

**MINUTES OF THE BOARD OF DIRECTORS OF
THE TEXAS REGIONAL ENTITY DIVISION OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

Room 206, Met Center, 7620 Metro Center Drive, Austin, Texas 78744
May 19, 2009

Directors

Jan Newton, Chair		Unaffiliated
Michehl Gent ¹ , Vice Chair		Unaffiliated
Barry T. Smitherman	Chairman, Public Utility Commission of Texas (PUCT)	
Mark Armentrout		Unaffiliated
Danny Bivens ²	Office of Public Utility Counsel	Residential Small Consumer
Andrew Dalton ³	Valero	Ind. Consumer
Clifton Karnei	Brazos Electric Cooperative	Cooperative
Bob Helton	International Power America	Independent Generator
Bob Kahn	Electric Reliability Council of Texas, Inc. (ERCOT ISO)	ERCOT ISO, CEO
A.D. Patton		Unaffiliated
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider
Dan Wilkerson ⁴	Bryan Texas Utilities	Municipal

Other Attendees

Larry Grimm, Texas RE CEO & CCO
 Susan Vincent, Texas RE Director, Legal Affairs
 Victor Barry, Texas RE Director, Compliance
 Todd Brewer, Texas RE Senior Financial Analyst
 Ryan Clay, Texas RE Senior Paralegal
 Nancy Capezzuti, ERCOT VP & CAO
 Eric Goff, Reliant Energy
 Liz Jones, Oncor
 David Brown, K&L Gates
 Kent Saathoff, ERCOT
 Charles Manning, ERCOT
 Bridget Headrick, PUCT
 Bill Wullenjohn, ERCOT
 Mark Dryfus, Austin Energy
 Mark Bruce, MJB Energy Consulting

¹ Miguel Espinosa designated Michehl Gent as his proxy for this meeting.
² Don Ballard Designated Danny Bivens as an alternative representative for this meeting.
³ Nick Fehrenbach designated Andrew Dalton as his proxy for this meeting.
⁴ Charles Jenkins designated Dan Wilkerson as his proxy for this meeting.

Call to Order

Pursuant to notice duly given, the meeting of the Texas Regional Entity (Texas RE) Board of Directors (Board) convened at approximately 12:32 p.m. on May 19, 2009. Chair Newton called the meeting to order and ascertained that a quorum was present.

Approval of Previous Minutes

Michehl Gent made a motion to approve the minutes of the February 16, 2009 Board meeting, as amended by removal of a typographic error; Dr. A.D. Patton seconded the motion. The motion passed by voice vote with abstentions from Clifton Karnei, Robert Thompson, and Andrew Dalton.

CEO Report

Larry Grimm provided an update on the activities of Texas RE since the February meeting, including:

- The NERC Board of Trustees (BOT) approved Texas RE's Standard Authorization Request (SAR 001) giving the ERCOT ISO $\frac{1}{4}$ of a vote; NERC will file the SAR with FERC for approval.
- The draft 3-Year Performance Assessment of NERC and regional entities is posted for public comment on the NERC website. Derrick Davis (Texas RE Corporate Counsel) is attending a workshop in Denver today where NERC is soliciting feedback from industry stakeholders. Each regional entity board will be able to approve the Regional Entity Assessment and provide feedback to NERC.
- NERC sent the first draft of its 2010 Business Plan & Budget (BP&B) to its Board of Trustees (BOT)
 - Proposes an approximately 40 percent increase (or \$18 million) over its 2009 budget
 - NERC was asked by the NERC BOT to submit modified alternative budgets, with explanations of what work could not be accomplished at possible lower amounts.
 - Reductions in the NERC budget and headcount could impact regional entity budgets by shifting work to the regional entities
- Mr. Grimm informed the Board that the first draft of the 2010 Texas RE Business Plan & Budget (BP&B) was submitted to NERC on May 8, 2009, and the second draft is due May 29, 2009.

The Board members discussed the NERC 2009 Summer Assessment. Chairman Smitherman noted that, although previous NERC seasonal assessments did not seem to correctly describe ERCOT's reserve margin calculation, it appeared that NERC did a very good job of understanding and explaining ERCOT issues in this assessment. Kent Saathoff, ERCOT VP of System Operations, informed the Board that ERCOT Operations staff spent a lot of time this year explaining ERCOT's methodology to NERC.

Mr. Gent asked Mr. Grimm to update the Board on the status of the FERC audit of Texas RE, and Mr. Grimm confirmed that the FERC audit was on-going. He reported that Texas RE had recently responded to FERC's 5th Request for Information and Texas RE still expects FERC to release a draft audit report around September.

In response to a question by Dr. Patton asking if ERCOT had submitted a new SAR for an increase in the ERCOT vote from $\frac{1}{4}$ to a full vote, Mr. Grimm responded that ERCOT had not yet submitted a new SAR. Bob Kahn, ERCOT President and CEO, told the Board that ERCOT was waiting for NERC and FERC to approve SAR 001 before submitting a new SAR.

Operating Reports

Compliance Report

The Directors discussed the improvement in the CPS1 score and possible reasons for this improvement. The Directors then discussed the new wind metrics that had been approved through recent Protocol Revision Requests (PRRs). Chair Newton asked Victor Barry to identify the new wind metrics and include a report on these to the Board in the monthly materials. Mr. Barry explained that it was difficult for Texas RE to report on all of the new metrics, because Texas RE does not monitor the system in real time and some metrics were pass/fail. Mr. Barry said that Texas RE relied on ERCOT ISO to provide reports on any non-compliance in order for Texas RE to monitor compliance. Mr. Barry reported that Texas RE had not yet received any reports on the new metrics from ERCOT ISO. Mr. Kahn said that if ERCOT ISO catches any failure in real time, it would report the failure to Texas RE, but if ERCOT ISO did not experience a disturbance or operational problem, it might not know that a market participant had failed a metric. Mr. Grimm and Mr. Barry agreed to get with ERCOT operations staff to discuss monitoring and reporting on the new wind metrics. Chair Newton stated that when the Board passed new metrics, it expected to receive a report on the new metrics, including the pass/fail metrics. In response to questions by the Directors, Mark Bruce, Chairman of the Technical Advisory Committee (TAC), stated that TAC would follow up with ERCOT operations to verify whether: (a) appropriate tools were in place to measure the metrics, (b) the new metrics were serving the purpose for which they were developed, and (c) any gaps in reliability remained.

Mr. Barry responded to questions by Directors about the Compliance Report. Dr. Patton and Mr. Gent expressed concern regarding proposed definitions in PRR 787. Mr. Barry and Bob Helton explained that ERCOT stakeholders were attempting to eliminate violations due to uncontrollable hardware failures. Mr. Helton noted that there have always been exemptions in the Protocols for hardware failures over which a market participant has no control. The Directors discussed PRR 796 and confirmed that it was expected at the ERCOT Board for a vote in June.

Violation Tracking Report

In response to a request by Dr. Patton, Mr. Barry said that he would highlight what has changed month to month in the Violation Tracking Report. After discussion by the Directors, Chair Newton and Mr. Gent instructed Mr. Barry that the Board wanted a page in future Violation Tracking Reports to include identification of any violations that have not been mitigated – even if the page was blank because all violations were mitigated.

In response to a question by Mr. Gent about violation No. 6 on the Report, Mr. Barry stated that this entity agreed to settle and the settlement paperwork had been submitted to NERC for approval, but some revisions were required. Mr. Grimm explained that the NERC Board of Trustees had approved the settlement agreement but required certain modifications to the documentation before submittal to FERC for final approval.

Mr. Karnei asked why the Violation Tracking report showed no violations from audits for the year 2009. Mr. Grimm explained the lengthy process that occurs between finding a possible violation on an audit and sending notice of an alleged violation under the NERC Rules of Procedure. He explained this process normally takes a minimum of 90 days before a violation appears on the Violation Tracking Report. In response to questions from Mr. Karnei asking how many possible audit violations have been identified by Texas RE in 2009, Mr. Grimm responded there had been approximately five or less possible violations from audits.

Dr. Patton requested that Texas RE also add a column to the Protocol Violation Tracking Report for Texas RE's assessment of reliability impact (similar to the column contained on the NERC standards portion of the report).

Texas RE Advisory Committee Update

Approval of 2009 Goals & Key Performance Indicators (KPIs)

The Board briefly discussed the Texas RE 2009 Goals and KPIs. Mr. Dalton asked why KPI #1 (Meet responsibilities as a Regional Entity and maintain independence from the ERCOT ISO) was weighted higher than KPI #3 (Effectively manage the NERC CMEP). Mr. Armentrout explained that other delegation agreement requirements and overall compliance with the CMEP were also included in KP #1, as discussed in the detailed KPIs. Dan Wilkerson questioned how the Board would be able to measure Texas RE's effectiveness in monitoring compliance with and not missing violations of Protocols and Operating Guides. The Directors discussed Texas RE's data sampling plan with Mr. Grimm, and Chair Newton stated that perhaps some type of assessment could be discussed in the future.

Chair Newton made a motion to approve the proposed 2009 Goals and KPIs; Mark Armentrout seconded the motion. The motion passed by voice vote with Mr. Dalton abstaining.

Acceptance of Texas RE's 2008 Audited Financial Statements

The Directors discussed the Texas RE 2008 audited financials and the report of PricewaterhouseCoopers.

Clifton Karnei made a motion to approve the recommended 2008 Audited Financials; Chair Newton seconded the motion. The motion passed by unanimous voice vote.

2010 Business Plan and Budget Review

Mr. Grimm reviewed Texas RE's proposed 2010 Business Plan & Budget and asked the Directors if they had any questions. Mr. Karnei asked if Texas RE had an estimate of whether the Memorandum of Understanding (MOU) with ERCOT for administrative services was saving or costing Texas RE overall. Todd Brewer informed the Board that Texas RE estimated it would require an additional \$1.2 million per year in expenses if Texas RE became legally separate from ERCOT and received no administrative services from ERCOT through the MOU.

In response to questions by the Directors, Mr. Grimm explained that the significant cost driver for the increase in the 2010 budget was the additional five (5) compliance employees, which were needed for cyber security, additional and longer audits, increased situational awareness, and additional non-statutory work required to work with the PUCT and stakeholders on the new

metrics for the nodal market. Mr. Grimm confirmed to the Board that Texas RE time tracking supported the allocations to the various compliance activities.

Chair Newton stated that the Advisory Committee had initially been hesitant about the proposed increase in the 2010 budget, but Texas RE had provided sufficient detail to support the need for the additional staff. Chair Newton explained that the Advisory Committee had instructed Texas RE that it was seeking a flattening of the staffing and overall expenses for 2011.

Mr. Dalton asked for the drivers behind the funding increase from \$4.3 million in 2009 to \$7.5 million in 2010. Mr. Brewer explained that because Texas RE had \$2.7 million in funding in 2009, from prior years (primarily from 2007), this surplus carried over to offset the needed funding for the 2009 budget. In 2010, the unspent "surplus" was not expected to nearly as much. Mr. Brewer suggested that comparing the total budgeted expenses for 2009 to those proposed for 2010 provided a better comparison of the increase in costs for Texas RE.

Governance Discussion

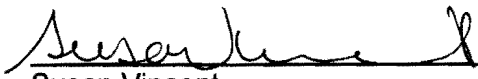
Mr. Gent confirmed to the Directors that the Texas RE Advisory Committee and the ERCOT Human Resources & Governance Committee were both looking at the possible legal separation of Texas RE from ERCOT and putting together plans for such a separation. Chair Newton confirmed that such a separation would take some time.

Future Agenda Items

Mr. Armentrout requested that an update of the status regarding all new reliability metrics be added to Future Agenda Items.

Adjournment to Executive Session

Chair Newton adjourned the Texas RE Board of Directors meeting into executive session at approximately 1:46 p.m., noting that the Committee would not return to open session.



Susan Vincent
Corporate Secretary