

MINUTES OF THE ERCOT BOARD OF DIRECTORS MEETING

ERCOT Offices

Austin, TX

10:00 a.m.

March 18, 2003

Pursuant to notice duly given, the Meeting of the Board of Directors of the Electric Reliability Council of Texas, Inc. convened at approximately 10:15 a.m. on March 18, 2003.

Meeting Attendance:

Board members:

Bob Manning	H-E-B Grocery Co.	Consumer/Commercial	Present
Tom Payton	Occidental Energy Ventures Corp.	Consumer/Industrial	Present
Kenan Ogleman	Office of Public Utility Counsel	Consumer/OPUC/Residential	Representing Suzi McClellan
Clifton Karnei	Brazos Electric Power Cooperative	Coop	Present
Mike Troell	STEC	Coop	Present
David Itz	Calpine Corp.	Ind Generator	Present
Trudy Harper	Tenaska	Ind Generator	Present
Linda Clarke	Exelon Generation Co.	Ind PM	Present
Dottie Stockstill	Mirant Americas E.M.	Ind PM	Present
Read Comstock	Strategic Energy	Ind REP	Representing Frank Lacey and Proxy for David Veiseh in the afternoon (present for afternoon only)
David Veiseh	Utility Choice Electric	Ind REP	Present
Steve Schaeffer	CenterPoint Energy	IOU	Present
Mike Greene	TXU/ONCOR	IOU	Present
Paul Brower	Lower Colorado River Authority	LCRA	Representing Joe Beal
Bob Kahn	Austin Energy	Municipal	Present
Milton Lee	City Public Service/San Antonio	Municipal	Present
Tom Noel	ERCOT	ERCOT CEO	Present
Rebecca Klein	Public Utility Commission of Texas	PUCT Chairman	Present

ERCOT Staff and Guests:

Maxine Buckles	ERCOT Staff/CFO
Ken Shoquist	ERCOT Staff/CIO
Ray Giuliani	ERCOT Staff/CMO
Sam Jones	ERCOT Staff/COO
Margaret Pemberton	ERCOT Staff/General Counsel
Cheryl Moseley	ERCOT Staff
Curtis Tarr	ERCOT Staff
Gary Stroud	ERCOT Staff
Heather Tindall	ERCOT Staff
Kent Saathoff	ERCOT Staff
Mark Walker	ERCOT Staff
Michael Petterson	ERCOT Staff
Ralph Weston	ERCOT Staff
Richard Gruber	ERCOT Staff
Rob Connell	ERCOT Staff
Steve Grendel	ERCOT Staff
Steve Wallace	ERCOT Staff
Vanessa Spells	ERCOT Staff
Shari Heino	Attorney for ERCOT
John Stauffacher	--
Robert Northcutt	Accenture
Barry Smith	AEP
Don Bender	AEP
Bob Helton	ANP

Mike McCluskey	Austin Energy
Mark Drefus	Austin Energy
Jerry Stapp	Big Country Electric Coop - Segment Alternate
John Houston	CenterPoint Energy
Adrian Pieniasek	CenterPoint Energy
Garry Waters	Competitive Assets
Denise Stokes	Competitive Assets
Clayton Greer	Constellation
Marialyn Barnard	CPS
Fidel Marquez	CPS
Steve Bartley	CPS
Barry Huddleston	Dynegy Power Corp. - Segment Alternate
Beth Garza	Florida Power & Light - TAC Chairman
Paul Messerschmidt	Frontera
Ray King	Frontera
Larry Frost	Frontera
Jim Harder	Garland Power and Light - Segment Alternate
Terri Eaton	Green Mountain
John Greytok	Greytok Consulting
Brad Belk	LCRA
Mark Armentrout	MBNA Technology, Inc.
Parviz Adib	PUCT
Jess Totten	PUCT
Robby Abarca	PUCT
Brenda Harris	Reliant Resources
Trei Henri	SDS
Walt Shumate	Shumate & Associates
Greg Ramon	TECO Energy
Rafael Lozano	Texas Independent Energy
Wendell Bell	TPPA
Rick Drom	Troutman Sanders LLP
Mike Jarboe	TXU
Simon Melhern	Utility Choice

Announcements

Chairman Greene called the meeting to order and determined that a quorum was present. Mr. Greene noted that the U.S. Department of Homeland Security had raised the national threat level to High Risk (orange). Tom Noel, ERCOT President and CEO, noted that ERCOT badges would be required to enter and exit all ERCOT facilities and that ERCOT security desk personnel would be available to open doors for guests without badges. Chairman Klein noted that security is an issue of concern at the PUCT and urged companies to develop business continuity plans and policies for vulnerability assessments. Chairman Klein noted that Market Participants could call her to learn more about these contingency procedures.

Chairman Greene welcomed Linda Clarke as a new Board member representing the Independent Power Marketer Segment. Linda Clarke was elected to replace Doug Keegan, who recently resigned. Mr. Greene noted that Jill Hall had also resigned, and a replacement would be sought. Mr. Greene then acknowledged representatives attending in the place of Board members, as shown in the attendance list above.

Approval of Minutes

Chairman Greene requested comments on and approval of the last meeting's minutes. **David Itz moved to approve the February Board meeting minutes. David Veiseh seconded the motion. The motion passed by a unanimous voice vote without objection or abstention.**

ERCOT Operations/Systems Update

Sam Jones, ERCOT Executive Vice President and COO, reported on the weather-related operational event of February 24-26, 2003. Weather conditions were below freezing for much of the ERCOT Region during this weather event. During this time frame, ERCOT used verbal dispatch instructions and deployed as much as 6094 MW in Balancing Up Energy. The Market Clearing Price for Energy reached as high as \$990 during certain intervals. Mr. Jones reported on the lessons learned from this experience, noting that accurate weather forecasts, accurate Resource Plans, and bid assessment tools are critical in such conditions. Jim Harder, of Garland Power and Light, commented that ERCOT's ability to declare an emergency earlier in such an event would allow oil-burning generation to be available to meet system needs. Board members also discussed the impacts of limited gas supply and possible credit issues associated with high gas prices. Chairman Klein noted that the Generation Adequacy Task Force should address this issue.

ERCOT Operations Report

Next, Chairman Greene invited Tom Noel, ERCOT President and CEO, to the podium. Mr. Noel first noted that the recent weather event illustrated the importance of risk management. Mr. Noel commended Sam Jones, Kent Saathoff and their staff for successful operations during the weather event. Mr. Noel mentioned that many members of ERCOT Staff are supporting Relay for Life (a charity event supporting cancer research). Although contributions are not provided for in the current budget due to a stipulation in ERCOT's first fee approval case, Mr. Noel hopes to include some charitable contributions in next year's Budget because of the importance of ERCOT's involvement in the community.

Mr. Noel then presented an overview of recent activities at ERCOT. Of particular interest was the recent bankruptcy of TCE, a Market Participant functioning as a QSE and a REP. Mr. Noel commented that TCE had been relying heavily on the Balancing Energy market to supply its load, leading to increased security requirements. Mr. Noel reported on the temporary restraining order by the bankruptcy court in Corpus Christi which allowed TCE to continue to participate in the market provided that it dropped eighty percent of its customers to other REPs and agreed to support ninety percent of its load through bilateral schedules. This order also upheld ERCOT's credit requirements going forward. Mr. Noel commended ERCOT financial settlements and legal Staff on their successes in achieving this order. In light of recent events, ERCOT will be reviewing credit requirements with respect to use of relaxed Balanced Schedules. Mr. Noel also reported that ERCOT's Administrative Fee had been approved by the PUCT for 2003 and that the selection process for Independent Board members was in progress.

Program and Projects Update

Mr. Noel invited Steve Wallace, ERCOT Director of Program Development, to provide an update on ERCOT projects and tasks. Mr. Wallace explained ERCOT's project prioritization and implementation process. In the next few months, ERCOT plans to make a project server (software to allow tracking of projects) available to Market Participants. Mr. Wallace noted that ERCOT Staff is now looking at projects in terms of their related products instead of as individual projects. Because some projects are related, they can be combined to produce one single product. This process will allow some projects (including low priority projects that would not have otherwise been reached on the priority list) to be accomplished at a lower cost because they fit within a product of a higher priority project.

Information Technology Update

Ken Shoquist, ERCOT Vice President and Chief Information Officer, provided the Board with a technology update. Mr. Shoquist first addressed activities regarding ERCOT IT architecture. He noted that ERCOT's architecture began as a collection of top software products with customization to allow the various software pieces to work together. The combination of so many products has made ERCOT systems costly to support. ERCOT IT is working to drive down costs of customization, use less systems of records (lowering errors between systems), and have more software that can be supported by vendors. IT Staff also plan to retire underutilized or over-customized products.

Mr. Shoquist next addressed the joint effort between ERCOT and the PUCT on the data warehouse project. Because of the similarity in goals of the formerly separate projects (ERCOT's improvements in the data warehouse and the PUCT's need for data from the data warehouse for market oversight), ERCOT and the PUCT are now working together to achieve the results needed by each organization. Mr. Shoquist invited Chairman Klein to present the PUCT's plan for development of market oversight tools. Chairman Klein reported that the PUCT hopes to use funds from the System Benefit Fund in future years to support its market oversight functions. Activities contemplated for this year will be a function of the ERCOT-PUCT partnership on the data warehouse project. The PUCT expects to select a vendor (or vendors) this week that will work with ERCOT to determine the equipment and software required for ERCOT to provide the information necessary to support the PUCT market oversight in the future.

Market Operations Update

Ray Giuliani, ERCOT Vice President and Chief of Market Operations, gave a presentation regarding market transaction issues. Mr. Giuliani noted that transaction activities relating to the TCE bankruptcy had temporarily diverted some work away from current market transaction projects. Current activities include continued progress on system issues (Quick Recovery Effort, Market Synchronization, and Move In/Move Out). Mr. Giuliani also reported on the planned schedule for the restart of the True Up Settlement. This restart will occur upon implementation of more transparency in ERCOT transactions via SCR 727. Mr. Giuliani also reported on the status of Texas SET 1.5, PUCT performance measures reporting capabilities, and the ETS project plan.

Financial Update

Maxine Buckles, ERCOT Vice President and CFO, recapped the detailed financial report provided to Board members. Ms. Buckles reported that since the 2003 Administrative Fee had been approved by the Commission, the assessment of the Fee was no longer subject to refund. Ms. Buckles noted that ERCOT had 318 Staff members as of end of February. Ms. Buckles also pointed out a new addition to the Board's financial update, a page devoted to tracking usage of unspecified "contingency" funds. This tracking report was required pursuant to the Stipulation in ERCOT's 2003 Administrative Fee case.

TAC Report

Beth Garza, the TAC Chair, reported on the following recent TAC activities:

- (1) **Operating Guide Revisions.** At its last meeting, TAC approved OGGRs 122, 124, 125, and 126 (all related to maintaining consistency with the Protocols).
- (2) **Report from Joint Generation Adequacy Task Force (“JGATF”).** Ms. Garza reported that TAC approved a report from JGATF. This report included: (i) a definition of the ERCOT reserve margin calculation, (ii) recommended assumptions and data inputs for the next ERCOT generation reserve margin study (to be completed in early 2004), and (iii) a recommendation to use traditional reliability analysis methodology or explore costs of utilizing a more rigorous market-based methodology for the next study.
- (3) **WMS input to Market Design.** On February 20, Commissioner Perlman requested that WMS file a recommendation on market design in Docket 26376. ERCOT made this filing on behalf of WMS. Because this request was made on short notice, there was no time to have the report reviewed by TAC or the Board before filing on March 10. This lack of review was noted on the filing to the PUCT. Ms. Garza expressed concern that the document had not been fully vetted through the stakeholder process prior to filing. Dottie Stockstill recommended that future stakeholder filings should at least be reviewed by TAC prior to filing.
- (4) **Protocol Revision Requests (PRRs).** Ms. Garza reported that the Protocol Revisions Subcommittee (PRS) met this past month, discussed various PRRs and submitted recommendations to TAC regarding two PRRs. The following PRRs were approved by TAC and recommended to the Board for final approval:
 - 374PRR – RMR Text Changes - proposed effective date April 1, 2003. This PRR has no impact to ERCOT computer systems. This PRR (1) clarifies that ERCOT will adjust the amount of Balancing Energy acquired due to the impact of RMR energy deployed and (2) updates the Protocols to conform to previous Day Ahead timeline adjustments.
 - 380PRR – Black Start Service - proposed effective date April 1, 2003. This PRR has no impact to ERCOT computer systems. This PRR clarifies Black Start requirements (clean up language).
 - 388PRR – BULs Capacity Payment - proposed effective date April 1, 2003. This PRR has no impact to ERCOT computer systems. The BUL system changes are currently in the development stage. This PRR clarifies the methodology for allocation of BUL activity, requiring that the 15-minute trade interval be used for both deployment and settlement purposes.
 - 395PRR – Declare Backup Plans Protected Information - proposed effective date *upon Board approval*. This PRR has no impact to ERCOT computer systems. This PRR adds QSE and Transmission Operator “backup plan” information to the list of Protected Information.

After some discussion, **Trudy Harper moved to approve PRRs 374, 380, 388, and 395. Dottie Stockstill seconded the motion. The motion passed by a unanimous voice vote with no objection or abstention.** All PRRs and supporting materials appear on the following ERCOT web page: <http://www.ercot.com/AboutERCOT/PublicDisclosure/ProtocolRev.htm>

- (5) **PRR 342 Follow Up.** Recently the ERCOT Board approved PRR 342, a modification to several Protocols sections regarding Ancillary Services bids. Protocols Section 4.4.11, as revised by PRR

342, contains language (currently boxed pending implementation) requiring the Board to set the percentage by which certain types of related Ancillary Services (“AS”) bids can exceed each other (Regulation Up, Responsive Reserve, and Non-Spinning Reserve, in that order). TAC recommended that each type of AS bid should only exceed the previous type of AS bid by twenty percent. **Milton Lee moved to approve TAC’s recommendation of twenty percent; David Itz seconded the motion. The motion passed by a unanimous voice vote with no objection or abstention.**

- (6) **Direct Load Control Beta Test.** Ms. Garza reported that a REP had requested waiver from certain Protocols and procedures sections in order to establish a Direct Load Control pilot program this summer. Since the TAC meeting at which TAC recommended approval of the waiver, however, the requesting REP has decided not to move forward with this program. Ms. Garza noted that it is very unlikely that another company will request any similar waiver in the near future. The Board therefore took no action on this issue.
- (7) **True-Up Settlement Suspension Update.** Ms. Garza also reported on the progress regarding the restart of True-Up Settlement. Ms. Garza noted that TAC had approved the following resolution to recommend to the Board:

1. True-up settlements for 2002 shall begin 60 days after the initial release of the SCR 727 data (March 14-May 13).
2. MPs will have up to 30 days prior to the scheduled settlement date for a particular operating day to identify variances in the data extract pursuant to procedures to be developed by ERCOT. Should a MP raise an issue in a true-up dispute, ERCOT shall consider the MP’s compliance with this resolution in evaluating that dispute.
3. ERCOT shall present a resolution for consideration by the RMS concerning the process for variance resolution. This resolution shall be processed in a timeframe such that a resolution concerning the variance resolution process will be presented to the Board at its March 2003 meeting. The process shall identify specific responsibilities and timelines for variance resolution. ERCOT shall coordinate and report compliance with the variance resolution process.

After ERCOT Staff responded to questions regarding data availability, **Read Comstock moved to approve the above resolution. David Itz seconded the motion. The motion passed by a unanimous voice vote with no objection or abstention.**

Finance & Audit Committee Report

Clifton Karnei reported that the Finance & Audit Committee met in the morning prior to the Board meeting to hear a report from PwC on the progress of the 2002 financial audit and to discuss several other items. The items discussed and recommended for Board action are as follows:

- (1) **Default QSE.** Because ERCOT’s contract with the current Default QSE will be expiring soon, ERCOT Staff issued a new RFP for Default QSE services. ERCOT received no bids in response to this RFP; therefore, ERCOT Staff will continue the search for possible candidates. Once a candidate is selected, ERCOT Staff will negotiate a new contract for Default QSE services. **Clifton Karnei therefore moved to authorize ERCOT Staff to negotiate and execute a contract for Default QSE services with the candidate selected. Milton Lee seconded the motion. The motion passed with Trudy Harper and Tom Payton abstaining due to a conflict of interest.**
- (2) **ERCOT credit facility renewal and increased borrowing limit.** Mr. Karnei reported that

ERCOT's short-term (364 day) \$50 million credit facility would expire soon. He also noted that ERCOT Staff wished to increase ERCOT's total borrowing limit from \$200 million to \$230 million. He noted that ERCOT Staff will need to evaluate additional facilities to secure the additional \$30 million. **Mr. Karnei moved to approve the renewal of ERCOT's \$50 million short-term credit facility and to increase ERCOT borrowing limit to \$230 million. David Itz seconded the motion. The motion passed by a unanimous voice vote with no objection or abstention.**

- (3) Suspension of relaxed Balanced Schedules.** Mr. Karnei reported that, after lengthy discussions at the morning meeting, the Finance and Audit Committee voted to recommend immediately suspending relaxed Balanced Schedules because of the significant credit risks which exist when QSEs rely on relaxed Balanced Schedules to serve large amounts of their Load. The Finance and Audit Committee considered this matter to be of extreme urgency given the recent bankruptcy of TCE. **Mr. Karnei noted that this issue had not been noticed for a vote and therefore moved to waive notice for the Board to take action on this issue. Trudy Harper seconded the motion. The motion passed by a unanimous voice vote with no objection or abstention.** Tom Noel noted that the court order in the TCE bankruptcy would be in conflict with a complete suspension of relaxed Balanced Schedules because that order requires ERCOT to allow TCE to have up to a ten percent reliance on the Balancing Energy market. **Clifton Karnei moved to suspend relaxed Balanced Schedules until reinstated by the Board subject to a carve-out for TCE pursuant to the bankruptcy court order. Milton Lee seconded the motion.**

Board members discussed in detail the ramifications of relaxed Balanced Schedules on credit and the impact of suspending relaxed Balanced Schedules. Chairman Klein expressed concern about suspending relaxed Balanced Schedules without a full study of the impacts and exploration of alternatives. Read Comstock noted that suspending relaxed Balanced Schedules could impact REPs that are consistently owed money in the market. Members of the Board discussed the possibility of limiting relaxed Balanced Schedules so that all QSEs would be required to support 90% of their Load obligation with bilateral arrangements. Chairman Klein noted that such a proposal was appropriate given the current circumstances. The Board discussed its authority to suspend a section of the Protocols. Tom Payton noted that a major credit default would be a threat to ERCOT and the ERCOT market and would inherently put operational reliability at risk, as was the case in California. It was noted that the Protocols do not specify the amount by which a Balanced Schedule could be relaxed, leaving this open for Board direction. Tom Noel reminded the Board that, although the Protocols do not provide for penalties, ERCOT Staff could immediately raise a QSE's credit requirements if the QSE were found to be exceeding its allowed reliance on the Balancing Energy market. **Clifton Karnei therefore revised his motion to state:**

Each QSE shall schedule at least 90% of its Load obligation, on a daily average, with bilaterally contracted or self-provided energy and not by relying upon Balancing Energy from ERCOT, until credit issues related to relaxed Balanced Schedules are reconsidered by the ERCOT Board of Directors.

Milton Lee seconded the motion. The motion passed with Linda Clarke, Read Comstock and Dottie Stockstill opposing. Clifton Karnei reported that the Credit Working Group would review this issue in the next month. Trudy Harper noted that the Board expected a report regarding the same at the next Board meeting. It was also noted that the resolution would be effective starting with schedules submitted for the operating day of Friday March 21st, 2003. Tom Payton noted that the Board generally supports relaxed Balanced Schedules and would try to reach a resolution of these issues as soon as possible allowing relaxed Balanced Schedules to be utilized more fully in the future.

Other Business

Margaret Pemberton, ERCOT Vice President and General Counsel, reported that Fire Fly wishes to request an exemption from certain retail testing requirements. Ms. Pemberton stated that she had provided Fire Fly with a letter explaining that ERCOT authorization is limited to technical requirements. Ms. Pemberton then invited John Greytok to expand on Fire Fly's request. Mr. Greytok explained that the current testing schedule prevents Fire Fly from participating in the market until September 2003. Tom Noel noted that entering the market is a very complex process. ERCOT can schedule a maximum of two test flights per year due to the complexity of the testing and the impact to existing Market Participants. ERCOT Staff suggested that a new REP could possibly work through another REP until testing has been completed. Board members acknowledged the difficulty of Fire Fly's situation but stated that the testing requirements were too important to waive. Mr. Greytok did not seek Board action. Chairman Klein noted that Fire Fly's filing at the PUCT would be taken up on Friday at the Open Meeting.

With respect to issues addressed earlier in the meeting, Tom Noel stated that, as requested by Board members, ERCOT would follow up on the lessons learned from the recent weather event and the TCE bankruptcy by bringing such issues to the relevant ERCOT stakeholder subcommittees. He also noted that the current retail transaction test flights are still on schedule. Dottie Stockstill requested that the Board discuss the process for market design changes at the next meeting. Lastly, Chairman Greene updated the Board on the Nominating Committee's progress in selecting three candidates for the Independent seats on the Board. The Nominating Committee expects to make a decision before April 2 and request an ERCOT Membership vote of approval at that time.

Executive Session

The Board met in Executive Session to discuss various matters including an update on the status of litigation. Mr. Noel updated the Board on the TCE bankruptcy and the status of litigation related to the Met Center lease.

Adjournment

Chairman Greene adjourned the Meeting at approximately 4:30 p.m. **The next Board meeting will take place on April 15, 2003 at the Austin Airport Hilton. The following meeting will be held on May 20, 2003 at ERCOT's Austin facility.**

Board materials and presentations from the meeting are available on ERCOT's website at:

<http://www.ercot.com/calendar/2002calendar/boardmaterials.htm>

Margaret Uhlig Pemberton, Corporate Secretary