

**DRAFT 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

April 19, 2010

**Directors**

Jan Newton, Chair		Unaffiliated
Michehl Gent, Vice Chair		Unaffiliated
Barry T. Smitherman	Chairman, Public Utility Commission of Texas (PUC)	
Calvin Crowder	American Electric Power Service Corp.	Investor Owned Utility
Mark Dreyfus	Austin Energy	Municipal
Miguel Espinosa		Unaffiliated
Nick Fehrenbach	City of Dallas	Commercial Consumer
Sheri Givens	Office of Public Utility Counsel (OPUC)	Residential Small Consumer
Bob Helton	International Power America	Independent Generator
A.D. Patton		Unaffiliated
Jean Ryall	Constellation Energy	Independent Power Marketer

**Other Attendees**

Larry Grimm, Texas RE CEO & CCO  
 Susan Vincent, Texas RE Director, Legal Affairs  
 Derrick Davis, Texas RE Corporate Counsel  
 Paul Curtis, Texas RE Corporate Counsel  
 Victor Barry, Texas RE Director, CIP & IT  
 Jeff Whitmer, Texas RE Manager, Audits  
 Rashida Caraway, Texas RE Manager, Enforcement  
 Todd Brewer, Texas RE Manager, Finance & Accounting  
 Mark Henry, Texas RE Manager, Reliability Services  
 Jennifer Taylor, Texas RE Senior Paralegal  
 Sarah Hensley, Texas RE Reliability Standards Coordinator  
 Lea Anne Porter, ERCOT ISO  
 Bridget Headrick, PUCT  
 Rhonda Stephenson, Luminant  
 Chuck Manning, ERCOT ISO  
 Taylor Sisson, Ernst & Young  
 Phillip Gunn, Ernst & Young

**Call to Order**

Pursuant to notice duly given, the meeting of the Texas Regional Entity (Texas RE) Board of Directors (Board) convened on April 19, 2010. Chair Jan Newton ascertained that a quorum was present, reviewed the Antitrust Admonition with the Directors, and called the meeting to order at approximately 1:05 p.m.

### **Approval of Previous Minutes**

**A.D. Patton made a motion to approve the minutes from the January 18, 2010 meeting. Bob Helton seconded the motion. The motion passed by unanimous voice vote.**

### **CEO Report**

Chief Executive Officer (CEO) Larry Grimm gave the Board a brief update on the progress of Texas RE's separation from ERCOT ISO. Mr. Grimm stated that he believes Federal Energy Regulatory Commission (FERC) will approve the new entity's Delegation Agreement and Amended 2010 Business Plan and Budget in May. Mr. Grimm briefly discussed the 2011 Business Plan and Budget and filing deadlines.

### **Operating Reports**

Chair Newton opened the floor for questions regarding the monthly operating reports. In reviewing and discussing the Compliance Report, Dr. Patton requested an update regarding ERCOT's Protocol Compliance audit completed in February. Jeff Whitmer informed the Board that Texas RE found ERCOT was compliant with all protocols reviewed during the audit. Regarding CPS1 scores, Mr. Gent questioned whether there was a correlation between implementation of a reduced dead band and improvement in the scores. Mr. Whitmer said he does not think the reduced dead band directly affected the scores; rather, he said that market participants are realizing the importance of compliance with CPS1 requirements. The Board generally discussed the risks and costs related to the reduction of dead band.

Dr. Patton asked Mr. Grimm to give the Board an overview of how the violation tracking report has changed. Mr. Grimm informed the Board that the report no longer lists violations of entities which have completed the full violation process. Ms. Vincent noted this information was included in the archive violation tracking report that was included in the confidential materials. She said that the Board would still receive periodic updates of this completed information in the archive report.

### **Texas RE Advisory Committee Report**

Mr. Gent provided the Board with an overview of the discussions and actions of the Texas RE Advisory Committee (Committee) meeting. The Committee discussed the 2011 Business Plan and Budget. Mr. Gent noted the pro forma Delegation Agreement used by all the regional entities was modified for the ERCOT Region to state that the Public Utility Commission of Texas is the hearing body. The Committee reviewed the financial report and met with the external auditors from Ernst & Young, who presented information in open and executive sessions of the Committee meeting. Mr. Gent expressed his desire to have a future joint board meeting between the outgoing Texas Regional Entity Board and the new Texas Reliability Entity, Inc. board of directors to discuss separation issues, and suggested that the auditors possibly attend any such joint meeting.

**Michehl Gent made a motion to accept the 2009 Financial Audit Statements and Report issued by Ernst & Young. Miguel Espinosa seconded the motion. Jan Newton noted the audit was unqualified, meaning a clean audit. The motion passed by unanimous voice vote.**

### **2011 Preliminary Budget Assumptions**

Chair Newton said that the Committee spent quite a bit of time discussing the 2011 budget assumptions. She asked that the Board discuss the following budget assumptions: the cash reserve and the salary assumptions for base compensation and market adjustments.

Regarding the cash reserves, Chair Newton and Mr. Gent asked Todd Brewer to explain why a 75 day cash reserve was needed. Mr. Brewer noted that in 2009 Texas RE established a 60 day cash reserve. Beginning in 2010, Texas RE has a 75 day cash reserve. Mr. Brewer explained that as a new company, Texas Reliability Entity, Inc. has not yet been able to obtain a line of credit and it is important to maintain a sufficient cash reserve. He noted the company does not have retained earnings so there are many factors to consider when having a sufficient cash reserve. He said that Texas RE will face some one-time expenses related to the separation before it receives its remaining income for the year, and at least some of this year's cash reserve will be used to allow for timing and funding variances. Chair Newton noted that if an event occurred and Texas RE did not have adequate funds available, Texas RE would have to prepare filings with NERC and ask for additional funding or try to borrow the money, therefore she was in favor of the 75 day cash reserve. Mr. Brewer added that it can take four months or more to obtain FERC approval of a supplemental budget, so it is prudent to maintain a 75 day cash reserve.

Mr. Espinosa asked for the rationale for picking a 60 or 75 day cash reserve and also asked if Texas Reliability Entity, Inc. had tried to obtain a line of credit. Mr. Brewer noted a 60 day cash reserve was a fairly common measure for cash on hand, but, due to the many changes at Texas RE with the information technology (IT) and legal separation in mid- 2010, the 75 day cash reserve for 2011 would be used to address additional potential unknown expenses. Mr. Brewer reminded the Board that the 75 day reserve was established when additional funds became available at the end of 2009 and was intended to provide additional reserves due to the potential for unknown costs associated with the separation and ongoing unknown expenses. Mr. Brewer confirmed that Texas Reliability Entity, Inc. has not yet been able to obtain a line of credit because it did not yet have revenue or sufficient credit history.

Mr. Gent questioned whether there has ever been an occasion when any of the eight regional entities or NERC used their cash reserve funds. Mr. Brewer relayed one situation that occurred at Midwest Reliability Organization, Inc. ("MRO), where MRO used its cash reserves for pension expenses. He noted that Texas RE projected that, due to the \$1.2 million in IT costs related to the separation, much of the \$1.6 million cash reserves would be depleted at the time of the separation and before Texas RE's third quarter payment by NERC. Mr. Gent and the Board discussed the possibility of the eight regions and NERC forming a single cash reserve. Mr. Grimm asked the Board for guidance on the 60 versus 75 day cash reserve issue. He noted funding is constant but that the timing of expenses is not fixed. A large expense during the first part of the year may use up the reserve before the additional quarterly funding is received. He

also said that some months have more expenses than others. Mr. Grimm noted that many of the regions will have a cash reserve in their 2011 budgets as well NERC, and NERC will also have a line of credit. The Board generally discussed the 2011 budget, the pros and cons of the 75 day cash reserve and the budgeting challenges of the new entity. Chair Newton noted there is not a consensus among the Board members, but her sense is the new organization will be in a challenging financial position and she can accept a 75 day cash reserve. She suggested keeping the 75 day cash reserve in place, but recommended that the new board revisit the issue in 2012.

Chair Newton asked for opinions from the Board regarding base compensation for 2011. She touched on the salary survey data which shows Texas RE employees compensation was the lowest paid of all the regional entity staffs. She noted a 3% merit increase and a 1% promotion increase is fine but she does not think the Board should approve an across-the-board 2% salary increase for market adjustments to bring salaries in line with the industry. She said that given the current economic situation, a 2% across-the-board increase does not seem appropriate at this time.

Mr. Brewer informed the Board the first draft of the proposed 2011 budget would be provided in the May Board packet.

### **Other Business**

Dr. Patton stated Texas RE should improve its communication, coordination and collaboration activities with the Texas Legislature, the Board and stakeholders throughout the ERCOT region and should consider adding resources for this. Chair Newton noted the Committee agreed with Dr. Patton and she asked Mr. Grimm to give this area consideration when putting together the 2011 budget draft.

### **Future Agenda Items**

Chair Newton requested a joint meeting between the Boards of Texas Regional Entity and Texas Reliability Entity, Inc. and that the meeting be publicly noticed.

### **Adjournment**

Chair Newton adjourned the Texas RE Board of Directors meeting at approximately 1:40 p.m. and immediately opened the meeting for an Executive Session. No further business was conducted during the open session.

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Susan Vincent  
Corporate Secretary