

DRAFT MINUTES OF THE

TEXAS REGIONAL ENTITY ADVISORY COMMITTEE

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

January 18, 2010

Committee Members

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

Other Directors and Segment Alternates

Calvin Crowder	American Electric Power Service	Investor Owned Utility
Nick Fehrenbach	City of Dallas	Commercial Consumer
Bob Helton	International Power America	Independent Generator
Clifton Karnei	Brazos Electric Cooperative	Cooperative

Other Attendees

Larry Grimm, Texas RE CEO and CCO
 Susan Vincent, Texas RE Director, Legal Affairs
 Victor Barry, Texas RE Director, Compliance
 Jeff Whitmer, Texas RE Manager, Compliance Enforcement (via telephone)
 Derrick Davis, Texas RE Corporate Counsel
 Todd Brewer, Texas RE Senior Financial Analyst
 Don Jones, Texas RE Manager, Standards Coordinator
 Sarah Hensley, Texas RE Standards Coordinator
 Jennifer Taylor, Texas RE Senior Paralegal
 Bridget Headrick, Public Utility Commission of Texas
 Nancy Capezzuti, ERCOT ISO, CAO
 Chuck Manning, ERCOT ISO, CCO
 DeAnn Walker, CenterPoint Energy
 Liz Jones, Oncor
 Kip Fox, AEP

Call to Order

Pursuant to notice duly given, the meeting of the Texas Regional Entity ("Texas RE") Advisory Committee ("Committee") convened on January 18, 2010. Larry Grimm reviewed the Antitrust Admonition with the Committee, ascertained a quorum was present, and called the open session of the meeting to order at approximately 8:05 a.m.

Approval of Chair and Vice Chair

Jan Newton made a motion to nominate Michehl Gent as Chair and A.D. Patton as Vice Chair of the Committee. Mr. Espinosa seconded the motion. The motion passed by unanimous voice vote.

In response to Chair Gent's question about why three meetings were scheduled and an explanation of the expected outcomes of each meeting, Ms. Vincent replied that the regular Texas RE Board of Directors (Board) and Committee meetings were being held as usual, and, in addition, the new Texas Reliability Entity, Inc. Board of Directors would meet immediately following to hold its first formation board meeting. Ms. Vincent also explained that the new Texas Reliability Entity, Inc. Board had many things to approve in January as a formation board, but the new board would not perform any compliance-related duties until the delegation agreement for Texas Reliability Entity, Inc. was approved by the Federal Energy Regulatory Commission (FERC). Ms. Vincent said that she expected the Texas Reliability Entity Inc. Board would not meet again until May or June. In response to Chairman Barry Smitherman's question about who were the directors for the new board, Ms. Vincent responded that Larry Grimm; Jan Newton; Miguel Espinosa; Michehl Gent; Sheri Givens, Office of Public Counsel (OPUC) and Chairman Smitherman, Public Utility Commission (PUC) Chair would comprise the board until new Independent Directors were approved and the two stakeholder directors were elected by the Member Representatives Committee. Ms. Vincent provided an overview of the steps for implementing new directors and explained that the three formation directors from the current Texas RE Board would only be on the Board until the new Independent and stakeholder directors were approved, which may happen by the end of May.

In response to questions by Chair Gent and Mr. Espinosa, asking if any legal action or resolution was required to retire the Texas Regional Entity Board, Ms. Vincent stated that she would get with Mike Grable (since the Texas RE Division of ERCOT ISO would be removed by the ERCOT Bylaws Amendment) and they would have an agreed solution before the implementation.

Approval of Previous Minutes

Susan Vincent noted two corrections to the December 14, 2009 minutes: Removal of a second "that" from the fourth paragraph on page 2 and correction of Michehl Gent's name on page 5. Miguel Espinosa made a motion to approve the minutes with these changes; Jan Newton seconded the motion. The motion passed by unanimous voice vote.

In response to Mr. Espinosa's questions about whether the Ernst & Young auditors will provide financial audit services for the new Texas RE, Mr. Brewer advised that Ernst & Young would be used for the 2009 audit and the 2010 legacy Texas Regional Entity audit, but he explained that the new Texas Reliability Entity, Inc. would need to separately procure audit services for its 2010 financial statement audit.

Chairman Smitherman commented on the detailed nature of Texas RE minutes and discussed the new broadcast legislation recently enacted. Chairman Smitherman noted that ERCOT ISO has reduced its board minutes because the meetings are broadcast and available on the web. He also noted that he believed the Committee does not have to comply with the broadcast legislation. Ms. Vincent agreed and said that she would like to find a way to post the audio of

each meeting in the future.

Texas RE Administrative Update

Larry Grimm reported to the Committee that Don Jones was hired as Manager, Reliability Standards. Mr. Grimm noted Mr. Jones has over 25 years of experience and has both a B.S. in Electrical Engineering and a law degree. Mr. Jones served as an advisor to Commissioner Parsley and has been actively involved in the ERCOT electric power market and stakeholder activities for several years.

Mr. Grimm provided the Committee with an overview of the Federal Energy Regulatory Commission (FERC) Order issued January 8, 2010 regarding Texas RE's audit. There were a total of four areas of concern, three of which will be resolved through Texas RE's legal separation of activities from ERCOT ISO. The fourth area of concern will be addressed when Texas RE hires an additional engineer to perform more thorough reviews of ERCOT's regional reliability assessments before submission to North American Electric Reliability Corporation (NERC). Mr. Grimm informed the Committee that a new engineer has recently accepted that position. Mr. Grimm stated that he is pleased with the audit results.

Financial Report (Q&A)

Mr. Espinosa expressed concern about a budget surplus of 25% for an entity the size of Texas RE. Ms. Vincent noted that \$100,000 of the positive variance was because no contested cases were prosecuted in 2009.

Mr. Brewer said that Mr. Espinosa's 25% figure also included the cash reserves that Texas RE was required to maintain. He explained that because Texas RE used a NERC modeling template for the 2009 budget and the NERC modeling is different than Generally Accepted Accounting Principles (GAAP), cash reserves were treated as non-operating expenses. Mr. Brewer noted that Texas RE had underspent the budget by \$400,000, but those funds would be used to offset the 2010 budget. He explained that the \$400,000 variance consisted of personnel vacancy of approximately \$285,000 and professional services (anticipated for contested enforcement or registration cases) of about \$100,000.

Chairman Smitherman said he agreed with Mr. Espinosa that the positive variance was a concern, but he noted that Texas RE is still a relatively new organization and, as such, it is challenging for Texas RE to project their budget accurately. Chairman Smitherman stated that he hoped the 2010 budget would be closer to the actual expenses.

Chair Gent and the Committee members discussed NERC's fee of \$119,000 (2009 expenses) for the ERCOT ISO audit. Mr. Grimm explained to the Committee that NERC must lead this audit because of Texas RE's affiliation to ERCOT ISO and once Texas RE is a separate corporation from ERCOT ISO, NERC will not need to lead further ERCOT ISO audits. If NERC participates in future audits, it would be an expense not billed to the regional entity. Mr. Grimm said that he understands the Committee's concern with the budget to actual difference for 2009 but that the regional entities are still relatively new creations and Texas RE staff would sharpen their pencils when they prepare the 2011 budget.

Human Resources & Governance Issues

Chair Gent directed the Committee's attention to the Texas RE's performance against goals for open comment and discussion but stated that these would also be discussed in the executive session. Dr. Patton noted it is comforting to see the goals are nearly 100% met, but on the other hand he questioned if the goals were properly drawn in the first place since they were

almost all met.

Chairman Smitherman wanted to know how the Key Performance Indicators (KPIs) percentages, status and the scores were determined. Mr. Grimm reported to the Committee that he collects the data throughout the year and monitors the progress of the KPIs and goals established as a percentage of the result. In response to Chairman Smitherman's question about whether the purpose of the KPIs was for compensation or to see how the organization is performing, Mr. Grimm relayed that the KPIs were used for both compensation and also to see how the organization performed, i.e. the performance of the managers and the adequacy of the staff.

Ms. Newton commented that Texas RE performs a critical function and she is pleased with the level and caliber of work it has performed in the short time of its existence. She suggested Texas RE come up with some stretch goals for the 2010 KPIs so that Texas RE can lead the country and be head of its class. Mr. Grimm informed the Committee he would work on suggested stretch goals. The Committee generally discussed adding goals to ensure needed reliability is met, since, as Dr. Patton noted, the real issue is for Texas RE to monitor ERCOT system reliability and to make sure things keep working right.

Chair Gent commented that he wanted the Committee to be informed when things go right, i.e. no outages. Ms. Newton suggested adding more regional standards for reliability. Mr. Grimm noted the new Manager, Reliability Standards is going to review reliability standards to look at whether regional standards need to be developed in the ERCOT region.

Chair Gent stated that the Committee likes to receive the Separation Plan status updates and asked that Texas RE continue to update the Separation Plan and distribute it to the Committee.

In response to Chair Gent's question, Ms. Vincent confirmed that the Committee would no longer meet once the new Texas Reliability Entity, Inc. Board took over under an amended delegation agreement.

Adjournment

Chair Gent adjourned the Committee into executive session at approximately 8:45 a.m.

No further business was conducted in open session.