



MEMORANDUM

TO: ERCOT Board Members
FROM: Ray Giuliani, Vice President & Chief of Market Operations
DATE: May 16, 2006
RE: NYMEX Update

This memo is to give you a status update on the work taking place at NYMEX on futures contracts for the ERCOT region. As you are aware, I have been discussing this with them for quite some time. They are now comfortable with us disclosing details to you. Since they want to start in time to capture a large portion of our 2006 summer activity, they are looking at a roll out within the next 6-10 weeks.

NYMEX has emphasized the importance to divulge this as “preliminary” and “still in research”. It is pretty close to a done deal because it has been vetted with their members, most importantly those that represent large industrial and commercial consumers. That is why they are comfortable with us giving you a heads up.

We don't need to commit any resources to do anything. We will have no obligations to NYMEX.

The contracts will look like those currently in play at PJM and at the New York ISO. Features will be as follows:

- Standard daily and monthly contracts
- On peak (5 by 16)
- Quantity = 40 Mwh/day
- Physical Delivery Price = Megawatt Daily price index (probably replaced by ERCOT Day Ahead Market index upon implementation of Texas Nodal)
- Monthly three years forward
- Daily two months forward
- ERCOT Hubs: ERCOT Hub “Seller’s Choice” (anywhere in ERCOT); North Hub; Houston Hub

I believe that this is potentially a MAJOR step forward for credit risk mitigation and price transparency in our wholesale market. In addition, the publication of NYMEX futures prices for ERCOT should go a long way to release the tensions swirling around the current Price to Beat and any proposed extension beyond January 1, 2007.

ERCOT Board Members

May 16, 2006

Page 2

There has been some concern expressed within our ranks as to how much activity these contracts might see. I think we should see a material amount of trading because a number of recent new ERCOT Level 1 QSEs are also NYMEX members. That list includes:

- BANK OF AMERICA NA
- BARCLAYS BANK PLC (QSE)
- CALBEAR ENERGY LP (QSE)
- CITIGROUP ENERGY INC (QSE)
- DB ENERGY TRADING LLC
- J ARON AND COMPANY
- JPMORGAN CHASE BANK NA
- JPMORGAN VENTURES ENERGY CORPORATION
- LEHMAN BROTHERS COMMODITY SERVICES INC
- MERRILL LYNCH COMMODITIES INC (QSE)
- MORGAN STANLEY CAPITAL GROUP INC
- OLD LANE COMMODITIES LP
- UBS AG LONDON BRANCH
- WCW INTERNATIONAL INC

I'll be happy to discuss this development further at the Board meeting if you wish.