

MINUTES OF THE ERCOT BOARD OF DIRECTORS MEETING

**ERCOT Offices
Austin, TX
10:00 a.m.
October 21, 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 October 21, 2003.

Meeting Attendance:

Board members:

Armentrout, Mark		Unaffiliated	Present
Baggett, David		Unaffiliated	Present
Espinosa, Miguel		Unaffiliated	Present
Greene, Mike	Oncor Electric Delivery Company	IOU - ERCOT Chairman	Present
Harper, Trudy	Tenaska	Ind Generator	Present
Itz, David	Calpine Corp.	Ind Generator	Present
Kahn, Bob	Austin Energy	Municipal	Present
Klein, Rebecca	Public Utility Commission of Texas	PUCT Chairman	Present
Lacey, Frank	Strategic Energy	Ind REP	Present until 3:45 p.m.; Vanus Priestly, Segment Alternate, thereafter
Lee, Milton	CPS	Municipal	Present
Manning, Bob	H-E-B Grocery Company	Consumer/ Commercial – ERCOT Vice Chairman	Present
McClellan, Suzi	Office of Public Utility Counsel	Consumer/OPUC/Resid ential	Present
McClendon, Shannon	Attorney	Consumer/ Residential	Present
Meyer, John	Reliant Energy	Ind PM	Present
Noel, Tom	ERCOT	ERCOT CEO	Present
Payton, Tom	Occidental Chemical Corp.	Consumer/Industrial	Present
Phillips, Ross	LCRA	LCRA	Proxy for Joe Beal
Schaeffer, Steve	CenterPoint Energy	IOU	Present until 3:00 p.m.; Proxy to M. Greene thereafter
Stapp, Jerry	Big Country Electric Coop	Coop	Segment Alternate for Clifton Karnei
Stockstill, Dottie	Mirant Americas E.M.	Ind PM	Present
Wood, Henry	South Texas Electric Coop.	Coop	Proxy for Mike Troell
Veisoh, David	Utility Choice Electric	Ind REP	Present

ERCOT Staff and Guests:

Maxine Buckles	ERCOT Staff – VP and CFO
Ray Giuliani	ERCOT Staff – VP and Chief of Market Operations
Sam Jones	ERCOT Staff – VP and COO
Ken Shoquist	ERCOT Staff – VP and CIO
Ken Donahoo	ERCOT Staff
Richard Ross	AEP
Terri Eaton	Green Mountain Energy
Kevin Gresham	Reliant
Barry Huddleston	Dynegy
Mark Dreyfus	Austin Energy
Trip Doggett	Benchmark Power Consulting
Dan Jones	CPS
Brad Belk	LCRA
Joel Mickey	ERCOT Staff
Scott Clifton	ERCOT Staff
Marguerite Wagner	ERCOT Staff
Mark Walker	ERCOT Staff
Betty Day	ERCOT Staff
Jim Galvin	ERCOT Staff
Lacy Seybold	ERCOT Staff
Cheryl Moseley	ERCOT Staff
Cheryl Yager	ERCOT Staff
Steve Wallace	ERCOT Staff
Mike Petterson	ERCOT Staff
Ralph Weston	ERCOT Staff
Beth Garza	FPL Energy
Bill Bojorquez	ERCOT Staff
Vanessa Spells	ERCOT Staff
Reed Comstock	Strategic Energy
Clayton Greer	Constellation Power Source
Parviz Adib	PUCT Staff
Phillip Oldham	Andrews & Kurth
Robert Connell	ERCOT Staff
Garry Waters	Competitive Assets
Bob Peck	LCRA
Wendell Bell	TPPA
Mark Zion	TPPA
Mark Bruce	FPL Energy
Greg Ramon	Frontera
James Striedel	Entergy Solutions
Kay Trostle	TXI
David Kasper	ERCOT Staff
Walt Fenoglio	TEAM
Neil Eddleman	TEAM
Valerie Anderson	GDS Associates
Vanus Priestly	Constellation New Energy
Paul Hassink	AEP
Weldon Gray	Concho Valley Elec. Coop
Glenn MacRill	Lodestar

David Rannuci	Lodestar
Simon Melker	UCE
Helen Long	CPS
Robby Abarca	PUCT
Mel Bland	ERCOT Staff

Announcements

Chairman Greene called the meeting to order and determined that a quorum was present. He 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 minutes of the September 16, 2003 meeting. Mr. Lacey asked to change the attendance list to indicate that Vanus Priestly attended as Segment Alternate for David Veiseh, not Mr. Lacey. **David Itz moved to approve the meeting minutes as revised. David Veiseh seconded the motion. The motion passed by a unanimous voice vote with no abstentions.**

Approval of Annual Meeting Date and Location

Mark Walker explained that the Bylaws require the Board to approve the date, time and location for the annual members' meeting. Mr. Walker relayed to the Board the tentative date, time and location that ERCOT staff had suggested and asked the Board to approve such date, time and location. **Mike Espinosa moved to approve the date and location for the ERCOT annual meeting as December 16, 2003 at the Austin Airport Hilton. David Itz seconded the motion. The motion passed by a unanimous voice vote with no abstentions.**

CEO Report

Chairman Greene invited Tom Noel, ERCOT President and CEO, to provide an update on the Reliability Council's activities. Mr. Noel reported that the 2004 budget process has been moving forward. The two issues most widely discussed are: (i) debt/equity ratio for capital projects funding and (ii) incremental growth of the Reliability Council.

Mr. Noel mentioned that there is currently a great deal of NERC activity, including Mr. Sam Jones' work on the NERC steering committee studying the blackout in the Northeast. ERCOT anticipates this activity level to remain high.

Mr. Noel mentioned that the Texas Nodal Team (TNT) has worked diligently and remained mindful of its responsibilities and independence. He stated that market education is an important part of the TNT's work. Additionally, the group has been very active in working on the design of the Day Ahead Market. He also mentioned that the Board must make some decisions today relating the TNT's work. Finally, he stated that system reliability must underlie each decision regarding the new market design. Cost impact also remains a predominant issue.

Mr. Noel invited Steve Wallace, ERCOT Director of Program Management, to discuss ERCOT's process for identifying the cost impact of PRRs. Mr. Wallace stated that the pace of PRRs had increased dramatically over the past year. The number of PRRs considered by the PRS, TAC and the Board has more than doubled since last year. PRRs can have a significant impact on ERCOT Staff and budget.

Most of the PRRs involve adding services and functions rather than replacing old services and functions. Generally speaking, this means more cost.

Mr. Wallace then presented some sample PRRs to demonstrate their impact on ERCOT Staff and budget. The examples of six PRRs and one SCR required additional long-term staffing of twenty-seven full-time equivalent employees and approximately \$9.9 million per year. As a result, PRS and TAC have proposed an enhanced impact analysis for each PRR (developed in PRR441). This new analysis will include an estimate of the three-year financial impact of the PRR. This enhanced analysis will give PRS, TAC and the Board more detail on the financial and staffing impacts of each PRR and SCR.

Mr. Lacey asked whether this enhanced analysis represents only part of the story because each PRR also impacts Market Participants. He would like to see the impact on Market Participants as part of the analysis. For example, he would like to know if the PRR will alleviate certain costs - like uplift costs - so the Board can perform a true cost/benefit analysis. Mr. Wallace stated that such an analysis is done on some matters, for example Texas Nodal; however, doing such an analysis for PRRs, in light of current time lines and other limitations in the protocols revision process, is not feasible. Mr. Noel stated that a Market Participant who presents a PRR should include a description of how the PRR will benefit the market and other Market Participants. Additionally, those who will be affected - positively and negatively - by a PRR should state their positions at PRS.

Chairman Klein agreed with Mr. Noel that the obligation to determine cost/benefit should lie with the stakeholders first. By the time these matters get to TAC, each affected Market Participant should have made its comments regarding how the PRR affects it and others in its segment. This information may be in quantitative or qualitative form. She would prefer this approach to putting the onus on ERCOT Staff. Mr. Kevin Gresham, PRS Chairman, stated that the PRS is now doing a more in-depth analysis of the impact of PRRs on each market segment. Currently, when a Market Participant proposes a PRR, they must describe the effect on all market segments. This new process is in its early stages.

Mr. Manning applauded ERCOT Staff's work product. He stated that the cost/benefit analysis should take place as early in the process as possible. He would like to see the accountability driven down to the stakeholders. He also stated that he would like to see ERCOT Staff continuously review procedures to see what activities are no longer needed and may be eliminated.

Grid Operations Update

Chairman Greene invited Sam Jones, ERCOT Executive Vice-President and COO, to present the Grid Operations Update. Mr. Jones began by inviting Bill Bojorquez, Director of Transmission Services, to discuss RMR Exit Strategies.

(1) RMR Exit Strategies

Mr. Bojorquez began by reviewing the existing RMR units in the ERCOT Region. Currently, 1,341 MW of capacity provide RMR service. Due to completed transmission system upgrades, the Rio Pecos unit will cease being an RMR unit next month. Pending completion of transmission system improvements, Fort Phantom and San Angelo will exit RMR service in 2004 and La Palma will exit RMR service in 2005. The Board previously recommended the Twin Buttes 345kV switching station eliminating the for the San Angelo RMR service. The exit plans for Fort Phantom and La Palma are included in the Board package this month. ERCOT Staff is finalizing an exit strategy for the B.M. Davis unit in Corpus Christi that should come to the Board for approval in November or December. By the end of 2006, only 350 MW of the existing 1,341 MW are expected to remain in RMR service. Once executed, the RMR exit strategies will afford significant cost savings to consumers in ERCOT.

Fort Phantom

The cost of the transmission upgrades to alleviate the need for RMR service from Fort Phantom is estimated at \$6.4 million in 2004. The RMR uplifts for this plant will cease once the transmission upgrades are completed. Historic RMR costs have averaged \$13 million per year. Therefore, implementing the transmission upgrades has a significant financial benefit. The Net Present Value (NPV) of continued RMR service, based on the extrapolation of historic operation, is approximately \$45 million; the NPV of the transmission upgrades will be \$7.2 million.

Chairman Klein indicated that the Reliability Council's cost analysis is very important and the PUCT will consider that analysis when looking at the rate increase request by the TDSP who implements the transmission upgrade.

Mr. Lacey asked if AEP (the TDSP) also owned the RMR Unit in addition to the wires. Mr. Bojorquez stated that an AEP TDSP company affiliate owns the unit. Mr. Lacey asked if AEP (the TDSP) had an obligation to do this upgrade. Mr. Jones responded that, historically, the Reliability Council recommends a project and, typically, the applicable TDSP implements the project. If that TDSP does not wish to implement the project, the Reliability Council will ask another company to do so. Mr. Meyer pointed out that the RMR compensation provides a very small profit to the owner of the RMR Unit whereas the transmission upgrade would, presumably, have a return on investment built-in. This should give the company an incentive to implement the proposed project.

Ms. McClendon stated that she had believed the Reliability Council would propose more than one alternative solution. Mr. Bojorquez stated that ERCOT Staff considered many other solutions throughout the open planning process, but he presented only the most viable solution. For example, a new 345 kV line could also eliminate the need for Fort Phantom, but that solution involved lengthy regulatory and approval hurdles while the market continued to bear the uneconomic RMR costs. With respect to demand-side management solutions for RMR conditions, Mr. Bojorquez stated that the RMR Task Force is considering mechanisms to allow such solutions (which do not currently exist in the protocols), but even with demand-side participation, much of the transmission upgrades, or continued RMR service would remain necessary.

Mr. Meyer stated that ERCOT Staff has done a tremendous job of coming up with a solution that can be implemented relatively quickly with no new right-of-way requirements. He stated that FERC has been interested in exit strategies for RMR units and he believes the Reliability Council is taking the lead in this area.

LaPalma

Mr. Bojorquez stated that the short-term solution for the La Palma RMR units involves rebuilding the existing 138 kV line between Rio Hondo and La Palma substations. The other possible solutions involved rebuilding the same line at 345kV requiring a longer approval time frame with only \$2 Million of additional cost. A 345kV line will be required in the long run, but it will be more cost effective to build a 138kV by 2005 even if it is removed from service three years later when the 345kV approval and construction is completed. The cost for the 138kV rebuild is estimated at \$13.6 million. The historic RMR annual uneconomic cost is \$26 million. The expected NPV of continued RMR service is \$104 million, whereas the NPV for the transmission upgrade, based on historic operation, is \$15 million (excluding the cost of the long-term 345kV solution). Again, this project represents a significant cost savings for consumers in ERCOT.

Mr. Lee asked if the Reliability Council had considered building a 345 kV line but operating it at 138 kV while the regulatory process is completed. Mr. Bojorquez stated that the Reliability Council supports that approach and will work with PUCT staff and AEP to determine if it can be implemented. Mr. Wood stated that TAC had considered this approach at the October 9th meeting and recommends it to the Board at this time.

Mr. Lee moved to approve the ERCOT Staff recommendations for the RMR exit strategies for the Fort Phantom and LaPalma units. Mr. Meyer seconded the Motion. The motion carried by a 20 to 1 vote with no one abstaining and Shannon McClendon voting against.

Mr. Bojorquez explained that the updated Power System Planning Charter and Processes document included in the Board package has been reviewed by TAC, ROS and WMS and it describes the scope, methods, roles and responsibilities of stakeholders in the open planning process.

(2) NERC Update

Mr. Jones gave a brief update on the status of the continuing investigation of the blackout in the Northeast. Additionally, Mr. Jones stated that energy legislation making its way through Congress will impact ERCOT and other ISOs. For example, the bill would create a new, national organization to oversee the reliability related operations of ISOs and RTOs by way of enforced industry standards. NERC is drafting the standards against which ISO/RTO compliance will be measured. ERCOT Staff is working with NERC representatives on this effort.

Market Operations Update

Ray Giuliani, ERCOT Vice President and Chief of Market Operations, began by giving a year-to-date perspective on market operations. Year-to-date, the market value of transactions totaled an estimated \$21 billion; \$15 billion of which is attributed to the wholesale market. Unaccounted-For-Energy (UFE) amounts to 2.4% of initial settlements and 1.4% of final settlements. True-up settlement data is not yet available.

Through October 1, 2003, all 2002 true-up statements have been run except for ten days. The 2003 true-ups are running behind schedule due to technical issues. The new 2003 resettlements that the Board approved have begun. ERCOT has now resettled the days in June 2003 with high local congestion costs.

Information Technology Update

Ken Shoquist, ERCOT Vice President and Chief Information Officer, reported on IT performance metrics for the last month. Additionally, he presented the results of an analysis of cost savings that have occurred since the Reliability Council began an aggressive campaign to renegotiate contracts with vendors. ERCOT has saved over \$4.1 million so far this year. The three-year projected savings total over \$10.5 million. Mr. Shoquist commended Heather Smith (legal) and Kevin Judice (IT) for exemplary work in negotiating better deals with vendors.

Mr. Baggett asked if the Reliability Council had incorporated these cost savings into the 2004 budget. Ms. Buckles stated that the expense savings had been included in the final version of the budget sent to Board members (but not the capital savings). Mr. Espinosa asked if ERCOT Staff continued to negotiate with vendors to save costs. Mr. Shoquist responded affirmatively, but stated that the remaining potential savings are of smaller magnitude and, therefore, the additional cost savings would be less.

Mr. Shoquist stated that the recent implementation of the new ERCOT portal took place on time, but the production environment performance did not match the testing environment performance. As a result, the Reliability Council immediately withdrew the new portal and re-implemented the old portal. ERCOT will perform additional testing before trying to implement the new portal again. At the next implementation of a portal upgrade, the Reliability Council will use a "pilot" approach.

He stated further that the Reliability Council experienced two hardware failures of a computer used in the Commercial Applications API. The Reliability Council is currently two or three weeks from having this functionality back on-line.

Chairman Klein asked Mr. Shoquist to expand on his previous comments regarding work being done among ISOs to standardize data for Market Participants who participate in more than one region. In response, Mr. Shoquist provided additional information on this subject.

Texas Nodal Team (TNT) Report

Mr. Trip Doggett, Independent Facilitator for the Texas Nodal project, gave a presentation to the Board of Directors regarding the status of the project. He began by stating that meetings have occurred every-other-week. Approximately 125 people have attended each meeting of the full TNT. The Market Operations and Congestion Management Concept Groups have met weekly. More than 60 people have attended each of those meetings. The Market Mitigation Concept Group has met twice. TNT has scheduled meetings through March, 2004.

Mr. Doggett then stated that the TNT has made many educational presentations for Market Participants, including LMP fundamentals, an LMP tutorial, system modeling, security constrained unit commitment and state estimator. Tomorrow, a presentation on congestion hedging will take place. On November 3, 2003, TNT will sponsor a cost/benefit panel. In addition, he pointed out that TNT had implemented the proxy voting policy favored by TAC. TNT also voted to allow web voting at its meetings.

Congestion Rights

Mr. Doggett stated that the TNT met on October 13, 2003 and reached agreement on responses to questions presented by MOD regarding congestion rights (and "preamble" language regarding congestion rights) and he asked the Board for permission for approval to file the language with the PUCT.

Ms. McClendon moved to approve the TNT proposed responses to MOD's questions and proposed preamble language endorsed by TNT. Mr. Manning seconded the Motion.

Mr. Payton commented on dynamic scheduling for Non-Opt-In Entities (NOIEs). He stated that, if the Reliability Council will design a system allowing NOIEs to have dynamic schedules, it should design the system to allow dynamic schedules for all Market Participants. He recommends removing the limitation of dynamic scheduling to NOIEs. Ms. Garza, TAC Chair, stated that TAC voted in favor of using such language. Chairman Klein pointed out that the proposed language does not necessarily prohibit non-NOIEs from using dynamic schedules.

Ms. McClendon and Mr. Manning accepted Mr. Payton's amendment that would not limit dynamic scheduling to apply to particular Market Participants. The revised preamble language reads:

The Market Participants have determined that the issue of dynamic scheduling under the integrated model warrants further development. It is the intent of the Market Participants to

accommodate dynamic schedules, under any day-ahead market model, in a manner similar to the methodology provided for in the ERCOT Protocols as they exist in October 2003, so long as Dynamic Scheduling does not result in additional uplift to Market Participants that do not engage in Dynamic Scheduling.

The Motion passed by unanimous voice vote with no abstentions.

Day Ahead Market Issues

Mr. Doggett stated that, at its October 13, 2003 meeting, TNT considered two options for a day-ahead market model - the "Auction Model" and the "Integrated Model." Neither option obtained the required number of votes to pass (the Auction Model received 57.8% favorable votes). TNT tried to develop a matrix of pros and cons, but could not reach agreement on the matrix. TNT has asked TAC and the Board to determine which day-ahead model to propose to the PUCT. Ms. Garza reported that TAC took four votes on the proposals (as originally sent by TNT and as modified by TAC). Ms. Garza reported that none of the motions passed. The Auction Model came the closest to passing (the vote was 18-10-2).

Ms. Stockstill stated that we are in the early part of the Texas Nodal design work and, therefore, opportunities remain to develop a compromise. She asked for some insight from Chairman Klein regarding the timing of getting language to the PUCT. Chairman Klein stated that there are deadlines in place in the rulemaking procedure. Delaying action on this item would add approximately one month to the timeline. As a result, she encouraged the Board to reach a conclusion on this issue today. She also suggested that the Integrated Model has a broader impact on market participants, so for rule-making purposes, it might be better to start with the Integrated Model or both models.

Ms. McClendon moved to approve the language proposed by TNT regarding the Auction Model. Mr. Kahn seconded the Motion.

Mr. Payton stated there is a clear plurality in favor of the Auction Model (57.8% in favor) and he supports filing the Auction Model language that he believes provides more flexibility than the Integrated Model. Mr. Wood stated that the Coops supported the Auction Model because of the flexibility it offers. Ms. McClendon stated that the consumers were more comfortable with the Auction Model.

Mr. Meyer stated that Power Marketers and others believe the Integrated Model is a better approach and pointed out that no other ISOs or RTOs use the Auction Model. Ms. Stockstill stated that PJM tried an Auction Model and abandoned it and she believes the Integrated Model would work in the ERCOT Region. Mr. Itz stated that he recommends sending both models to the PUCT for review. At that time, Chairman Greene called the question for a vote.

The Motion failed by a vote of 14 to 7 with no one abstaining.

Mr. Itz moved to recommend both the Auction Model and Integrated Model to the PUCT. Ms. Stockstill seconded the Motion.

Mr. Payton stated that he believes the Integrated Model shifts more risk to consumers. Mr. Meyer disagreed. Mr. Clayton Greer, Vice-Chairman of TAC, stated that the Integrated Model mitigates a great deal of risk and he believes that is the reason other ISOs have adopted it. Mr. Parviz Adib of the PUCT stated that a decision from the Board would assist the PUCT. The PUCT Staff has learned a lot from listening to the discussion by the Market Participants in favor of each approach. Regardless of which model the Board adopts, the PUCT may develop a different version after receiving comments and

input through the rulemaking process. However, he stated that the PUCT would like to adopt the proposal favored by the Market Participants. At that time, Chairman Greene called the question for a vote.

The Motion failed by a vote of 12 to 9 with no one abstaining.

Chairman Klein stated that the Auction Model received more favorable votes and that some people believe that model provides more flexibility to add “hybrid” elements. Therefore, she suggested that the Board reconsider approving the Auction Model.

Ms. McClendon moved to recommend the adoption of the Auction Day-Ahead Model rule language as developed by TNT while expressing a commitment to continue to examine concepts that may lead to a hybrid model that includes the best aspects of both the Auction Model and Integrated Day-Ahead Model as developed by TNT. Mr. Wood seconded the motion. Mr. Armentrout proposed an amendment to the Motion that would require that TNT report back to the Board any refinements made to the Auction Model. Ms. McClendon and Mr. Wood accepted the amendment. After further discussion, Chairman Greene called the question.

The Motion passed by a vote of 17 to 4 with no one abstaining.

Financial Update

Maxine Buckles, ERCOT Vice President and CFO, recapped the detailed financial report provided to Board Members. The Reliability Council’s revenues (\$74.2 million) remain slightly below target while operating expenses (\$74.8 million, including depreciation) and capital expenses (\$23.3 million) are below budget; the Reliability Council believes it will spend \$50 million on all capital projects by the end of 2003. The Reliability Council has twenty-seven active capital projects at this time. Ms. Buckles explained the reason for the difference between budgeted amounts and actual expenditures. Among other reasons, the Reliability Council has hired a procurement manager who closely monitors all expenditures. Additionally, the Reliability Council currently has 377 employees - below the budgeted number of 400.

Ms. Buckles stated that the Reliability Council intends to file its fee package at the PUCT by October 31, 2003, in accordance with the Board’s action on the 2004 Budget.

Finance & Audit Committee Report

(1) Charter

Mr. Lee asked the Board to approve the Finance & Audit committee’s formal charter. **Mr. Espinosa moved to approve the Finance & Audit Committee’s formal charter. Mr. Phillips seconded the motion. The motion passed by unanimous voice vote with no abstentions.**

(2) 2004 Budget

Mr. Lee stated that this year’s process for approving the budget was very similar to last year’s process. The Finance & Audit committee voted in favor of the proposed budget by a vote of seven to two. The Finance & Audit committee recommends an administrative fee of \$0.46/MW for the year 2004. The committee also instructed the Reliability Council to reduce operating expense in the proposed budget by \$3 million. Additionally, the committee recommends that any unspent funds at the end of this fiscal year be used to reduce the Reliability Council’s debt. The Finance & Audit committee also voted to adopt the Administrative Fee to support the budget as approved. The current 2004 budget employs a

debt/equity ratio of between 60/40 and 70/30. Several members of the committee believe the Board should consider changing the required debt/equity ratio to 60/40, but the committee is not formally making that proposal at this time. Additional study will take place before the committee makes a proposal to the full Board.

Mr. Lee invited Ms. Harper and Mr. Espinosa, the two Finance & Audit committee members who voted against the committee's recommendation, to provide their reasons to the Board. Ms. Harper stated that ERCOT Staff originally requested a budget level that would require an Administrative Fee of \$0.47/MW. She believes the Reliability Council is not over-staffed. In her opinion, the Reliability Council tries to be conservative in its budgeting process and operates very conservatively. Ms. Harper believes the Board should approve the fee of \$0.47/MW as requested by the Reliability Council, which would allow debt to be reduced further. Mr. Espinosa agreed that the fee should be set at \$0.47/MW as requested by the Reliability Council. He based his opinion on the issue of uncertainty, national requirements to protect against blackouts, such as the northeast experienced this year, and the needs of market design. Additionally, he stated his concern that increasing the debt/equity ratio simply postpones expenses to the future, and he prefers paying for expenditures as they are incurred, rather than utilizing debt, especially for a nonprofit organization.

Mr. Lee stated that the ERCOT Administrative Fee is a very small part of the total amount spent in the ERCOT Region market. He applauded the work to decrease the RMR costs because the savings made in that area will be very significant.

Chairman Klein asked Mr. Lee about the assumed debt/equity ratio used for the five-year projection to be submitted to the PUCT. Mr. Lee stated that Ms. Buckles provided a nine-year projection that uses a 60/40 debt/equity ratio, but such long-term projections are uncertain as major future drivers are not fully known. Chairman Klein commended the Finance & Audit committee for its work on developing the budget.

Mr. Lee moved to approve the 2004 budget with a request for an administration fee of \$0.46/MWh with other fees remaining unchanged, that the projected budget be reduced by \$3 million, and that unused funds at the end of this fiscal year be used to reduce debt. Mr. Baggett seconded the motion. The motion passed by unanimous voice vote with Ms. McClendon and Ms. McClellan abstaining.

TAC Report

Ms. Beth Garza, TAC Chairman, reported on the following recent TAC activities:

(1) 2004 CSC/Congestion Zones

Pursuant to the Protocols, the Board must decide on 2004 CSC designations and Congestion Zones by November 1st. Earlier this year, the Reliability Council experienced significant congestion from the North zone to the Houston zone, which impacted TAC's work in this area. After significant work on this issue, TAC voted to approve five CSCs and five zones by a vote of 19-7-4. The CSC names are: (i) North to Houston, (ii) South to North, (iii) South to Houston, (iv) West to North and (v) Northeast to North. A discussion ensued regarding whether the Reliability Council should establish more or fewer zones and CSCs.

Ms. McClendon moved to approve the TAC recommendation of five zones and five CSCs. Mr. Lee seconded the motion. The motion passed by a vote of 18 to 3 with no one abstaining.

(2) Protocol Revision Requests (PRRs)

Ms. Beth Garza reported that the Protocol Revision Subcommittee (PRS) met this past month, discussed various PRRs and submitted recommendations to TAC regarding many PRRs. TAC made the following recommendations regarding those PRRs:

- ***PRR381 – Update QSE Designation*** – proposed effective date: November 1, 2003; although the scenario envisioned in this PRR is expected to occur infrequently, when employed, this Protocol change will require intense manual workarounds. This PRR sets forth the steps necessary for a Load Serving Entity (LSE) or a Resource Entity to designate a new Qualified Scheduling Entity (QSE) when such Entity’s existing QSE terminates its commercial relationship with the Entity. The PRR also permits an LSE to become an “Emergency QSE” for seven (7) days if the LSE does not have a QSE, allowing the LSE to continue to schedule its load while seeking a replacement QSE. PRS approved this PRR after making suggested modifications. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote. ERCOT commented on the TAC recommendation, proposing a) to make timeframes consistent based on Business Days in Section 16.2.4.2 (3) and 16.2.13.3; and b) to clarify that an LSE must satisfy creditworthiness requirements, including posting collateral, prior to becoming an Emergency QSE (“ERCOT Comments”).
- ***PRR427 – RMR General Clarifications*** – proposed effective date: November 1, 2003; Impacts ERCOT staffing and business processes; does not impact ERCOT computer systems or operating practices. This PRR clarifies changes to the Reliability Must Run (RMR) provisions adopted by the ERCOT Board and provides more detail in the Protocols concerning categories of eligible costs and their documentation requirements, incentive factor payments for capacity, fuel supply options, and target availability for RMR. PRS approved this PRR after making suggested modifications to reflect appropriate Protocol baseline language. TAC approved this PRR by unanimous voice vote.
- ***PRR428 – RMR Scheduling Clarifications*** – proposed effective date: Upon system implementation; Pending results of Responsibility Transfer testing, this PRR potentially impacts ERCOT computer systems; also has minor impacts on staffing and operating practices. This PRR documents and clarifies the scheduling process for energy from RMR units and the principles of responsibility transfers for RMR units. Existing Protocol language does not reflect current scheduling practices. PRS approved this PRR after making suggested modifications. TAC approved this document after declaring this PRR urgent and making suggested minor, non-substantive modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.
- ***PRR444 – Move In / Move Out Stacking*** – proposed effective date: November 1, 2003, for those portions of the PRR for which no system change is required; all other portions of the PRR would be effective upon system implementation; impacts ERCOT computer systems, business processes, and significantly impacts ERCOT staffing. This PRR provides the Market Participants’ solution for handling multiple non-sequential transactions on a single ESI ID, including modifications of switch related timelines and transaction “stacking” functionality. Additional benefits of this PRR include fewer “not first in” rejections of Move-In Requests, lower volume on Safety Net workarounds, and fewer Market synchronization issues. PRS approved this PRR as submitted. TAC did not make any modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.

- **PRR447 – TCR Auction Posting and PCR Cost Determination** – proposed effective date: November 1, 2003; Changes to ERCOT staffing and business processes have already been implemented; no changes to ERCOT computer systems or operating practices. This PRR clarifies that only the identities of awardees in the TCR auction are posted on the Market Information System (MIS) and adds the formula for determining the cost of PCRs to the Protocols. PRS approved this PRR after making suggested modifications. TAC approved this document after making suggested modifications to the PRS recommendation. TAC approved this PRR by unanimous voice vote.

TAC recommended each of these five PRRs unanimously. **Mr. Wood moved to approve PRRs 381, 427, 428, 444 and 447, including the revisions to PRR381 contained in the ERCOT Comments. Mr. Stapp seconded the motion. The motion passed by a unanimous voice vote with no one abstaining.**

- **PRR460 – CSC Exemption Criteria** – proposed effective date: November 1, 2003; Potential impacts to ERCOT Staffing and Computer systems depending on quantities of exemption requests required to be processed. This PRR creates a new item in Section 7.2.1.1, Process for Determining CSCs, that clarifies the process for submitting and the criteria for evaluating requested exemptions to an entity’s zonal placement. PRS approved this PRR after making suggested modifications. TAC approved this document after declaring the PRR urgent and making suggested modifications to the PRS recommendation. TAC approved this PRR by a vote of twenty-four (24) in favor, six (6) opposed with no abstentions.

Mr. Payton expressed some concern about this PRR and a lengthy discussion took place.

Mr. Lee moved to approve PRR 460. Mr. Stapp seconded the motion. The motion passed by a 15 - 4 vote with one abstention.

All PRRs and supporting materials appear on the following ERCOT web page:
<http://www.ercot.com/AboutERCOT/PublicDisclosure/ProtocolRev.htm>

(3) CSC Exemption Requests

STEC and LCRA have requested exemptions from CSCs for several transmission system load busses. TAC recommended granting the exemptions.

Mr. Lee moved to approve CSC exemptions for STEC and LCRA as approved by TAC. Mr. Stapp seconded the motion. The motion passed by a vote of 18 - 1 with no abstentions.

(4) Uplift Cost Estimation

The Board had previously asked TAC to develop a report of uplift costs. The Cost Effective Design Initiatives (CEDI) Task Force has done a significant amount of work to define the contents of such a report, including identifying the seven components of uplift costs. To create this report would require additional staffing of one to two full-time equivalents.

Several Board members questioned the value of the report versus the cost of the additional staffing. A decision was made to table this matter to a future meeting.

Executive Session

The Board met in Executive Session to discuss various matters including a nominating committee update, an update on the status of litigation and ADRs , H.R./Governance matters and contract issues.

Adjournment

Chairman Greene adjourned the Meeting at approximately 5:30 p.m. **The next Board meeting will take place on November 18, 2003 at ERCOT's Austin facility. The following meeting will be held on December 16, 2003 at the Hilton Austin Airport Hotel in Austin, Texas, preceded by the 2004 Annual Membership Meeting.**

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