believed that PRR805 provides a function that is useful to the market to enable the deployment of products and services that will allow customers to utilize advanced metering system technologies. He continued that, despite TAC's acknowledgement that the Nodal Program should be the first priority, TAC supported the pursuit of advanced metering even with the potential risk to the Nodal schedule since TAC believed both projects were important and ERCOT should do both if possible. Mr. Bruce advised that TAC recommended the approval of PRR805 and the associated NPRR 171. Dr. Patton commented that he had been advised that this would be manageable by ERCOT and ERCOT Nodal. Mr. Cleary was not present at that particular time; however, Mr. Doggett confirmed that ERCOT believes at this time it can begin this process in January 2010 to be complete by March 2010 so long as no potential risks to the Nodal Program materialize. Mr. Kahn clarified and rephrased that ERCOT would do its best to do so, but if the advanced metering project cannot be completed by the end of the first quarter of 2010, then this project would have to wait until after Nodal Go-Live. Mr. Ballard commented that he was pleased to learn that the Commission staff did not believe there was any proprietary information or privacy issues and that it was his understanding that there was an added protection that the MIS is not available publicly, but rather only to entities that register as REPs.

- **PRR810 – Remove McCamey Congestion Management [Potomac].**

Proposed Effective Date: September 1, 2009.

CEO Determination: ERCOT CEO has no objection to PRR810 proceeding through the stakeholder process.

ERCOT Impact Analysis: No budgetary impact; no additional full-time equivalents needed; no system changes required; existing business processes will be revised to implement this PRR; no impact to grid operations.

Revision Description: This PRR removes the unique congestion management procedures for the McCamey Area.

Procedural History: PRR810 was posted on April 1, 2009. On May 21, 2009, PRS voted to recommend approval of PRR810 as submitted. There was one (1) abstention from the Independent Retail Electric Provider (IREP) Market Segment. On June 18, 2009, PRS voted to endorse and forward the PRS Recommendation Report and Impact Analysis for PRR810 to TAC. There was one (1) opposing vote from the Independent Generator Market Segment. On July 9, 2009, TAC voted to recommend approval of PRR810 as recommended by PRS. There was one (1) abstention from the Independent Generator Market Segment.



The Board had no questions on PRR810.

- **PRR814 – NOx Emissions Allowance Index Price (NOxEAIP) [Luminant] – URGENT.**

Proposed Effective Date: September 1, 2009.

CEO Determination: No opinion on whether or not PRR814 is necessary prior to the TNMID.

ERCOT Impact Analysis: No budgetary impact – this PRR will be implemented as a manual process; no additional full-time equivalents needed; ERCOT does not anticipate any incremental staffing impacts if the number of verifiable cost disputes continue to remain at current levels - if the number of disputes increase significantly then ERCOT may have to revise its staffing impacts; no system changes required; existing business processes will be revised to accommodate this PRR; no impact to grid operations.

Revision Description: This PRR establishes a definition for NOx Emissions Allowance Index Price (NOxEAIP) that relies on a published cost index for NOx emissions allowances. The PRR provides QSEs with an option to either provide detailed documentation of the actual cost of NOx emissions allowances as part of the verifiable cost process or to rely on the NOxEAIP. Specifically, this PRR allows QSEs to recover the cost of emissions allowances when providing Replacement Reserve, Out of Merit Capacity (OOMC) or Out of Merit Energy (OOME) Service as directed by ERCOT if the costs of those emissions allowances are less than 110% of the NOxEAIP. This is the same concept that is applied to the documentation requirements of natural gas prices and fuel oil prices for verifiable cost purposes. This PRR also adds language to clarify how QSEs can recover any emissions-related costs for both startup and operations when providing Replacement Reserve, OOMC or OOME Service.

Procedural History: PRR814 was posted on June 1, 2009. On June 3, 2009, the motion to grant Urgent status passed via PRS email vote. On June 18, 2009, PRS unanimously voted to table PRR814. On July 23, 2009, PRS unanimously voted to recommend approval of PRR814 as amended by the July 14, 2009 ERCOT comments. On August 6, 2009, TAC voted to recommend approval of PRR814 as recommended by PRS. There were four (4) opposing votes (Consumer) and five (5) abstentions (IREP – 4; Consumer – 1). *Credit review is pending.*

Chairman Newton noted that the issue centers on the use of an index versus actual verifiable costs. Mr. Dalton agreed and expressed an additional concern that PRR814 could be interpreted to use the index plus ten percent without verifying any costs and that either an index or verifiable costs should be used rather than an index plus ten percent. He added that there is not a full understanding of all of the formulas that are included in PRR814. Mr. Helton provided an explanation of the proposed process as it related to the ten percent in addition to the index. Mr. Crowder mentioned that ERCOT uses this ten percent calculation with other matters. Mr. Kahn and Mr. Doggett confirmed Mr. Crowder's comments.

Chairman Newton called for a vote on PRR814. Mr. Armentrout moved to approve PRR814 as presented. Mr. Helton seconded. The motion passed by voice vote with eleven in favor (Messrs. Armentrout, Brown, Cox, Crowder, Espinosa, Gent, Helton, Kahn, Karnei and Wilkerson, and Chairman Newton) and four opposed (Messrs. Ballard, Dalton and Fehrenbach by proxy to Mr. Dalton, and Dr. Patton).



Mr. Doggett and Mr. Bruce advised that ERCOT submitted comments to PRR814 to the Board after the Board materials were originally issued to the Board. It was determined that the ERCOT comments to PRR814 were distributed to the Board by hard copy earlier in the day.

In an effort to clarify the subject of the vote on PRR814, Mr. Helton proposed a friendly amendment to approve PRR814 as modified by ERCOT comments. Mr. Armentrout accepted the friendly amendment. Chairman Newton called for a vote on PRR814 as modified by ERCOT comments. The motion passed by voice vote with eleven in favor (Messrs. Armentrout, Brown, Cox, Crowder, Espinosa, Gent, Helton, Kahn, Karnei and Wilkerson, and Chairman Newton) and four opposed (Messrs. Ballard, Dalton and Fehrenbach by proxy to Mr. Dalton, and Dr. Patton).

- **PRR819 – Changes to Support Revisions to the PUCT POLR and Expedited Switch Rules [Texas SET Working Group] - URGENT.**

Proposed Effective Date: Upon ERCOT Board approval and system implementation (see TAC Recommendation Report for specific sections).

CEO Determination: Necessary prior to the TNMID.

ERCOT Impact Analysis: Requirements of PRR819 will be managed under Project 90024_01: POLR Rule and Expedited Switch – project is budgeted in the \$500k to \$1M range and is currently in the planning phase; no additional full-time equivalents needed – project team may augment internal resources with contractors for development and implementation; TIBCO, Siebel, PaperFree, ERCOT.com, Retail Testing Website, and Enterprise Information Services (EIS) will be impacted; business processes will be modified to implement this PRR; no impact on grid operations.

Revision Description: This PRR provides that ERCOT shall identify, for 60 days, Electric Service Identifiers (ESI IDs) acquired in a Mass Transition to a POLR so that Customers that switch from the POLR are not charged for an out-of-cycle meter read. This PRR also implements changes necessary to expedite the customer switching process.

Procedural History: PRR819 was posted on June 29, 2009. On July 1, 2009, the motion to grant PRR819 Urgent status failed via PRS email vote. On July 23, 2009, PRS unanimously voted to grant PRR819 Urgent status and to recommend approval of PRR819 as submitted with effective dates as recommended in the Retail Market Subcommittee (RMS) comments. On August 6, 2009, TAC unanimously voted to recommend approval of PRR819 as recommended by PRS.

Dr. Patton expressed his concern regarding the considerable cost of PRR819, in excess of \$1 million, which he noted is a pass-through cost to ERCOT that he believes makes it difficult for ERCOT to fund properly its core functions. At Chairman Smitherman's request so that he could confer with the Commission staff on this PRR, the discussion regarding PRR819 was continued later during the TAC Report.

- **PRR816 – CRE Determination Criteria [Congestion Management Working Group (CMWG)] – URGENT.**

Proposed Effective Date: September 1, 2009.



CEO Determination: No opinion on whether or not PRR816 is necessary prior to the TNMID.

ERCOT Impact Analysis: No budgetary impact; no additional full-time equivalents needed; no system changes required; analysis of CREs will be a manual process – existing business processes will be revised to accommodate this PRR; better congestion management.

Revision Description: This PRR establishes a set of four criteria for determining if a candidate contingency/limiting element pair qualifies as a CRE.

Procedural History: PRR816 was posted on June 22, 2009. On June 24, 2009, the motion to grant Urgent status passed via PRS email vote. On July 23, 2009, PRS unanimously voted to recommend approval of PRR816 as amended by CMWG comments. The Consumer Market Segment was not present for the vote. On August 6, 2009, TAC voted to recommend approval of PRR816 as recommended by PRS. There was one (1) abstention from the IOU Market Segment.

The Board had no questions on PRR816.

- **PRRs 787, 801, 805, 810 and 816 -- Continued**

Chairman Newton called for a vote on PRRs 787, 801, 805, 810 and 816. Mr. Helton moved to approve PRRs 787, 801, 805, 810, and 816. Mr. Brown seconded the motion. The motion passed by voice vote with one abstention (Mr. Fehrenbach by proxy to Mr. Dalton).

Nodal Protocol Revision Requests (NPRRs) (Agenda Item 12b)

NPRRs 175, 176, 177, 178, 180, 182 and 187 were approved as part of the Consent Agenda (Agenda Item 2).

- **NPRR171 – Synchronization of PRR805, Adding POLR Customer Class and AMS Meter Flag to the Database Query Function on the MIS [TX SET].**

Proposed Effective Date: Upon Texas Nodal Market Implementation.

CEO Determination: Necessary prior to the Texas Nodal Market Implementation Date (TNMID).

ERCOT Impact Analysis: No budgetary impact; no additional full time equivalents needed (resources required for PRR805 development are also working on the nodal project – schedule management will be utilized so as not to impact nodal timelines); no impacts to ERCOT computer systems; no impacts to ERCOT business functions; no impact to grid operations and practices.

Revision Description: This NPRR will add POLR Customer class and the AMS meter flag to the database query function on the MIS.

Procedural History: NPRR171 was posted on April 3, 2009. On April 23, 2009, the Protocol Revision Subcommittee (PRS) unanimously voted to recommend approval of NPRR171 as submitted. 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 table NPRR171 for one (1) month. On July 9, 2009, TAC unanimously voted to recommend approval of NPRR171 as recommended by PRS. On July 21, 2009, the



ERCOT Board remanded NPRR171 to TAC. On August 6, 2009, TAC unanimously voted to recommend approval of NPRR171 as recommended by PRS and as revised by TAC.

Mr. Bruce advised that NPRR171 synchronizes the Nodal Protocols with PRR805 which the Board just approved. The Board had no questions on NPRR171.

Mr. Espinosa moved to approve NPRR171. Mr. Karnei seconded the motion. The motion passed by voice vote with one abstention (Mr. Fehrenbach by proxy to Mr. Dalton).

Retail Market Guide Revision Request (RMGRR) 079 (Agenda Item 12c)

- **RMGRR079 – Changes to Support Revisions to the PUCT POLR and Expedited Switch Rules – URGENT [ERCOT].**

Proposed Effective Date: Effective upon ERCOT Board approval and system implementation (see TAC Recommendation Report for specific sections).

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

ERCOT Impact Analysis: Cost and budget impacts captured under Protocol Revision Request (PRR) 819; requirements will be managed under Project 90024_01: POLR Rule and Expedited Switch; no additional full-time equivalents needed; no additional impacts beyond those identified for PRR819; ERCOT business processes will be modified to implement this revision request; no impact on grid operations and practices.

Revision Description: This RMGRR provides that ERCOT shall identify, for 60 days, Electric Service Identifiers (ESI IDs) acquired in a Mass Transition to a POLR so that Customers that switch from the POLR are not charged for an out-of-cycle meter read. This RMGRR also implements changes necessary to expedite the Customer switching process. In addition, this RMGRR provides a means for Market Participants to effectuate Customer rescissions in a timely manner within existing MarkeTrak workflows until further changes to MarkeTrak can be implemented at a future date in order to comply with PUCT Project No. 36536, Rulemaking to Expedite Customer Switch Timelines. Sections were also deleted to comply with Section (p)(3) of P.U.C. SUBST. R. 25.43, POLR.

Procedural History: RMGRR079 was posted on June 29, 2009. On July 1, 2009, RMGRR079 was granted Urgent status via RMS email vote. On July 15, 2009, the Retail Market Subcommittee (RMS) unanimously voted to recommend approval of RMGRR079 as amended by the Reliant Energy Retail Services comments and the MarkeTrak Task Force (MTTF) comments and as revised by RMS. RMS also voted to recommend that RMGRR079 be effective upon ERCOT Board approval of PRR819 with the exception of the changes to the following sections, which would be effective upon system implementation: Section 7.11.5.2.2, ERCOT, Section 7.11.5.2.3, TDSP, and “Timing/Business Rules for 814_06 Drop Due to Switch/Move-In Request” and “Example for 814_08, Cancel Switch/Move-In/Move-Out/Mass Transition Drop Request” in Appendix D, Transaction Timing Matrix. On August 6, 2009, TAC unanimously voted to recommend approval of RMGRR079 as amended by the July 24, 2009 MTTF comments with an effective date of “Upon ERCOT Board Approval” except for changes to Section 7.11.5.2.2, Section 7.11.5.2.3, and “Timing/Business Rules for 814_06 Drop Due to Switch/Move-In Request” and “Example for 814_08, Cancel Switch/Move-In/Move-Out/Mass Transition Drop Request” in Appendix D, Transaction Timing Matrix, which would be effective upon system implementation.



Mr. Bruce noted RMGRR079 was removed from the Consent Agenda (Agenda Item 2) due to changes approved by the Retail Market Subcommittee that were inadvertently omitted. He added that ERCOT staff also provided comments to RMGRR079 on August 10, 2009. Further discussion of RMGRR079 was continued later in the TAC Report.

PRR819 (Agenda Item 12a) – Continued

Chairman Smitherman noted that PRR819 addresses both customers that are dropped to POLR and customers in the ordinary course of business. He continued that the cost was of concern to him and that the Commission was convinced that it was important for the market to reduce switching times to seven days. He added that so far this change has received very positive response. Dr. Patton expressed his concern that this is a mandated cost that ERCOT will necessarily be forced to bear in order to satisfy the Commission's directive and that cost should be included in any requested budget increase. Commissioner Anderson expressed his view regarding the reasoning for the Commission's decisions – that is, this is fundamental to the retail market. He added that this arose out of the Commission's review of the problems that occurred during 2008. He emphasized that the Commission always encourages customers, in particular residential retail customers, to shop for improved pricing if they were not satisfied with their current pricing. He added that one of the most notable problems discovered by the Commission was that there were customers who did everything right for switching; however, there were a disproportionate number of those switching customers who had to wait 30 to 45 days to get their switches implemented and who had to pay the POLR rate which was extremely high during the summer of 2008. Commissioner Anderson mentioned that he believed that this was unacceptable and went to the heart of the market – that is, which implies that customers are able to make a choice and realize the benefits of that choice. He acknowledged that it may involve some cost to ERCOT, but he believed that the importance to the retail market as a whole greatly outweighs the cost to ERCOT.

Commissioner Donna Nelson agreed with Chairman Smitherman's and Commissioner Anderson's comments. She expressed her concern over the wide range of the estimated costs (that is, from \$500,000 to \$1 million). She added the long length of switching time (such as, 45 days) leaves customers with negative impressions of the retail competitive market and also factored into the Commission's decision. Commissioner Nelson noted that, during the Commission's review of the disclosure rules, it was determined that the 60-day notice rule created issues for the REPs to disclose prices at the end of a contract term with variable-priced products with volatile natural gas prices. She continued that the REPs advised that this 60-day notice would increase their hedging costs that would in turn add cost of products to the end-use customer. She agreed that there is a cost to ERCOT attributable to PRR819, but that there is perhaps a much greater cost attributable to leaving it as is. Mr. Kahn advised that ERCOT is still in the planning phases and that the estimated costs would be tightened as far as the estimate range. Troy Anderson, ERCOT Program Administration Manager, advised that estimates that ERCOT provides to the public are provided in ranges in the event that the work is contracted out to a vendor and that the exact estimate is \$900,000 (that is, \$500,000 for 2009 and \$400,000 in 2010). Mr. Gent noted that this looked like a one-time cost which appears absurdly high and requested assurance from ERCOT that all components have been reviewed. Mr. Doggett advised



that he could not personally speak to the details, but he could tell from the systems that are touched that the cost was not surprising.

Mr. Brown mentioned that he appreciated Commissioner Nelson's explanation regarding the reasons for expedited switching of a POLR customer who is temporarily paying a higher rate, but inquired about the reasons for the expedited switching of a retail customer and the reasons for including larger commercial customers in that switching. He observed that some customers signed up long-term agreements to hedge against high natural gas prices and that some customers now have economic incentives to breach those agreements and use expedited switching to avoid their current provider assessing early termination charges. Commissioner Nelson commented that this may be something that needed to be considered by the Commission, but pointed out that it was a "two-way street" that has positive and negative consequences. Chairman Smitherman mentioned that this would not apply to an Interval Data Recorder (IDR) or advanced meter customer, that residential customers always had the ability to do this previously with an out-of-cycle meter read, and that retailers should examine whether their default fees are set appropriately. Mr. Brown explained that the issue isn't meter reads but rather the new speed with which a customer can break its contract and switch before the retailer is able to demand the breakage fee, and post-switch litigation is cost-prohibitive. Commissioner Anderson reiterated his support for this PRR, particularly with regard to the issues related to the market for residential retail customers. Commissioner Nelson further reiterated her support for Commissioner Anderson and Chairman Smitherman's views. She advised that this is a critical, competition-affecting issue and that the Commission is interested in cutting ERCOT's costs, but not at the expense of harming the competitive market. She added that to the extent that it is easier for customers to switch, the market is more vibrant. Chairman Newton noted that there is always a cost balanced with bringing improvements to the market.

Chairman Newton called for a vote on PRR819. Mr. Wilkerson moved to approve PRR819 as presented. Mr. Karnei seconded the motion. The motion passed by voice vote with one opposed (Dr. Patton) and one abstention (Mr. Brown).

Retail Market Guide Revision Request (RMGRR) 079 (Agenda Item 12c) -- Continued

Chairman Newton called for a vote on RMGRR079. Mr. Armentrout moved to approve RMGRR079 with ERCOT comments. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Single Entry Model (SEM) Go-Live (Agenda Item 12d)

Matt Mereness, ERCOT Market Operations Technical Specialist, provided the SEM Go-Live presentation. Mr. Mereness mentioned that TAC met earlier that morning to discuss the certification for SEM Go-Live. Mr. Bruce clarified that TAC is not certifying that there are no problems. He further advised that based on information from ERCOT and TSPs, TAC is ready to move forward, but that there are still issues to be resolved. He added that TAC is confident that these issues will be resolved and that there were no "show stoppers". Mr. Bruce advised that TAC is recommending to the Board that it certify the Market Readiness Criteria for SEM Go-Live. Mr. Cleary and Mr. Kahn noted that this is the first major step to Go-Live and thanked



everyone, including TAC and the SNP Committee, for their work on this matter. Mr. Gent inquired whether the Board would be certifying the network operations model would only be made available to the TSPs. Mr. Bruce confirmed that, with ERCOT's agreement, this was a modification to the Go-Live procedure for launching SEM to provide this information only to TSPs who are all bound by a Commission-approved code of conduct and that the full rollout to all Market Participants would be developed to address commercially-sensitive issues. Mr. Gent inquired about the nature of the posting problem. Mr. Bruce responded that the posting issues are specifically related to the resource data and that the method by which information can be made available to the entire market in the future will need to be addressed. Mr. Karnei asked for the reason that the Board needed to make the requested certification. Mr. Bruce replied that Section 21 of the Protocols provides the requirements for Board certifications for Nodal Go-Live and that the SEM Go-Live certification by TAC and the Board was one of six certifications necessary for Nodal Go-Live. Mr. Crowder asked whether ERCOT staff is supporting this recommendation. Mr. Cleary responded affirmatively.

Mr. Kahn moved to approve and certify that all Market Readiness Criteria have been met for SEM Go-Live. Mr. Gent seconded the motion. The motion passed by unanimous voice vote with no abstentions.

Loads acting as a Resource (LaaRs) Capability Study (Agenda Item 12g)

Mr. Bruce and Ken Donohoo, Director of Transmission Planning at Oncor who chairs TAC's Reliability and Operations Subcommittee, provided the LaaRs Capability Study. Dr. Patton inquired whether 100% or 150% of LaaRs was used for the study and had received confirmation that 100% was used. Mr. Gent inquired whether ERCOT had experienced any frequency recovery overshoot of significance. Mr. Donohoo mentioned that the issue of LaaRs providing up to 150% of the requested response was being monitored and that ERCOT staff had not indicated any significant problems to date.

Nodal Performance Metrics Development Update (including NOGRR025) (Agenda Item 12e)

Mr. Bruce suggested the Nodal Performance Metrics Update could be deferred one month because he expected TAC to bring the details of the full reporting and monitoring function plus compliance metrics for ERCOT, TSPs and QSEs to the Board next month as well as the impact assessment schedule for those items to be completed by Nodal Go-Live and those that will need to be deferred post-Nodal Go-Live.

Mr. Bruce reviewed the expected future Board agenda items for September and October 2009 as follows:

- Recommendation for 2010 Commercially Significant Constraints (CSCs); and
- A PRR related to wind generator forecast scheduling.

Mr. Gent asked for a list of NPRRs and PRRs currently in process. Mr. Bruce agreed to send Mr. Gent online links to such lists. Dr. Patton inquired about the status of TAC's further look at



ancillary service costs and cost allocations. Mr. Bruce responded that this item remains active in the Renewable Technologies Workgroup and is being incorporated into the overall renewables integration plan. He added that the Commission has added this topic as an agenda item to a Commission-hosted workshop on August 20, 2009.

NPRR Parking Deck (Agenda Item 11a) -- Continued

Chairman Newton returned to a discussion of the vote on the NPRR Parking Deck. Mr. Grable discussed the provisions of Sections 4.7 and 14.7 of ERCOT's Bylaws and concluded that the earlier vote on the NPRR Parking Deck passed. Mr. Armentrout noted that he was uncomfortable departing from prior practice. Mr. Grable clarified that the interpretation of this vote was consistent with prior practice. He suggested that the Board consider addressing these voting sections in the Bylaws during the Bylaws revisions process.

F&A Committee Report (Agenda Item 14)

Mr. Karnei, F&A Committee Chairman, announced that the F&A Committee held a Special meeting on the prior day and considered the following matters:

- Comprehensive overview of the 2010 budget;
- Review by spending category and five-year forecast; and
- Divisional review of key services and cost containment measures.

He mentioned that the F&A Committee met earlier in the morning and considered in part the following matters:

- Institute of Internal Auditors (IIA) Guidance. He noted that the F&A Committee reviewed the ten criteria outlined by IIA used as best practices for the F&A Committee's oversight of the IA staff and that the Committee concluded that ERCOT performed well on all ten criteria;
- Review of the Responses to the Request for Proposal (RFP) for External Auditors for ERCOT's Financial and SAS70 Audits. He explained that the Committee asked ERCOT staff to recommend a short list of auditors and to conduct interviews. He noted that the Committee expects to make an auditor recommendation to the Board in September 2009;
- PricewaterhouseCoopers (PwC) Update on ERCOT's SAS70 Audit. He noted that PwC advised that ERCOT has a couple issues; however, the Committee was informed that those issues have been satisfactorily addressed and that the audit on schedule to complete by year end;
- Credit Briefing regarding Potential Future Exposure. He noted that ERCOT staff provided a presentation on the Oliver Wyman Market Credit Risk model and has plans to run the model at least quarterly. He added that the credit risk in the market is remaining roughly the same as a couple years ago when the model was last run and that there is less collateral which has been offset by lower market prices, which places ERCOT in the same position as it was a couple of years ago; and
- Discussion of 2010 Budget Presentation. He noted that the F&A Committee considered three 2010 budget scenarios – a flat fee option, management's recommendation and a



moderate service reduction option – and that Mike Petterson, ERCOT Controller, would be providing the Board with an overview of the 2010 budget. He added that the F&A Committee plans to make a formal recommendation in September 2009 on the 2010 budget. He advised that currently there are outstanding questions to be answered by staff; however, current consensus of the F&A Committee is tentatively to plan to recommend Management's Recommendation of an increase in the ERCOT System Administrative Fee (Fee) from 41.71 cents per kWh to 44.8 cents per kWh which is roughly a 7.6% increase.

2010 Proposed Budget and Five-Year Forecast (Agenda Item 14a)

Mr. Petterson provided an overview of the 2010 Proposed Budget and Five-Year Forecast. Chairman Smitherman inquired if there was any correlation between the 23 FTEs on pages 7 and 9 of the Budget materials. Mr. Petterson noted that he would have to investigate the labor categorization further and agreed to obtain the necessary information and to provide an answer. Commissioner Nelson advised that the Commissioners are ultimately accountable and responsible for ERCOT's budget. She inquired about ERCOT's costs of benefits per employee. Mr. Petterson responded that the cost per employee was running approximately 32.5% of base compensation. Commissioner Nelson clarified that she wanted an average number of cost of benefits per employee and the amount of medical insurance costs that ERCOT pays for each employee. Ms. Capezzuti responded that the cost varies per employee based on the selected insurance plan and that ERCOT pays a weighted average of 87.7% of premiums for the employee (that is, employee and dependents combined). Commissioner Nelson asked whether ERCOT has reconsidered this cost. Ms. Capezzuti replied that more of the costs have been moved to the employees on a gradual basis. Commissioner Nelson asked about the cost amount if ERCOT only paid for the cost of employee premiums and not for dependents. Ms. Capezzuti responded that she did not have that information with her and would have to obtain that information. Commissioner Nelson inquired whether ERCOT had negotiated with its provider to change the terms of service to increase the costs passed onto employees. Ms. Capezzuti confirmed that ERCOT has been doing that each year and that ERCOT renegotiates its premiums annually. She added that ERCOT has moved carriers to reduce costs and has increased employee deductibles and co-pays. Commissioner Nelson asked whether ERCOT has increased employees' co-pays for prescription drugs. Ms. Capezzuti replied that ERCOT did not this year, but ERCOT has in the past. Commissioner Nelson asked for the specifics of those plans. She asked whether ERCOT had a retirement 401(k) plan or a defined pension plan. Ms. Capezzuti confirmed that ERCOT did not have a defined pension plan, but had a 401(k) plan.

Chairman Smitherman called attention to page seven of the Budget materials and asked for the definition of "core services." Mr. Kahn responded that ERCOT's core functions relate to the four Public Utility Regulatory Act (PURA) statutory requirements. Chairman Smitherman asked whether ERCOT would reanalyze all of ERCOT's tasks for 2011 – that is, going back to "square one" for the review. Mr. Kahn replied that ERCOT would not re-examine what would be considered "core" because the statutory requirements still exist, but rather how the new projects, such as advanced metering, would fit into the "core" functions and what does the Commission and the market want in relation to those issues. Chairman Smitherman noted that if the Board and subsequently the Commission were to choose the flat fee revenue option, then by definition



core functionality would be eliminated or degraded and this would therefore not be a realistic option. Mr. Kahn advised that ERCOT was not recommending a flat fee option, that ERCOT was asked to provide a zero-increase budget, and that ERCOT staff spent many hours reviewing the budget. Mr. Karnei clarified that that F&A Committee made the request for ERCOT staff to develop a flat-fee budget. Chairman Smitherman expressed his concern that if the Board or the Commission supported a flat-fee budget, then parties could allege that core functionality would be jeopardized. Mr. Kahn mentioned that he could not speak to other parties' allegations, but he stated that he believed that a flat-fee budget would impact reliability in the short term. Chairman Smitherman noted his skepticism about this premise.

Commissioner Anderson requested information on the early modeling and evaluation process of the flat-fee budget which allowed for reduction of some core functions while retaining some non-core functions. Mr. Kahn offered to meet with each of the Commissioners individually between now and September 2009. Mr. Karnei suggested that it might be beneficial for the Commissioners to receive a walk-through on the information provided in the prior day's F&A Committee Special Meeting. Commissioner Nelson shared the concerns expressed Chairman Smitherman and Commissioner Anderson. She advised that, based on her short amount of questioning on ERCOT's employee benefits which total about 32% of employee costs, she questioned whether ERCOT has cut its budget deeply enough. She noted that employee merit increases had been discussed and that these costs and proposed 7.6% increase in the System Administration Fee were separate from the Nodal budget, which has increased independently. Commissioner Nelson advised that she found it offensive that ERCOT would request a 7.6% increase in the Fee during this economy, when the people of Texas were doing more with less, and when it appeared to her that ERCOT did not do the level of budget scrubbing that it needed to do and that the people of Texas would expect ERCOT to do. She further advised she was troubled that ERCOT was not able to answer some basic questions like the difference between core and non-core functions and that she wanted to have these conversations online, not offline.

Commissioner Nelson inquired about the average travel cost per ERCOT employee. Mr. Petterson reviewed in detail those expenses that are characterized as reimbursable employee expenses, a description of types of travel costs, and the related historical per employee costs. Commissioner Nelson inquired about the absolute dollar amount decrease rather than the per employee cost. Mr. Petterson replied that the management recommendation relative to the 2009 budget was a \$140,000 decrease out of a \$1.6 million budget item. Chairman Smitherman noted that, according to his review of the Budget materials, ERCOT should be able to hold labor and benefits the same in 2010 for core functionality with flat-fee option. Mr. Kahn responded that there are other considerations that would cut into the core functions, including the Met Center project for \$4.6 million, increased costs for medical benefits, reduced vacancy savings, and reduced merit increases from 3% to 2%. Commissioner Anderson inquired about the recurring salary growth. Mr. Petterson responded that it is the market-based merit number, including promotions or market adjustment if there is any. Commissioner Anderson requested more detail on this topic. Mr. Petterson agreed to provide the requested information. Commissioner Nelson returned to Chairman Smitherman's earlier question about whether ERCOT could stay flat on the 2009 budget for labor and benefits. She asked Mr. Kahn for confirmation that he stated that ERCOT could not stay flat on labor without affecting core functions. Mr. Kahn confirmed that if ERCOT continued with a flat fee, some employees would leave who would be performing some



of those core functions. Commissioner Nelson asked if ERCOT's position was that if it does not have the additional \$9 million for labor in this recession job market, then these employees would find a new job. Mr. Kahn clarified that an additional 48 employees who performed core services would be asked to leave in order to get to a flat-fee budget and that those position vacancies would mean that some, not all, core functions would not be performed. Commissioner Nelson asked for the percentage of core versus non-core work. Mr. Kahn did not have the percentage calculation immediately available, but agreed to provide it. Chairman Newton noted that the Board is not being asked to take action on the budget today and that the Board was only requesting feedback today. She acknowledged that the Board has heard the Commissioners' message today and asked that the F&A Committee should take the Commissioners' comments under advisement and work with ERCOT staff to develop a recommendation that the Board believes is strong and defensible before the Commission. She acknowledged that the Commissioners are placed in a difficult position when approving the budget. Commissioner Anderson clarified that his questions relate to the methods by which the other two budget scenarios were developed. Chairman Newton recommended that Mr. Kahn and the ERCOT executive team meet with each of the Commissioners on the budget presentation and use the coming month to address the outstanding questions.

Human Resources & Governance (HR&G) Committee (Agenda Item 15)

Mr. Armentrout, HR&G Committee Chairman, stated that the HR&G Committee met this morning and considered the following matters:

- External Relations Update. He noted that Theresa Gage, ERCOT Government Relations Manager, advised that she had been counseled by some legislative contacts to remind the public that ERCOT is more than simply the Nodal Program and that ERCOT conducts other significant work and activities;
- Market Participant Survey Update;
- Review and Approval of Directors Conflict of Interest and of Code of Conduct and Ethics Agreements (Affiliated Board Member, Non-Affiliated Board Member, Contractor and Employee Versions);
- Discussion on TAC Support for Unaffiliated Board Members; and
- Discussion of the Board and Board Committee Meeting Schedules, which is addressed as Agenda Item 15a.

Board and Board Committee Meeting Schedules and Transcription Proposal (Agenda Item 15a)

Mr. Armentrout advised that the HR&G Committee reviewed ERCOT staff's proposed reduction of Board Meetings from thirteen (including the annual retreat) to eight over the course of a year. He noted that the HR&G Committee discussed the expected time and cost savings to ERCOT (that is, approximately \$260,000 in staff hours and about \$70,000 in costs) with such a reduction. He announced that the HR&G Committee agreed to recommend cancelling the Board's Q&A Sessions held prior to Board meetings. Chairman Newton added that the Board could reconsider and reinstate the Board's Q&A Sessions in the future and that the Board's questions could be handled through other mechanisms. Mr. Armentrout noted that the Board considers its schedule



for the upcoming year each December and that this proposed reduction in meeting schedule was not scheduled for a vote. He added that the HR&G Committee took an informal tally and decided that no change to the schedule should be made at this time since ERCOT was in the middle of key Nodal deliverables, 2010 budget process and preparation for market readiness. He also noted that the HR&G Committee debated the annual Board retreat and was inclined to keep it optional each year. Mr. Grable offered to reduce the ERCOT Legal Department headcount by one FTE (equivalent to 5% of the Legal Department headcount) even though there would be no reduction in Board meeting frequency, so long as Legal could initiate transcription of the general session minutes of the Board and Board Committee meetings. Mr. Ballard agreed with the HR&G Committee regarding the benefits of transcribing the general session minutes. Mr. Karnei inquired about the transcription costs. Mr. Grable responded that those costs would be offset by the additional free time of certain Legal staff that could be used to reduce the use of outside counsel. The Board members discussed options regarding the increasing burden and cost of preparing written Board materials, alternative methods of distributing Board materials, and the advantages of transcription services.

Other Business (Agenda Item 16)

No other business was raised.

Future Agenda Items (Agenda Item 17)

Chairman Newton invited discussion on future agenda items and noted that some of the agenda items may need to be rescheduled throughout the end of the year due to time constraints. The following items were discussed:

- October 2009 – ERCOT Staff Report on PRR776 (requested by Mr. Ballard);
- October 2009 – TAC Report on PRR763 (requested by Mr. Dalton);
- October 2009 – TAC Renewables Workshop; and
- TBD – Smart Grid Discussion (including Nodal, Advanced Metering and CREZ).

Executive Session (Agenda Items 18 to 23)

Chairman Newton adjourned the meeting to Executive Session at approximately 3:30 p.m. Chairman Smitherman closed the open meeting of the Commission at such time. Chairman Newton reconvened the meeting to General Session at approximately 4:57 p.m.

Vote on Matters from Executive Session (Agenda Item 24)

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

Mr. Helton moved to approve the Executive Session Contract Matter resolution in the Board materials as Agenda Item 21b as presented. Mr. Armentrout seconded the motion. The motion passed by voice vote with ten in favor (Messrs. Armentrout, Ballard, Cox, Crowder, Dalton, Espinosa, Helton, Kahn, Karnei, and Chairman Newton) and three



opposed (Mr. Gent, Dr. Patton and Mr. Wilkerson) and one abstention (Mr. Fehrenbach by proxy to Mr. Dalton).

Mr. Helton moved to approve the Executive Session Contract Matter resolution in the Board materials as Agenda Item 21c as presented. Mr. Armentrout seconded the motion. The motion passed by voice vote with one abstention (Dr. Patton).

Mr. Helton moved to approve the Executive Session Contract Matter resolution in the Board materials as Agenda Item 21e as presented. Mr. Kahn seconded the motion. The motion passed by unanimous voice vote.

Adjournment (Agenda Item 25)

Chairman Newton adjourned the meeting at approximately 5:02 p.m.

Board materials and presentations from the meeting are available on ERCOT's website at <http://www.ercot.com/committees/board/>.

Michael G. Grable
Corporate Secretary