



March 29, 2007

The Honorable Joe Barton  
U.S. House of Representatives  
2109 Rayburn House Office Building  
Washington, DC 20515-4306

Dear Congressman Barton:

The following information is submitted in response to the questions raised in your March 9, 2007 letter. I appreciate your effort to solicit the opinion of the Electric Reliability Council of Texas (ERCOT) regarding this issue and will endeavor to answer all of your questions to the best of my ability.

It is important to note that ERCOT is responsible—under Texas state law—for ensuring the reliability and adequacy of the regional electrical network (grid). In this capacity, ERCOT can respond to your questions from a reliability and adequacy standpoint. However, the Public Utility Commission of Texas (PUCT) is responsible for oversight of electric markets operated within the ERCOT region and can better answer pricing and economic questions.

First, let me state that ERCOT has determined that the proposed buyout does not represent a threat to the reliability of the ERCOT grid. The electric transmission and distribution function will remain regulated under the jurisdiction of the PUCT. The generation will continue to be operated in the ERCOT regional energy market.

The ERCOT wholesale market is robust and numerous generating entities are currently proposing new generation projects to serve load in the ERCOT region. ERCOT does not count new generation proposals in its calculation of future reserves until that new generation has a transmission interconnection agreement and the necessary permitting from the Texas Commission on Environmental Quality (TCEQ). The eleven proposed TXU coal-fired units do not yet have the necessary permitting and are not included in ERCOT's capacity calculations. If all of these units are not built, ERCOT is confident that other generating projects will provide the capacity needed to maintain sufficient generating capacity on the grid.

With regard to renewable energy, ERCOT is proud to have more wind generation in its region than any other state in the nation. Currently, almost 3,000 MW of new wind generation is either under construction or publicly announced, in addition to the 3,000 MW already existing in ERCOT. A significantly larger amount of future wind generation is also under study. Wind energy is good, clean energy and should be used to the fullest of its capability. At the same time, wind does not blow at a constant level, and in Texas is often at a low level at the time of the peak electrical demand during summer afternoons. ERCOT studies the availability of wind generation using its historical wind generation data. Using

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2006 data, ERCOT has determined that 8.7% of the installed wind capability can be counted as dependable capacity during the peak demand period for the next year. Conventional generation must be available to provide the remaining capacity needed to meet forecast load and reserve requirements.

You also asked about potential nuclear energy. Today, approximately the same amount of new nuclear generation has been publicly announced for future construction in the ERCOT region as would have been produced by the eight TXU coal plants that are now slated for cancellation. Additional nuclear generation is also under study. The first new nuclear capacity is tentatively scheduled for operation in 2015.

In the near term, a reduction in the amount of coal generation available on the grid will result in increased use of natural gas to provide the needed energy to meet load requirements. Some of this generation is older natural gas units which are normally less efficient and have higher emission rates than newer coal-fired units. In the longer term, ERCOT is confident that the generation providers will continue to bring new, higher efficiency and cleaner generation to the ERCOT market. This is supported by the thousands of megawatts of new renewable, natural-gas and nuclear units already publicly announced or under study. As sufficient new higher efficiency, cleaner generation comes on line in ERCOT, the older, less efficient, dirtier units will be retired.

Also in the longer term, fuel use will depend on the generating options supplied by the market. As mentioned above, significant new renewable and nuclear generating capacity is being proposed by the generating entities. New, higher efficiency natural gas units have been publicly announced, and coal gasification projects are now being discussed. The actual mix of new units installed will determine the actual fuel and energy mix, and those installation decisions will be made by the market. ERCOT does not perform any fuel-cost estimating or make fuel-cost predictions, so the effect of increased natural gas usage on pricing is best answered by another entity.

ERCOT is confident that even without the eight new coal plants previously announced by TXU, adequate reserve margins will be met. There is no question that significant new generation is needed in the ERCOT region in the future to meet load growth and to replace aging units that will need to be retired. But the wholesale market in ERCOT is robust and generating entities are currently constructing or studying and announcing many new generation projects to meet these future needs. ERCOT is working with the Texas Legislature to discuss the future of the grid to determine if any legislation is required to provide for these future needs. Any short-term needs can be met by the temporary return of mothballed units.

I sincerely hope that the information provided above sufficiently answers your questions in the areas of ERCOT's responsibilities. If additional information is desired I will be glad to come to your office and meet with you or your staff at your convenience. Please feel free to contact me at any time.

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Sincerely,

A handwritten signature in black ink, appearing to read "Sam R. Jones". The signature is stylized with a large, looped initial "S" and "R".

Sam R. Jones, PE

President and Chief Executive Officer

Xc: Paul Hudson, Chairman, Public Utility Commission of Texas  
Julie Parsley, Commissioner, Public Utility Commission of Texas  
Barry T. Smitherman, Commissioner, Public Utility Commission of Texas  
Mark Armentrout, Chairman, ERCOT Board of Directors