

**MINUTES OF THE ERCOT BOARD OF DIRECTORS MEETING**

**Austin Airport Hilton Hotel  
Austin, TX**

**10:00 a.m.  
April 15, 2003**

Pursuant to notice duly given, the Meeting of the Board of Directors of the Electric Reliability Council of Texas, Inc. convened at approximately 10:23 a.m. on April 15, 2003.

The Meeting was called to order by Chairman Mike Greene who determined that a quorum was present.

**Meeting Attendance:**

**Board members:**

Joe Beal	Lower Colorado River Authority	LCRA, <i>ex officio</i>	Represented by Designated Representative – Ross Phillips
Linda Clarke	Exelon Generation Co.	Ind PM	
Mike Greene, Chairman	TXU/ONCOR	IOU	
Trudy Harper	Tenaska	Ind Generator	
David Itz	Calpine Corp.	Ind Generator	
Bob Kahn	Austin Energy	Municipal	
Clifton Karnei	Brazos Electric Power Cooperative	Coop	Represented by Jerry Stapp – Segment Alternate
Rebecca Klein	Public Utility Commission of Texas	PUCT Chairman	
Frank Lacey	Strategic Energy	Ind REP	Represented by Proxy – Read Comstock; Proxy for David Veiseh, effective 2:15 p.m.
Milton Lee	City Public Service/San Antonio	Municipal	
Bob Manning, Vice- Chairman	H-E-B Grocery Co.	Consumer/Commercial	
Suzi McClellan	OPUC	Consumer/Residential	Proxy for Shannon McClendon, effective 2:00 p.m.
Shannon McClendon	Attorney & Counselor at Law	Consumer/Residential	Represented by Proxy – Suzi McClellan effective 2:00 p.m.
Tom Noel	ERCOT	ERCOT CEO	
Tom Payton	Occidental Energy Ventures Corp.	Consumer/Industrial	
Steve Schaeffer	CenterPoint Energy	IOU	
Dottie Stockstill	Mirant Americas E.M.	Ind PM	
Mike Troell	STEC	Coop	
David Veiseh	Utility Choice Electric	Ind REP	Represented by Proxy - Read Comstock effective 2:15 p.m.

**ERCOT Staff and Guests:**

Margaret Pemberton	ERCOT Staff/General Counsel
Maxine Buckles	ERCOT Staff/CFO
Sam Jones	ERCOT Staff/COO
Ken Shoquist	ERCOT Staff/CIO
Ray Giuliani	ERCOT Staff/CMO
Jim Galvin	ERCOT Staff
Heather Smith	ERCOT Staff
Mark Walker	ERCOT Staff
Ralph Weston	ERCOT Staff

Andrew Gallo	ERCOT Staff
Barry Huddleston	Dynegy
Dottie Roark	ERCOT Staff
Kevin Gresham	Reliant Resources, Inc.
Julie Parsley	PUCT Commissioner
Steve Wallace	ERCOT Staff
Bill Bojorquez	ERCOT Staff
Greg Ramon	Frontera (TECO Energy)
Paul Messerschmidt	Frontera (TECO Energy)
Ellen Anderton	Frontera (TECO Energy)
Parviz Adib	PUCT, Market Oversight Division
Brady Belk	LCRA
Clayton Greer	Constellation
Beth Garza	FPL Energy Inc.
Pam Muniz	ERCOT Staff
Cheryl Moseley	ERCOT Staff
Mark Dreyfus	Austin Energy
Betty Day	ERCOT Staff
John Meyer	Reliant Resources
Michael McCluskey	Austin Energy
Simon Melhem	Utility Choice Electric
Rick Drom	Troutman Sanders, representing Frontera Generation Limited Partnership (TECO Energy)
Robby Aborca	PUCT Staff
Les Barrow	CPS
Bill Gunst	CPS
Gilbert Hughes	AEP
Cesar Seymour	Trachtebel
Cheryl Yager	ERCOT Staff
Vanessa Spells	ERCOT Staff
David Kasper	ERCOT Staff
Robert Northcutt	Accenture
Kevin Judice	ERCOT Staff
Kent Saathoff	ERCOT Staff
Jim Harder	City of Garland
Steve Bartley	CPS
Marialyn Barnard	CPS
Wendell Bell	TPPA
Curtis Tarr	ERCOT Staff

### **Announcements**

Chairman Greene welcomed everyone and pointed out some special guests, including Commissioner Julie Parsley of the PUCT. Chairman Klein of the PUCT convened an Open Meeting of the PUCT.

### **Confirmation of Residential Consumer Board Member**

Suzi McClellan introduced Shannon McClendon as the proposed new representative for Residential Consumers. Ms. McClellan mentioned that Ms. McClendon has a background in the electric industry. **Ms. McClellan moved to approve Ms. McClendon as a Board Member representing Residential Consumers. David Veiseh seconded the motion. The Motion passed by unanimous voice vote with no abstentions or objections.**

## **Approval of Minutes**

Chairman Greene requested comments on and approval of the last meeting's minutes. Margaret Pemberton pointed out one proposed amendment to the draft minutes which was red-lined from the information packet sent to Board members. Dottie Stockstill pointed out an additional grammatical change. **David Itz moved to accept the minutes as revised; Ross Phillips seconded the motion. The motion passed by unanimous voice vote without objection or abstentions.**

## **ERCOT Operations Reports**

### **CEO Report**

Mr. Noel gave a brief overview of the agenda. He first pointed out that Texas Commercial Energy (TCE) has been fulfilling the requirements imposed by the Bankruptcy Judge. Final payment on the pre-petition debt is expected some time next year. TCE has made all required payments to date.

Mr. Noel mentioned that Mark Walker and Chairman Klein have spent a lot of time at the Legislature during the last few weeks. Additionally, Mr. Noel has served as a "resource witness" in hearings on some bills pending before the House Regulated Industries Committee.

Mr. Noel also mentioned that ERCOT membership has approved the three independent directors to join the Board. ERCOT will file the names with the PUCT soon. Those selected are of very high quality and many Board members have commented on how pleased they were with the candidates. Mr. Noel expressed that he was looking forward to them joining the Board in June.

Mr. Noel indicated that legal and financial concerns have been taking up a lot of ERCOT staff time recently. Additionally, staff has been working on the market design "strawman" circulated by the PUCT. ERCOT will make a filing on Friday with its staff's opinions regarding the options available. Mr. Noel noted that the WMS has worked very hard on these issues, as well.

Finally, Mr. Noel called the Board's attention to the fact that Texas SET v. 1.5 was implemented this weekend with no known problems or issues. The transition went very smoothly. Chairman Greene expressed his congratulations that the transition went so well.

### **Finance Committee Report**

Milton Lee, Chairman of the Finance & Audit Committee, presented his report at this time. He mentioned that the committee met this morning and discussed many issues. The issue that caused the longest discussion was the Board's decision last month to require LSEs to obtain energy for 90% of their Load through bilateral contracts. The Committee voted to recommend to the Board that the practice implemented last month remain unchanged. The Credit Working Group (CWG) will continue to look at issues relating to Relaxed Balance Schedules (RBS) and the associated credit issues. Chairman Greene asked Maxine Buckles, ERCOT Vice President and CFO, to describe the work of the CWG. Ms. Buckles explained that the group has been working on many credit issues. A PRR is being proposed to the Board today. The TCE bankruptcy has precipitated a closer look at Section 16 of the Protocols. The group is looking at language to clarify the EAL calculation used by ERCOT. The CWG also discussed the issues relating to RBS. They have discussed whether the ERCOT market should have a "spot" market. They investigated what credit steps would have to be taken to return to "full" RBS. The CWG will come back to the full Finance & Audit committee next month with comments and suggestions.

Chairman Klein then asked Mr. Lee about whether the Board should look at the particular percentage ratio on RBS and whether the number should be different for different Market Participants. Mr. Lee stated that the Committee discussed that question at great length and the issue is being considered. Linda Clarke mentioned that she was surprised that the CWG was considering whether a “spot market” exists through the use of RBS. Ms. Buckles clarified that the CWG is discussing credit issues surrounding RBS. Ms. Clarke asked if the CWG was looking at other markets that have spot markets. Ms. Buckles indicated the CWG is, in fact, doing so. Mr. Noel mentioned that we do not want to “back into” a spot market. Mr. Lee agreed and indicated that the Committee is considering those issues. Commissioner Parsley asked for clarification between a spot market, balancing energy market and day ahead market. Mr. Noel stated that, in the context of recent discussions, he believes many people use “spot” market and “day ahead” market interchangeably. He also stated that ERCOT’s filing at the PUCT on Friday would address ERCOT’s proposal on this issue. Commissioner Parsley stated that she spoke with an REP that was 100% in the Balancing Energy market because they could not get bilateral contracts for their small Load. Commissioner Parsley represented that the REP stated it would like a mechanism to get its energy needs in a market through ERCOT. Mr. Noel indicated that the short-term need is to fix the credit issues and then consider the other, bigger issues. Chairman Klein asked if WMS is looking at implementing a Day Ahead market and stated that the PUCT has looked at having a Day Ahead market in place while it looks at the market design strawman. Mr. Giuliani indicated that the WMS was going to have a meeting to discuss the issue, but it was cancelled. Chairman Greene stated that the Board would expect to hear back from the Finance & Audit Committee next month on these issues.

Mr. Lee stated that the Committee decided to ask for expedited consideration of the Protocols revisions relating to Section 16.

Mr. Lee also mentioned that Tenaska has agreed to continue serving as the Default QSE. Another company may be interested in that role, but nothing has been finalized.

Mr. Lee next asked Ms. Buckles to report on the issue of guarantees from foreign companies. Ms. Buckles stated that ERCOT had asked outside attorneys in New York to draft a standard form guarantee for non-US companies. The corporate guarantee from non-US companies has a \$10 million limit pursuant to Board action at the October 2002 meeting. The CWG is considering whether that limit should be changed to be closer to the \$125 million limit for domestic companies, and/or whether the \$125 million limit should be adjusted downward. No recommendation from the CWG has been developed as yet.

Finally, Mr. Lee invited representatives from PricewaterhouseCoopers (PwC), Martin Fiscus and Amy Cloud, to make a presentation regarding their audit of ERCOT’s financial statement. Mr. Fiscus stated that the audit has been completed and PwC issued an unqualified opinion. PwC had no issues or problems with concluding that the financial statements are complete. He stated that ERCOT experienced continued growth in 2002 – more transactions, more Market Participants, more employees and higher expenditures. Among other points, he mentioned that ERCOT’s controls over capital expenditures were significantly improved in 2002.

**Mr. Lee moved that the Board accept the 2002 Audited Financial Statement. Steve Schaeffer seconded the motion. The motion passed by unanimous voice vote with no abstentions or objections.**

Chairman Greene complimented Mr. Lee, Ms. Buckles and all others working on ERCOT financial matters for their good work over the last year.

## **Market Operations Update**

Ray Giuliani, ERCOT Vice President and Chief of Market Operations, gave a presentation regarding market operation issues. He mentioned that Ms. Betty Day would report on the 2002 UFE.

Mr. Giuliani stated that Texas SET v.1.5 was implemented this past weekend (April 11-13) and the transition went through smoothly without major issues. He also stated that this new version should enhance market operations. Mr. Giuliani recognized staff and consultants for their commendable work on this project.

Next, Mr. Giuliani discussed the move in/move out issues being addressed by an ERCOT task force. The group developed a draft solution; comments are due by the end of this week. The solution will be presented to RMS on May 15, 2003 and, afterward, the task force will develop PRRs for RMS, PRS and TAC to consider.

Mr. Giuliani asked Ms. Day to deliver the 2002 UFE report. Ms. Day stated that her report would be available on the ERCOT web site. She defined UFE for the Board and noted improvements over last year's data. Finally, Ms. Day presented the following ERCOT recommendations to further decrease UFE:

- because Generation does not contribute significantly to UFE it requires no additional analysis;
- improve the accuracy of and timeliness of loading usage data;
- get load research samples designed and deployed as soon as possible to address cyclical patterns;
- evaluate algorithms for missing IDR data estimation;
- evaluate TDSP loss factors with sub-station IDR data;
- explore alternative methods for UFE allocation (perhaps by zones or sub-stations); and
- reconvene the UFE working group (which has not met for approximately one year).

Ms. Day then answered several questions raised.

## **Grid Operations/Systems Update**

Chairman Greene invited Sam Jones, ERCOT COO, to discuss grid operations. Mr. Jones stated that he had only one slide because operational issues have been few the last month. Mr. Jones continued with several comments regarding February's winter weather event. ERCOT is considering suggestions and comments provided by Market Participants relating to Generation Resources' ratings, possible improvements in forecasting and Load forecasting tools.

Next, Mr. Jones stated that the Transmission Services group is improving its transmission project analysis function. ERCOT has hired staff to assist in these projects. Additionally, ERCOT has obtained resource analysis software to improve its capabilities.

Finally, Mr. Jones commented about his recent activities at the NERC.

## **Information Technology Update**

Ken Shoquist, ERCOT Vice President and Chief Information Officer, gave a technology update. Mr. Shoquist thanked several Market Participants for opening up their I.T. groups for meetings to discuss I.T. issues.

Mr. Shoquist pointed out several I.T. accomplishments this year. He stated that ERCOT went through an intense audit of its security and data management.

Mr. Shoquist stated further that ERCOT currently has thirty-three active I.T. projects. Additionally, as others have mentioned today, Texas SET v.1.5 was implemented this weekend without significant problems. Over sixty ERCOT employees took part in this activity. A general discussion then took place regarding the status of the versions of various software programs ERCOT is using.

[Note: After lunch, Kent Saathoff of ERCOT reported that, at approximately 11:35 a.m., in the process of switching some 345kv lines in and out of maintenance in North Houston, two lines were out of service at the same time. This situation caused a voltage collapse in the Bryan/College Station area. He stated that ERCOT was working with the affected transmission company to get the transmission system back up at this time and power should be restored shortly.]

### **Financial Update**

Ms. Buckles recapped the detailed financial report provided to Board members.

### **TAC Report**

Beth Garza, the TAC Chair, gave a report on recent TAC activities. Ms. Garza reported on the following items:

### **Consideration of Protocol Revision Requests (PRRs)**

(1) Protocol Revision Requests (PRRs). The Protocol Revisions Subcommittee (PRS) met this past month, discussed various PRRs and submitted recommendations to TAC regarding several PRRs. TAC approved the following PRRs and recommended them to the Board for final approval:

- **PRR 377 – ERCOT Canceled RMR Unit Start.** This PRR allows compensation for RMR units if called upon to start and ERCOT subsequently cancels the start. This would be a manual process. TAC approved this item 28-2.
- **PRR 379 - Waiver Recipients Must Designate an LSE and BLT Waiver.** This PRR allows ERCOT to grant a waiver for Block Load Transfer point resources that, but for BLT events, do not operate in ERCOT.
- **PRR 381 - Update QSE Designation.** This PRR clarifies the process by which a QSE terminates its designation for an LSE or Resource entity. The PRR was approved by TAC 25-3 with two abstentions.
- **PRR 383 - RMR Resource Maintenance Outage Approval.** This PRR provides a timeline for the approval of RMR unit outage requests.
- **PRR 387 - Settlement of Mismatched Inter-QSE Energy Schedules.** This PRR clarifies the settlement of mismatched Inter-QSE energy schedules.

Ms. Garza explained all of the PRRs to the Board. Mr. Payton asked about the version of PRR377 appearing in the Board packet. He clarified that we are approving only the language above the asterisks and “OTHER COMMENTS” in the Board packet.

With respect to PRR 377, Ms. McClellan pointed out that ERCOT would move to a cost-based compensation mechanism for RMR Units (instead of proxy). Therefore, there would be no compensation for “start up.” Ms. Garza agreed with this comment and pointed out that this PRR would be in effect only until the new compensation methodology is implemented.

**Ms. Harper moved to approve all PRRs except PRR 381. David Itz seconded the motion. The motion passed by a unanimous voice vote with no exceptions or abstentions.**

Chairman Greene asked for discussion regarding PRR 381. Chairman Klein asked if a corollary PRR exists for an LSE wanting to change its QSE. Ms. Garza indicated that such a situation would be covered by the entities’ bilateral arrangements. Ms. Garza pointed out that the TAC discussion on this PRR concluded that the clarity of this PRR offsets any detrimental impact on the parties of a potential 30-day transition to a new QSE. Ms. Harper pointed out that Tenaska originally asked for this type of PRR, but she believes this proposal does not satisfy Tenaska’s needs. The issue revolves around a gap in the Protocols because they do not provide for how an LSE can move to a new QSE for any reason. This PRR provides a thirty-day notice period, which may conflict with the current contract between the QSE and LSE (which may allow the QSE to “drop” the LSE in a relatively short period of time under certain circumstances). Ms. Harper proposed remanding this PRR to PRS, with input from the CWG, to provide for a time period of less than thirty days. The Board agreed to remand PRR 381 to TAC for remand to PRS.

RMR Issues: Ms. Garza stated that TAC is considering the following issues associated with RMR Service:

- (i) Criteria/process. Ms. Garza stated that the TAC believes ERCOT should review the cost-effectiveness of using a unit as an RMR unit versus other options.
- (ii) RMR categories. Ms. Garza indicated that this is the first decision point. TAC looked at short-term RMR needs (less than 180 days) versus annual needs. TAC believes it is appropriate to provide different compensation for short-term vs. long-term contracts. TAC believes a long-term contract should be available in case a Market Participant must make significant expenditures to keep a unit available.

Mr. Veisoh asked if ERCOT is looking at alternatives to RMR Service (transmission facilities, new Generation Resources, *etc.*). Kevin Gresham, Chairman of the RMR Task Force, pointed out that ERCOT is, and has been, looking at alternatives to RMR Service. ERCOT also considers exit strategies to address ending the RMR Agreement. Mr. Noel mentioned that one alternative is to relieve the congestion that created the need for the RMR Service with transmission system improvements. That has happened in one situation already. Also, RMR Service may be the most cost-effective solution in some circumstances. ERCOT staff currently looks at the most cost-effective way to address the problem.

- (iii) Compensation level. Ms. Garza stated that TAC believes short-term contracts should cover short-term “avoided costs.” TAC considered whether long-term (annual or longer) contracts should use a proxy price or a “cost plus” arrangement. TAC voted to use a “cost plus” methodology.

- (iv) Cost allocation. TAC has set aside this issue for the moment.
- (v) Transmission planning process. This issue has been resolved. As part of the RMR process, ERCOT looks at alternatives involving transmission.
- (vi) Economic trade-offs. Essentially, the issue is how to compare payments for OOMC versus RMR payments. TAC continues to look at this issue.

(2) 2003 Test Flight Schedule Update

TAC has approved the timing of test flights for 2003 – one in July and one in October. The application deadline for participating in the first flight is May 22, 2003 and for the second is September 4, 2003. ERCOT may schedule another flight because of anticipated functionality changes from the move-in/move-out task force. The dates for 2004 test flights have not yet been determined.

(3) OGRRs

TAC approved two Operating Guide revisions – OGRR 127 and 128.

(4) WMS work on PUCT Docket No. 26376

Ms. Garza informed the Board that members of WMS have worked to respond to questions raised by Commissioner Perlman. They will provide those comments directly to Commissioner Perlman in the near future.

Ms. Garza informed the Board that TAC would be looking at possible changes to the Commercially Significant Congestion Zones for 2004. TAC should have a proposal for the Board by June. Ms. Garza also mentioned that ROS is finishing its work on a new Reactive Power Standard.

**Updated Board Procedures**

Ms. Pemberton addressed the need for the Board to update its procedures in response to amendments made to the By-Laws in 2002 as well as recently passed PUCT rules. ERCOT received comments on the revisions only from the PUCT staff. Ms. Pemberton provided the PUCT proposed language to the Board and stated she had no problems with it. Ms. Pemberton pointed out that these procedures would apply only until the end of this year when the Board decreases in size. Ms. McClellan asked about Section 3.7.5, which requires that a Board member must be an employee of a member organization. She stated that Residential Consumer representatives and Independent Board members would not meet that requirement. Ms. Pemberton agreed that the language should be revised to provide an exception for the Residential Consumer representatives and Independent Directors. The Board agreed on revised language for 3.7.5.

Mr. Payton stated that he had several concerns about the proposed language. He would like more time to review the changes. He has some problems with several items in Section 3.6 and believed that the Board rejected the language being offered in the proposed language. Ms. Pemberton agreed to review ERCOT's records to determine that exact language previously adopted by the Board.

The Board generally discussed which meetings of sub-committees and task forces should be noticed. The Board agreed that only Board, TAC and TAC sub-committee meetings must be noticed. A discussion ensued regarding the notice period.



Chairman Greene tabled any action on the Procedures until the next Board meeting. Ms. Pemberton requested any comments or changes to the Procedures be provided to her ten days before the May Board meeting.

### **Update on Status of Independent Board Members**

Chairman Greene asked Ms. Pemberton to update the Board regarding the status of the Independent Board Members. Ms. Pemberton reported that the Independent Board Members were approved by the ERCOT membership. A discussion ensued regarding the Ethics Agreement the Independent Board Members must sign.

### **Other Business**

Ms. Pemberton mentioned that ERCOT recently joined the National Association of Corporate Directors. She provided the Board Members information regarding training, seminars, *etc.*

At this time, Mr. Saathoff updated the Board on the status of the power outage in the Bryan/College Station area. All but one 345 kv line has been restored. The local wires company stated that almost all power had been restored.

Chairman Greene thanked Commissioner Parsley for attending the meeting and also thanked all other guests and visitors. At this time, Chairman Klein adjourned the PUCT Open Meeting.

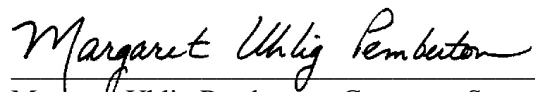
### **Executive Session**

The Board met in Executive Session to discuss various matters including an update on the status of litigation and Board compensation. The Board approved the compensation for the Independent Board Members and a per diem for the Residential Consumer Board Member.

### **Adjournment**

Chairman Greene adjourned the Meeting at approximately 2:58 p.m. **The next Board meeting will take place on May 20, 2003 at ERCOT's Austin facility. The following meeting will be held on June 17, 2003 at the same location.**

Board materials and presentations from the meeting are available on ERCOT's website at:  
<http://www.ercot.com/calendar/2003calendar/2003boardmaterials.htm>

  
Margaret Uhlig Pemberton, Corporate Secretary