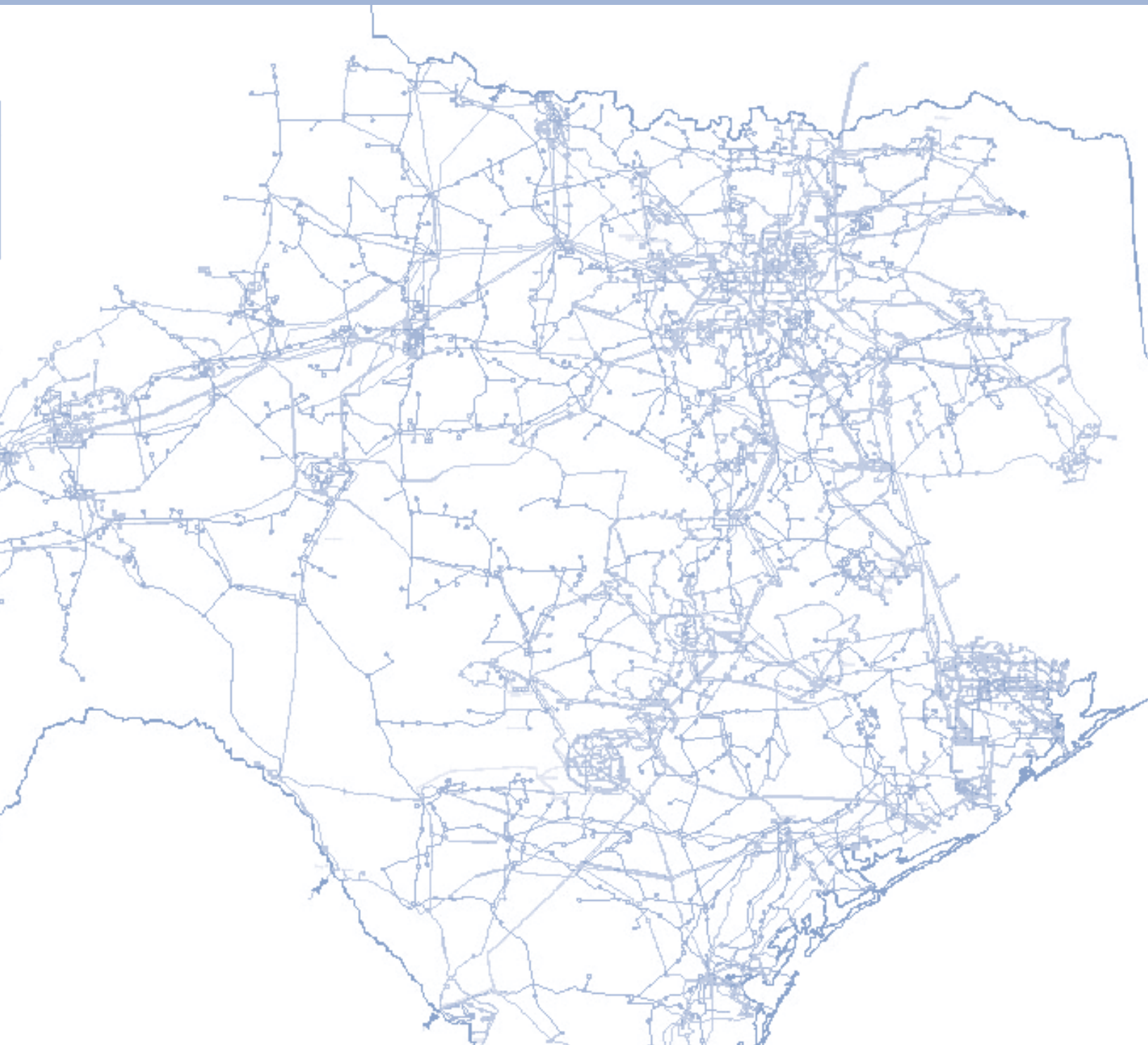


## ELECTRIC RELIABILITY COUNCIL OF TEXAS 2005 ANNUAL REPORT



**The Electric Reliability Council of Texas** (ERCOT) is the organization entrusted to keep electric power flowing to approximately 20 million Texas customers – representing 85 percent of the state’s electric load and about 75 percent of the Texas land area. As the Independent System Operator for its region, ERCOT manages the scheduling of power on an electric grid consisting of 70,000 megawatts of active generation capacity and 38,000 miles of transmission lines.

ERCOT also manages financial settlement for the hundreds of market participants in Texas’s deregulated wholesale bulk power and administers customer switching. As one of ten regional reliability councils in North America, ERCOT monitors and enforces industry reliability standards for grid and utility operations.

ERCOT is a non-profit corporation regulated by the Public Utility Commission of Texas and subject to oversight by the Texas Legislature. ERCOT’s members include retail consumers, investor- and municipal-owned electric utilities, rural electric co-ops, river authorities, independent generators, power marketers and retail electric providers.

## **Vision and Mission**

ERCOT’s Vision is for Texas electricity customers to realize the greatest value possible from reliable electric power supplies and access to competitive markets for electricity.

ERCOT’s Mission is to direct and ensure reliable and cost-effective operation of the electric grid and to enable fair and efficient market-driven solutions to meet customers’ electric service needs.

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# From the Chairman

In 2005, the Electric Reliability Council of Texas marked its ninth successful year as an independent system operator and fourth full year as facilitator of the competitive retail market – still touted as the most successful retail market in the country. Besides the continued execution of its critical mission to ensure reliable electric power for 20 million Texans, ERCOT also moved forward with improvements in market and grid operations, settlement and commercial processes, and internal business controls.

The year began with a fee reduction ordered by the Public Utility Commission. ERCOT employees rose to the challenge, identifying more than \$2 million in cost savings and operational efficiencies without sacrificing service levels or operating performance. Later in the year, ERCOT proposed a 2006 fee at an even lower base rate. At the same time, all employees were actively involved in implementing process procedures and controls in response to the 2004 audits, addressing 265 out of 288 audit points (92 percent) by year's end.

ERCOT staff continued upgrading software and improving processes, resulting in more cost-effective operation of the electric grid and market settlement processes, including:

- First known deployment of real-time dynamic ratings of transmission line capacity by an independent system operator, estimated to save \$33 million/year in congestion costs to the market; local congestion cost uplift dropped 36 percent from 2003 to 2005
- Grid operations application upgrade, estimated to create \$2.1 million/year in savings to the market
- Settlement engine database upgrade, reducing settlement processing time up to 50 percent
- Web site redesign, featuring a search engine and improved navigation.

ERCOT led transmission operators, market participants and other stakeholders to plan new transmission projects to ensure reliability and market efficiency. Almost \$500 million in transmission improvements were completed in 2005. When Texas temperatures rose in late summer, ERCOT was ready – recording a new system peak demand of 60,274 megawatts on August 23, surpassing the previous record of 60,095 MW set in 2003. The new peak was just 201 MW under the forecasted peak, the first forecast using ERCOT's revised econometric methodology.

Throughout the year, ERCOT and the stakeholders worked together to drive positive change in the wholesale and retail markets, including implementation of the simultaneous ancillary services market – estimated to save \$42 million/year in costs to the market – and protocol revisions shortening the wholesale market payment cycle in order to reduce credit exposure for the ERCOT market. Customer switch rates continued to increase, passing the 2 million mark with 28 percent of residential customers having switched to a competitive provider.

In late 2005, a team of market participants, led by independent facilitators and supported by ERCOT staff, completed 566 pages of draft protocols – the first step toward a major market effort to develop a nodal wholesale market design. Nodal's goal is to improve market and operating efficiency through more granular pricing and scheduling of energy services. ERCOT and market participants will begin a massive push to set business requirements, write software, build infrastructure, and thoroughly test the new systems in time to launch the Texas Nodal market in 2009.

As we begin our 10th year, we look forward with confidence to the changes and challenges ahead. Confidence built on the successes of the ERCOT staff and stakeholders – market participants and consumers – working together toward a common goal to build a dynamic market and reliable electrical system for Texas consumers.



**Mark Armentrout**  
Board Chairman

A handwritten signature in dark ink, appearing to read "Mark Armentrout". The signature is fluid and cursive.

Mark Armentrout  
Chairman of the Board

# 2005 SNAPSHOT

## JANUARY

### Board Looks at Budget Reductions

The ERCOT Board of Directors review a preliminary plan of more than \$7 million in budget reductions, in response to a fee settlement with the Public Utility Commission (PUC) and a broad-based group of stakeholders. The agreement lowers the 2005 system administration fee from \$.44 to \$.42 per megawatt-hour, representing an effective cut of approximately \$6 million. Another \$2 million will be needed for additional responsibilities associated with security and management audits.

## FEBRUARY

### Employees Begin Moving into New Taylor Facility

Employees begin the first move-in's at the 75,000-square-foot Taylor expansion facility. Approximately 150 people relocate to the new building, enabling the cancellation of multiple leases of approximately 25,000 square feet in various locations.

## MARCH

### Real-Time Ratings Application Expected to Save \$33 Million in Congestion Costs

The first known deployment of real-time dynamic ratings among independent system operators is completed and is estimated to save up to \$33 million per year in congestion costs to the market.

### Settlements Upgrade Improves Performance 50 Percent

ERCOT staff implements an upgrade to the settlement engine database, reducing settlement processing time up to 50 percent.

## APRIL

### 'Full Compliance' Report from NERC

ERCOT receives a "full compliance" on all 2004 planning standards directly monitored by the North American Electric Reliability Council.

## MAY

### New Reserve Margin Formula Adopted

The board approves a new formula for calculating the reserve margin with several differences, including using summer dependable capacity rather than registered capacity; calculating wind resources at 2.9 percent of installed capacity rather than 10 percent; calculating direct-current tie capacity at 50 percent instead of 100 percent; and using economic and weather variables to develop the load forecast rather than only historic trending.

Protocol revisions are approved to require additional information regarding switchable unit availability in the summer and future plans for mothballed generation resources.

## JUNE

### Reserve Margin Adjusted to 17 Percent

ERCOT revises the load forecast for 2005 based on a new econometric methodology, forecasting a 2005 peak demand of 60,475 megawatts (MW), slightly higher than the previous forecast of 59,701. The calculated capacity reserve margin is revised from 14.7 to 16.9 percent.

## JULY

### Operational Data Store Implemented

EMMS Operational Data Store (ODS) is implemented, replicating all existing EMMS source schemas to the ODS environment.



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## AUGUST

### **New Peak Usage of 60,274 MW Recorded**

The ERCOT Region sets a new electricity usage record of 60,274 MW of power Aug. 23, in the peak hour from 4 to 5 p.m., exceeding the previous all-time peak of 60,095 MW, set on Aug. 7, 2003.

## SEPTEMBER

### **Temporary Power Transfers to Neighboring Grid Assist in Hurricane Recovery**

ERCOT works with the Public Utility Commission, transmission operators and utilities to temporarily connect with the neighboring grid to the east, allowing block-load transfer of power to assist in hurricane recovery efforts.

## OCTOBER

### **Grid Software Upgrade Completed; \$20.1 Million in Market Savings Anticipated**

A software upgrade to the grid operations application is completed, which is expected to create \$20.1 million a year in savings to the ERCOT market. The upgrade involved nine protocol revisions, 17 projects, 60 servers, and more than 85 ERCOT employees representing approximately 31,000 hours.

### **Transmission Report Shows Reduction in Congestion Costs**

The annual October 1 transmission report shows significant reductions in congestion costs, attributed in part to capital and operational improvements, including the use of dynamic line ratings. Intra-zonal (local) congestion costs decreased from over \$360 million in 2003-04 to less than \$250 million in 2004-05. Inter-zonal congestion costs decreased from \$80 million in 2001-02 to less than \$30 million in 2004-05.

## NOVEMBER

### **Severe Weather Drill Tests Scheduling, Communications Functions**

Qualified Scheduling Entities and Transmission Operators across the ERCOT Region participate in a severe weather drill, testing scheduling and communications and training operators in emergency procedures.



### **Nodal Transition Plan Task Force Formed**

The board approves a nodal transition plan, calling for the creation of a Nodal Transition Plan Task Force, to be chaired by ERCOT and including market participants from each of the seven market segments.

## DECEMBER

### **Retail System Experiences Hardware Failure**

ERCOT's retail market system experiences a rare dual-drive failure, which delays retail processing up to three days. Additionally, the data archive and associated market extracts are impacted as well as major market extract projects. Retail electric providers and transmission/distribution system providers work over the holidays to continue meeting customer needs, while ERCOT staff works around the clock to fix the outage and recover data.

### **Independent Board Member Named Chair**

Mark Armentrout is named board chair, replacing Mike Greene, who announced his retirement after six years as chairman. Armentrout's election marks early compliance with a Senate Bill 408 requirement to install an independent director as board chair by September 2006.

### **Protocol Revision Reduces Credit Exposure**

Protocol Revision 568 is implemented to reduce the wholesale market initial settlement payment cycle by one week, from 17 days to 10 days, which will reduce credit exposure for the ERCOT market.

### **Enhanced Web Site Goes Live**

A new and enhanced ERCOT.com Web site is launched, featuring a search engine and improved navigation. The new task-oriented home page allows users to access commonly used items from the home page, including meetings, protocols, and current market clearing prices.

### **SAS 70 Audit Approved**

Sixteen of the 18 control objectives receive an unqualified opinion. Two areas related to logical security and facility security receive a qualified opinion.

# SYSTEM OPERATIONS

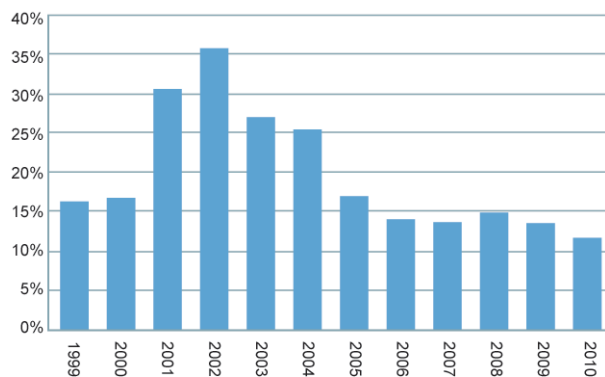
## GRID OPERATIONS: Reliability first

The 20 million Texas electric customers in the ERCOT region received service with no major transmission-related outages in 2005.

### Region hits all-time peak demand

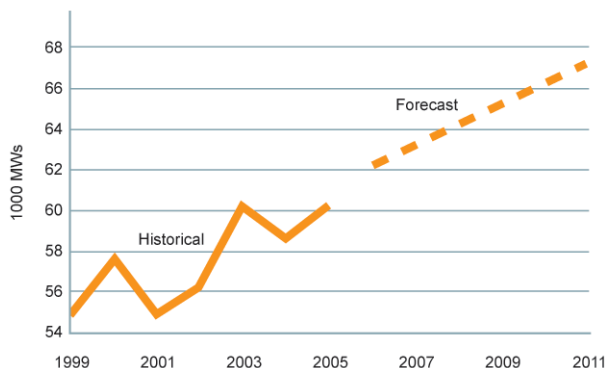
The system peak demand for the ERCOT system in 2005 was 60,274 megawatts (MW) which occurred August 23. The peak was also an all-time high for the ERCOT system, surpassing the previous record of 60,095 MW, set on Aug. 7, 2003.

ERCOT RESERVE MARGINS, 1999-2010



Forecast data based on ERCOT's 2005 Capacity, Demand and Reserves Report

PEAK DEMANDS, 1999-2011



The generation reserve margin remained healthy but began to show signs of decline in 2005, as several generation companies announced plans to mothball or decommission aging facilities:

- 931 MW of retiring or mothballed plants were designated to stay active under Reliability Must Run (RMR) contracts.
- Two major RMR contracts were phased out under the board-approved RMR exit strategy, as new transmission facilities were brought on line.

### Operator training strengthened

ERCOT has budgeted \$5.1 million from 2005 to 2007 for an operator training facility in Taylor. The facility will be located in ERCOT's first control room which is being remodeled to include state-of-the-art training materials and equipment accommodating 10 students at a time. An operations simulator is set for installation in the fall of 2006. The simulator will allow operators to receive hands-on training without any potential impact to the grid.

A training shift was implemented in May 2005 which allows each operator to receive 120 hours of training per year.

In addition, more than 570 operators from the ERCOT Region attended one of the five operations training seminars which ERCOT hosted in March and April.

The compliance division, which is separate from system operations and reports directly to the ERCOT CEO, conducted a number of audits to measure compliance with ERCOT operating procedures and protocols and PUC rules, as well as North American Electric Reliability Council (NERC) reliability standards.

ERCOT system operators scored 96 percent compliance with ERCOT operating procedures.

Compliance also audited 14 qualified scheduling entities and transmission entities on ability to meet ERCOT requirements as well as NERC reliability standards.

The compliance division developed a process for PUC approval to monitor material occurrences that have the potential to impede ERCOT operations or represent a risk to system reliability.

## SYSTEM PLANNING: Improving reliability and market efficiency

Transmission operators, market participants and stakeholders in the ERCOT region worked together in a process led by ERCOT to plan new transmission projects to ensure reliability and market efficiency.

Almost \$500 million in transmission improvements were completed in 2005.

In the past two years, more than 2,300 circuit miles of new high-voltage transmission lines have been upgraded or added in the ERCOT region.

### New transmission upgrades help lower congestion costs

New transmission construction by transmission providers and implementation of improved operating tools and congestion analysis help reduce local congestion costs in 2005 by more than \$32 million or 12 percent from 2004, despite natural gas prices that were 35 percent higher than in 2004.

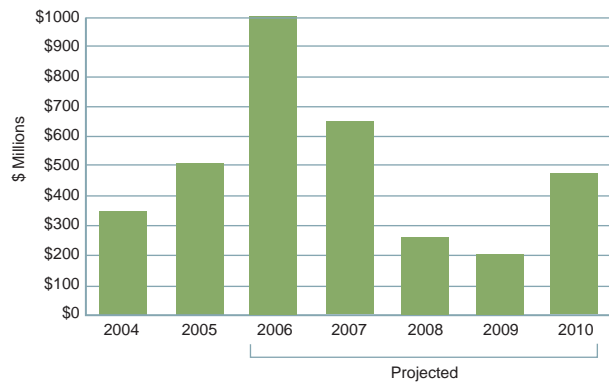
ERCOT worked with TXU and the Texas Municipal Power Authority to identify short-term transmission improvements for 2006 that will reduce congestion for cost savings of \$19 million annually in the Dallas/Fort Worth area.

In addition, ERCOT worked with CenterPoint to complete the Houston Import Project evaluation to optimize transmission in the Houston area after the retirement of several large plants. When completed, the projects are expected to reduce congestion costs by \$68 million annually.

### Renewable projects on the rise

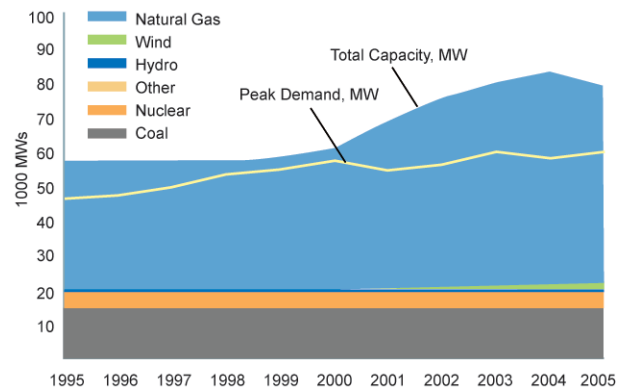
In March, the PUC announced that the state was meeting the 2009 renewable energy mandate for 2,000 MW three years early. In July, the 79th Texas Legislature passed Senate Bill 20 boosting the Renewable Portfolio Standard to 5,880 MW by 2015.

## TRANSMISSION IMPROVEMENTS



Numbers are based on projects being completed in the designated year and may not reflect actual investment in that year. Costs may be spread over several years.

## GENERATION CAPACITY BY FUEL TYPE



ERCOT and market participants continued to meet the challenge of bringing renewable energy from West Texas wind farms to Texas's population centers.

More than 1,899 MW of wind-powered generation were in service in the ERCOT region in 2005. ERCOT received and recorded interconnection agreements to bring in an additional 1,041 MW.

# MARKET OPERATIONS

ERCOT stakeholders and staff continued to drive positive change in the wholesale and retail markets in 2005.

The Technical Advisory Committee and its subcommittees, working groups and task forces actively addressed market- and grid-related issues in over 550 meetings throughout 2005.

Eighty-two market rule changes, or Protocol Revision Requests (PRRs), were introduced by market participants and others. A total of 67 PRRs were adopted by the board and incorporated into the ERCOT protocols.

Market operations worked with market participants to analyze the impact of reducing the wholesale market initial settlement timeline from 17 days to 10 days after

operating day. The analysis resulted in a protocol revision aimed at reducing credit exposure for the ERCOT market.

## Corporate, retail Web site updated

In 2005 ERCOT redesigned the company Web site, ERCOT.com, with an eye toward ease of use for market participants and the public. Enhancements were also made to the retail testing Web site.

## WHOLESALE MARKET OPERATIONS: Making the market better

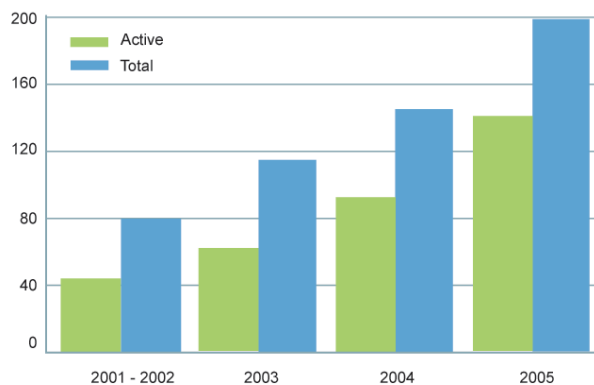
ERCOT's Load Acting as a Resource (LaaR) demand response program continued its success. Forty-four customers (industrial and large commercial) have 94 individual loads participating in ancillary services programs as LaaRs. These customers are represented by 34 different Resource Entities and 10 QSEs. The total qualified capacity to participate in the responsive reserve service ancillary service market is 1,826 MW. LaaRs bid their load-reduction capability into the market as capacity resources.

## New ancillary services market expected to save \$42 million

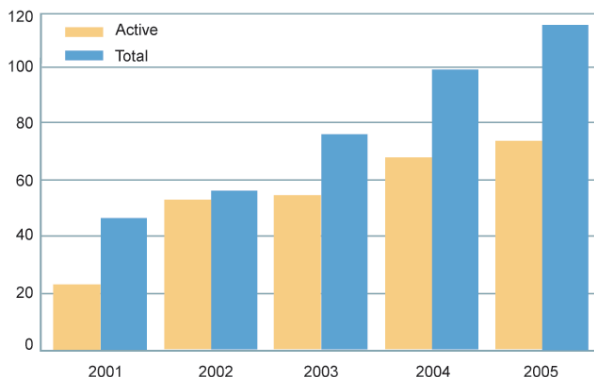
ERCOT successfully implemented the simultaneous ancillary services market in October 2005. Production

### MARKET PARTICIPANT GROWTH

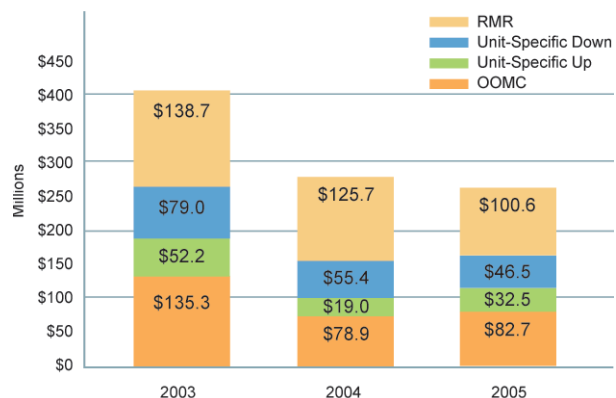
#### Qualified Scheduling Entities



#### Competitive Retailers



### UPLIFTED CONGESTION COSTS





results of the new software have shown substantial savings. Based on the first months of implementation, an annual savings of \$42 million in costs to the market is expected.

### Nodal market redesign underway

In 2005 ERCOT and market participants continued planning for a major wholesale market redesign program, as directed by the PUC. The overall goal of the Texas Nodal market redesign is to improve market and operating efficiency for the benefit of Texas electric consumers through more granular pricing and scheduling of energy services.

After some 40 general sessions and 225 meetings, ERCOT staff and market participants completed draft protocols for the nodal market to fulfill the PUC rule.

ERCOT plans to be heavily involved in market redesign projects for the next three years, working toward an implementation goal of 2009.

### IT division upgrades EMMS software

The information technology division continued to make upgrades to the Energy and Market Management System, the primary software platform for merging grid operations with financial settlement. Upgrades included launching the replacement reserve services market and the simultaneous ancillary services market.

## ERCOT MARKET: 2005 SNAPSHOT

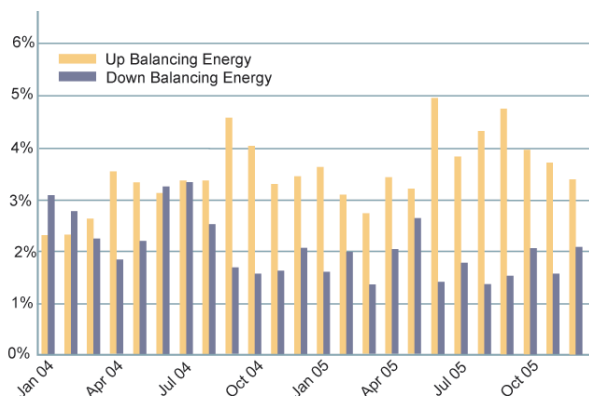
### MARKET PARTICIPANTS

- 169 generation plants
- 141 active Qualified Scheduling Entities
- 74 active competitive Retail Electric Providers
- 6 formerly bundled investor-owned utility service areas now open to competitive choice
- 60 municipal-owned utilities
- 74 electric cooperatives
- 1 cooperative (Nueces EC) opted in to competition

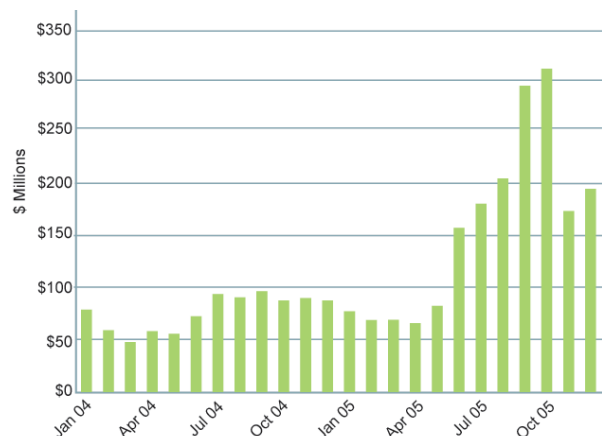
### MARKET SIZE

- 6.1 million meters in competitive choice areas
- 1.2 million additional customer meters served by municipals and cooperatives
- Estimated \$27 billion in total retail sales value
- Approximately \$1.9 billion settled through ERCOT wholesale markets (balancing energy and ancillary services not self-arranged by market participants); remainder is contracted bilaterally by market participants

**BALANCING ENERGY AS PERCENT OF LOAD  
JANUARY 2004 - DECEMBER 2005**



**ERCOT INVOICE TOTALS  
JANUARY 2004 - DECEMBER 2005**



# RETAIL MARKET

## RETAIL MARKET OPERATIONS: Supporting customer choice

With ERCOT as the central transaction hub, the Texas retail electricity market continued to set the standard nationally for success in customer choice. ERCOT is unique among Independent System Operators with its central role in assuring conveyance of customer switch requests, move-ins and move-outs, and meter-read data.

### Customer switch rate highest in nation

Customer switch rates continued to increase through 2005. By year's end, 28 percent of residential customers had chosen a retail electric provider other than the incumbent utility, by far the highest switch rate in the nation. Switching by commercial (31 percent) and industrial (73 percent) was even more robust. The organization facilitated 687,117 switch transactions, 2.5 million move-in's, and 1.49 million move-out's.

More than 25 new retail electric providers joined the ERCOT market in 2005.

In December 2005, ERCOT's retail market system experienced a rare dual-drive failure, which delayed retail processing up to three days. Additionally, the data archive and associated market extracts were impacted as well as major market extract projects. Retail electric providers and transmission/distribution system providers worked

over the holidays to continue meeting customer needs, while ERCOT staff worked around the clock to fix the outage and recover data.

## COMMERCIAL OPERATIONS: Managing the data

In 2005, commercial operations processed:

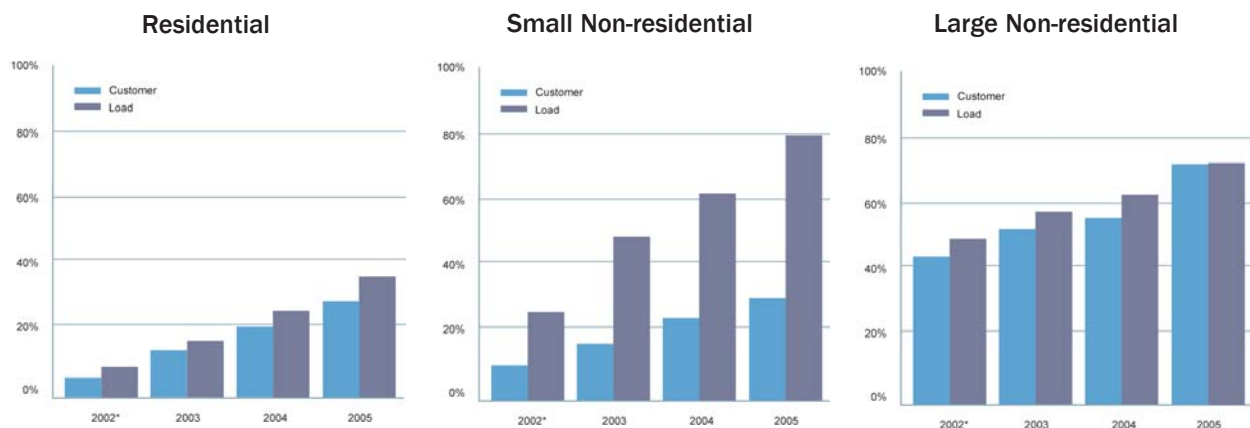
- \$1.9 billion in settlements
- 88,995 financial statements
- 4.2 million Renewable Energy Credits.

Wholesale market settlements met timeline requirements 99.79 percent of the time in 2005. All financial settlement runs were completed with less than 1 percent re-run rate, and there were no delayed true-ups in 2005.

A load research study was initiated in 2005 to collect sample usage data for residential and commercial premises. Data collected will be used to update load profile models to improve the accuracy of the load settlement process.

Work continued in 2005 to move existing data extracts into the new Enterprise Information Services environment in an effort to retire the current data archive. The purpose of the new environment is to provide reliable, innovative, centralized, and comprehensive decision support and business intelligence systems to ERCOT, the market, and the PUC.

### CUSTOMER SWITCHING: CUSTOMERS CHOOSING COMPETITIVE RETAIL PROVIDERS



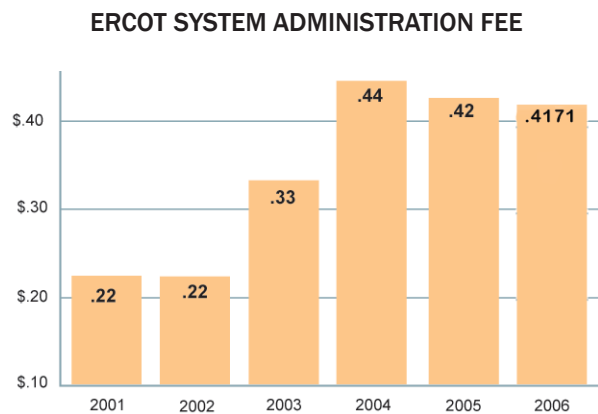
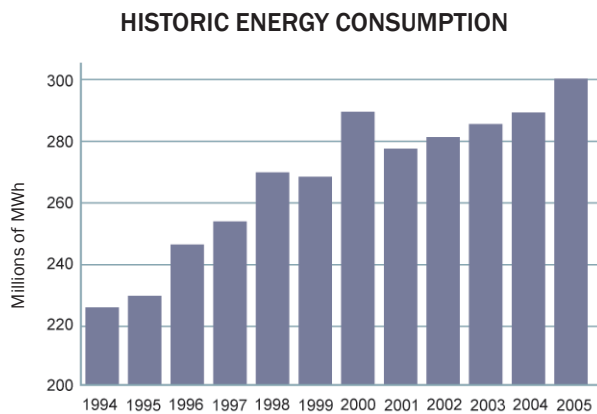
\* 2002 numbers are estimates

Large customers have been free to negotiate lower rates since the market opened (no price-to-beat)

# FIVE-YEAR SUMMARY

<b>FINANCIAL DATA (\$/millions)</b> . . . . .	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Revenue . . . . .	65.5	65.1	97.2	129.7	127.9
Direct Operating Expenses . . . . .	42.9	57.7	69.4	79.1	80.8
Depreciation/Amortization . . . . .	11.2	31.5	38.0	44.7	49.0
Net Interest Expense/(Income) . . . . .	1.1	4.1	8.1	8.0	7.7
Total Expenses . . . . .	55.2	93.3	115.5	131.8	137.5
Debt: Long Term . . . . .	0.0	150.0	136.4	149.0	134.1
Debt: Short Term . . . . .	95.0	0.0	13.6	29.4	26.1
Capital Expenditures . . . . .	68.4	52.8	36.0	59.7	25.3
Administration Fee (per MWh) . . . . .	\$0.22	\$0.22	\$0.33	\$0.44	\$0.42
<b>OPERATING DATA</b> . . . . .	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Peak Demand (GW) . . . . .	54,862	56,248	60,095	58,531	60,274
Energy (GWh) . . . . .	277,877	280,745	284,954	289,113	299,219
Reserve Margin (%) . . . . .	30.4	35.6	26.7	25.2	16.5
Transmission Improvements (\$ millions)* . . . . .	\$298.2	\$400.9	\$424.7	\$351.2	\$499.8
Wind Generation Added (MW) . . . . .	861.7	0	196.6	114	628
Local Congestion Costs (\$ millions); since 7/31/01 . . . . .	\$26.6	\$255.8	\$405.2	\$279.0	\$265.8
<b>RETAIL TRANSACTIONS DATA</b> (estimates include involuntary switches and related transactions)					
Competitive Choice Customers . . . . .	n/a	5,909,143	6,000,199	6,079,456	6,199,966
Switches Completed (cumulative) . . . . .	85,573	535,785	1,188,829	1,646,346	2,287,492
Switches by Year . . . . .	85,573	450,212	653,044	457,517	641,146
Residential . . . . .	78,122	346,760	538,914	335,253	479,830
Small Non-residential . . . . .	7,265	101,805	112,873	121,210	160,339
Large Non-residential . . . . .	186	1,647	1,257	1,054	976
Total Load Migrated from AREP (MW) . . . . .	n/a	10,019	15,676	20,211	25,640
Residential . . . . .	n/a	1,615	3,535	5,156	7,454
Small Non-Residential . . . . .	n/a	3,958	6,768	8,739	11,063
Large Non-Residential . . . . .	n/a	4,446	5,373	6,316	7,123
Competitive Retail Total Transactions (000's) . . . . .	5,755	78,960	95,826	89,060	92,368

\*Based on projects completed in the designated year; may not reflect annual costs since costs may be spread over several years



# **Electric Reliability Council of Texas, Inc.**

**Financial Statements  
December 31, 2005 and 2004**

**Electric Reliability Council of Texas, Inc.**

**Index**

**December 31, 2005 and 2004**

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**Report of Independent Auditors**

To the Board of Directors  
of Electric Reliability Council of Texas, Inc.

In our opinion, the accompanying statement of financial position and the related statements of activities and net deficit and of cash flows present fairly, in all material respects, the financial position of the Electric Reliability Council of Texas, Inc. (ERCOT), at December 31, 2005 and 2004, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of ERCOT management. Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

May 1, 2006

**Electric Reliability Council of Texas, Inc.**  
**Statement of Financial Position**  
**December 31, 2005 and 2004**

<i>(in thousands of dollars)</i>	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 85,272	\$ 33,487
Accounts receivable	6,625	6,888
Unbilled revenue	7,111	7,254
Restricted cash	96,676	22,399
Prepaid expenses and other current assets	3,942	4,499
Total current assets	<u>199,626</u>	<u>74,527</u>
Property and equipment, net	140,019	169,514
Derivative asset	78	-
Debt issuance costs	1,330	1,516
Total assets	<u>\$ 341,053</u>	<u>\$ 245,557</u>
<b>Liabilities and Unrestricted Net Deficit</b>		
Current liabilities		
Accounts payable and accrued liabilities	18,513	20,717
Market settlement liabilities	84,379	33,681
Security deposits	96,676	22,445
Notes payable, current portion	26,137	29,387
Total current liabilities	<u>225,705</u>	<u>106,230</u>
Notes payable	134,089	148,976
Other long term liabilities	408	-
Total liabilities	<u>360,202</u>	<u>255,206</u>
Commitments and contingencies (Notes 6 and 8)		
Unrestricted net deficit	<u>(19,149)</u>	<u>(9,649)</u>
Total liabilities and unrestricted net deficit	<u>\$ 341,053</u>	<u>\$ 245,557</u>

The accompanying notes are an integral part of these financial statements.

**Electric Reliability Council of Texas, Inc.**  
**Statement of Activities and Net Deficit**  
**Years Ended December 31, 2005 and 2004**

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<i>(in thousands of dollars)</i>	<b>2005</b>	<b>2004</b>
Operating revenues		
Transaction fees	\$ 125,488	\$ 127,047
Membership fees and other	2,378	2,615
Total operating revenues	<u>127,866</u>	<u>129,662</u>
Operating expenses		
Salaries and related benefits	49,405	39,976
Depreciation	49,005	44,705
Facility and equipment costs	7,757	8,109
Consulting and legal services	9,321	16,585
Administrative and other	7,081	8,236
Hardware and software maintenance and licensing	7,189	6,185
Total operating expenses	<u>129,758</u>	<u>123,796</u>
Income (loss) from operations	(1,892)	5,866
Other income (expense)		
Interest income	1,494	347
Interest expense	(9,189)	(8,365)
Change in derivative valuation	78	-
Non-operating income	9	-
Change in unrestricted net deficit	(9,500)	(2,152)
Unrestricted net deficit, beginning of year	<u>(9,649)</u>	<u>(7,497)</u>
Unrestricted net deficit, end of year	<u>\$ (19,149)</u>	<u>\$ (9,649)</u>

The accompanying notes are an integral part of these financial statements.



**Electric Reliability Council of Texas, Inc.**  
**Statement of Cash Flows**  
**Years Ended December 31, 2005 and 2004**

<i>(in thousands of dollars)</i>	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities</b>		
Change in unrestricted net deficit	\$ (9,500)	\$ (2,152)
Adjustments to reconcile change in unrestricted net deficit to net cash provided by operating activities:		
Depreciation	49,005	44,705
Amortization of debt issuance costs	210	232
Net losses on disposition of capital assets	164	1,854
Changes in operating assets and liabilities:		
Accounts receivable	263	(3,220)
Unbilled revenue	143	(1,027)
Prepaid expenses and other assets	479	(1,252)
Other long-term liabilities	408	-
Accounts payable and accrued liabilities	3,387	(1,010)
Net cash provided by operating activities	<u>44,559</u>	<u>38,130</u>
<b>Cash flows from investing activities</b>		
Capital expenditures for property and equipment and systems under development	(25,280)	(59,713)
Proceeds from sale of property and equipment	15	-
Net cash used in investing activities	<u>(25,265)</u>	<u>(59,713)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of short-term notes payable	-	7,000
Repayment of notes payable	(68,137)	(13,637)
Proceeds from issuance of long-term notes payable	50,000	35,000
Payment of debt issuance costs	(24)	(283)
(Increase) decrease in restricted cash	(74,277)	11,611
Increase (decrease) in market settlement liabilities	50,698	(1,124)
Increase (decrease) in security deposits	74,231	(11,565)
Net cash provided by financing activities	<u>32,491</u>	<u>27,002</u>
Net increase in cash and cash equivalents	51,785	5,419
Cash and cash equivalents, beginning of year	<u>33,487</u>	<u>28,068</u>
Cash and cash equivalents, end of year	<u>\$ 85,272</u>	<u>\$ 33,487</u>
<b>Supplemental information</b>		
Cash paid for interest	\$ 9,435	\$ 9,250
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Accrued capital expenditures	\$ 2,453	\$ 8,044
Capitalized interest	\$ 591	\$ 1,167
Derivative valuation change	\$ 78	\$ -

The accompanying notes are an integral part of these financial statements.

# **Electric Reliability Council of Texas, Inc.**

## **Notes to Financial Statements**

### **December 31, 2005 and 2004**

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*(in thousands of dollars)*

#### **1. Organization and Operations**

The Electric Reliability Council of Texas, Inc. (ERCOT) is an independent, not-for-profit corporation. ERCOT is one of 10 electric reliability regions in North America operating under the reliability and safety standards set by the North American Electric Reliability Council (NERC). Since July 31, 2001, ERCOT has also functioned as the independent system operator for its reliability region which comprises about 85% of the electrical load in Texas. The ERCOT region has an overall generating capacity of approximately 78,000 Megawatts.

The Public Utility Commission of Texas (PUCT) has primary jurisdictional authority over ERCOT which is responsible for ensuring the adequacy and reliability of electricity across the state's main interconnected power grid and for operating and settling the electricity markets it administers. ERCOT's market rules and operations are carried out in accordance with its Protocols filed with the PUCT. The ERCOT region is contained completely within the borders of Texas, and it does not interconnect synchronously across state lines to import or export power with neighboring reliability regions. As a result, ERCOT is not under the jurisdiction of the Federal Energy Regulatory Commission.

ERCOT is governed by a Board of Directors composed of 14 members. One board member is selected from each of the following market participant groups: independent retail electric providers, independent generators, independent power marketers, investor-owned utilities, municipally-owned utilities, and electric cooperatives. The remaining eight seats on the Board are filled by three consumer representatives, three unaffiliated Board members, the Chair of the Public Utility Commission of Texas, and ERCOT's Chief Executive Officer.

#### **2. Summary of Significant Accounting Policies**

##### **Method of Accounting**

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

##### **Unrestricted Net Assets (Deficit)**

Unrestricted net assets are those that are not subject to restrictions or stipulations and that may be expendable for any purpose in performing ERCOT's objectives. Accordingly, net assets of ERCOT and changes therein are classified and reported as unrestricted net assets (deficit).

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities of the financial statements and reported amounts of revenues, expenses, and capital expenditures during the reporting period. Actual results could differ from those estimates.

# **Electric Reliability Council of Texas, Inc.**

## **Notes to Financial Statements**

### **December 31, 2005 and 2004**

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*(in thousands of dollars)*

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of deposits in banks, money market investment accounts, overnight deposits in government-backed securities and other highly liquid investments with an original maturity date of 90 days or less. Deposits may exceed the Federal Deposit Insurance Corporation's insured limit of \$100 for each account. ERCOT has not experienced any losses on its deposits of cash and cash equivalents.

#### **Restricted Cash**

Restricted cash represents legally restricted amounts received for security deposits from ERCOT's market participants and funds held pending authorization from the bankruptcy court (Texas).

#### **Accounts Receivable and Revenue Recognition**

ERCOT funds its operations primarily through transaction fees collected from electric service providers operating within the Texas grid. Pursuant to the ERCOT protocols, the transaction fees are based on actual volume consumption and are approved by both ERCOT board of directors and the PUCT. This fee was 42 cents per megawatt hour in 2005 and 44 cents per megawatt hour in 2004. Revenue from the transaction fees is recognized in the period that the underlying energy transaction occurs. Amounts not yet billed are accrued and presented as unbilled revenue on the statement of financial position.

ERCOT's other revenue relates to services offered to its participants including non-ERCOT load serving entity fees, connectivity to ERCOT's network, wide-area network usage, and membership dues. Revenue related to these services is recognized either as the services are performed or at the completion of the project, assuming ERCOT has no significant continuing obligation and collection is reasonably assured. The Company does not maintain an allowance for doubtful accounts as it does not believe it has a material risk of loss associated with lack of collection. Membership dues are recognized over the membership period.

#### **Property and Equipment**

Property and equipment consists primarily of computer equipment and buildings for operations, and are recorded at cost. Depreciation is computed on the straight-line method using the half year convention over the estimated life of the asset. The cost of betterments to, or replacement of, property and equipment is capitalized. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of activities for the period. The Company recognized losses included in administrative and other expense of \$164 and \$1,854 in 2005 and 2004 respectively, representing the net book value of property and equipment that was disposed of or no longer in service during the period. Repairs and maintenance costs are expensed when incurred.

**Electric Reliability Council of Texas, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

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(in thousands of dollars)

ERCOT's depreciable lives (in years) for assets are:

<b>Asset Category</b>	<b>Depreciable Life</b>
Computer Hardware	3
Software	5
Vehicles	5
Furniture and Equipment	7
Mechanical Components	10
Buildings	30
Leasehold Improvements	Life of the lease

**Systems Under Development**

ERCOT continues to develop the information systems and grid operating systems that are being used in its operations. Costs associated with systems under development are evaluated for capitalization in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Accordingly, ERCOT capitalized direct costs and related indirect and interest costs incurred to develop or obtain these software systems, most of which are being developed in connection with system development contracts with external firms. Internal costs and contract expenditures not related directly to the development of systems, and related testing activities, are expensed as incurred. Costs on completed projects are transferred to property and equipment when the systems are placed in service.

**Interest Capitalization**

Interest is capitalized in connection with the construction of major software systems and buildings and improvements. The capitalized interest is recorded as part of the asset to which it relates and is amortized or depreciated over the asset's estimated useful life. During 2005 and 2004, capitalized interest costs were \$591 and \$1,167, respectively.

**Market Settlement Liabilities**

Market settlement liabilities represent two types of funds: transmission congestion management funds and Qualified Scheduling Entity (QSE) prepayments of their weekly settlement obligations. QSE settlement amounts are collected and redistributed by ERCOT in the normal course of managing the settlement of ERCOT's markets. Such settlement obligations are generally held for less than fifteen days before distribution to the market in accordance with timetables set forth in ERCOT's Protocols.

ERCOT manages a transmission congestion rights (TCRs) program which includes an annual auction for 60% of the calendar year's available TCRs and monthly auctions for the remaining 40% of TCRs. ERCOT collects and holds the proceeds from the auctions until the proceeds are distributed to QSEs according to provisions of the TCRs program and ERCOT Protocols.

ERCOT's Financial Policies, adopted by the Board of Directors, include a provision that funds held in conjunction with TCR auctions may be used to fund ERCOT working capital and capital expenditure needs, within certain guidelines.

**Electric Reliability Council of Texas, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

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(in thousands of dollars)

Market settlement liabilities consist of the following at December 31:

	<b>2005</b>	<b>2004</b>
TCR auction funds	\$ 58,259	\$ 22,184
QSE prepayments of settlement obligations	26,120	11,497
Total market settlement liabilities:	<u>\$ 84,379</u>	<u>\$ 33,681</u>

**Security Deposits**

Market participants not meeting certain creditworthiness standards included in ERCOT protocols may maintain a cash security deposit with ERCOT in order to mitigate credit risk in lieu of providing alternative means of security such as corporate guaranties, letters of credit, or surety bonds. Cash security deposits are classified as restricted cash.

**Income Taxes**

ERCOT is exempt from Federal income tax under Section 501(c)(6) of the U.S. Internal Revenue Code.

**Debt Issuance Costs**

ERCOT capitalizes issuance costs related to debt. The amounts are classified in non-current assets and amortized over the life of the debt.

**Fair Value of Financial Instruments**

The carrying values reported on the balance sheet for current assets and liabilities and for the line of credit and term notes approximate their fair value. The fair value of the Company's senior notes payable is \$128,583 and \$147,523 as of December 31, 2005 and 2004. The fair value is estimated based on net present value calculations and quoted market prices for similar issues.

**3. Property and Equipment**

Property and equipment consists of the following at December 31:

	<b>2005</b>	<b>2004</b>
Computer equipment and software	\$ 217,148	\$ 196,015
Buildings and leasehold improvements	57,918	49,792
Furniture and fixtures	11,640	6,190
Land	246	246
Vehicles	155	129
	<u>287,107</u>	<u>252,372</u>
Accumulated depreciation	(156,931)	(109,730)
	<u>130,176</u>	<u>142,642</u>
Systems under development	9,605	13,486
Construction in progress	238	13,386
Total property and equipment, net:	<u>\$ 140,019</u>	<u>\$ 169,514</u>

**Electric Reliability Council of Texas, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

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*(in thousands of dollars)*

ERCOT's Statement of Financial Position includes \$12,129 and \$12,068 of improvements to leased facilities (gross) at December 31, 2005 and 2004, respectively.

**4. Notes Payable**

ERCOT's notes payable consist of the following:

	<b>2005</b>	<b>2004</b>
Revolving line of credit	\$ -	\$ 7,000
Term loan	37,500	35,000
Senior notes	122,726	136,363
	<u>\$ 160,226</u>	<u>\$ 178,363</u>

ERCOT has two financing facilities with JPMorgan Chase Bank, a revolving line of credit and a term loan. The revolving line of credit has a maximum amount of available credit of \$50,000 and expires on April 29, 2010. The term loan has a maximum amount of available credit of \$37,500 and expires in November 2008 with principle payments due ratably through November 2008. The interest rates on these facilities are based on the type of advance being made and can be set based on prime rate, a Eurodollar based rate, or other rate as described in the debt agreements. The effective rate of interest at December 31, 2005 was 4.45% for the term loan. There were no borrowed funds under the revolving line of credit at December 31, 2005. Additionally, ERCOT pays a commitment fee of 0.05% on the unused portion of the revolving credit facility. During 2005, ERCOT incurred commitment fees totaling \$26 in connection with the revolving line of credit.

The JP Morgan credit agreements have several covenants, the most restrictive of which limit borrowings and investments, and requires a certain minimum interest coverage to be maintained. At December 31, 2005, ERCOT was in compliance with its covenants.

ERCOT's senior notes bear interest at 6.17% and are due in equal annual payments through May, 2014. ERCOT may prepay the notes subject to make-whole provisions established in the note agreements. The debt agreements have several covenants, the most restrictive of which limits ERCOT's indebtedness and requires the maintenance of an interest reserve equal to the amount of the next installment of interest. The reserve is currently satisfied by available capacity under the revolving line of credit. At December 31, 2005, ERCOT was in compliance with its covenants for the senior notes.

**Electric Reliability Council of Texas, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

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(in thousands of dollars)

Future maturities of the notes are as follows:

<b>Year Ending December 31</b>	<b>Senior Notes</b>	<b>Term Loan</b>	<b>Total</b>
2006	\$ 13,637	\$ 12,500	\$ 26,137
2007	13,637	12,500	26,137
2008	13,637	12,500	26,137
2009	13,637	-	13,637
2010	13,637	-	13,637
Thereafter through 2014	54,541	-	54,541
	<u>\$ 122,726</u>	<u>\$ 37,500</u>	<u>\$ 160,226</u>

**Interest Rate Swap Agreements**

On August 15, 2005, the Company entered into a variable to fixed interest rate swap agreement (the "Swap") with a financial institution. The notional amount of the Swap is related to a portion of the term loan with JP Morgan and the Swap matures concurrent with the final maturity of the term loan. Under the terms of the Swap, which is effective for the period November 1, 2006 through November 1, 2008, and has a notional value of \$25,000 at December 31, 2005, the Company pays the swap counterparty a fixed rate of 4.5825 percent. In return, the counterparty pays the Company variable interest at LIBOR, which approximates, but does not precisely equal, the rate of interest on the term loan. As variable interest rates are based on market conditions, this relationship could change in the future, and could result in increased interest expense to the Company.

The Company is exposed to the risk of nonperformance if the counterparty defaults or if the swap agreement are terminated.

The fair value of the Swap at December 31, 2005 was a net asset of approximately \$78 and is recorded on the balance sheet as a derivative asset. Changes in the fair value of the swap are included in other income in the statement of activities.

**5. Employee Benefit Plans**

ERCOT sponsors two defined contribution retirement plans: the ERCOT Defined Contribution 401(k) Plan (the "401(k) Plan") and the ERCOT Money Purchase Plan (the "MP Plan"), which are subject to the provisions of the Employee Retirement Income Security Act of 1974. The 401(k) Plan and the MP Plan utilize a third-party administrator to assist in the administration. Employees participating in the 401(k) Plan are fully vested after five years and employees in the MP Plan are fully vested after 3 years. Employees must be 21 years of age to be eligible to participate in either plan.

For the 401(k) Plan, ERCOT matches 75% of the employee's contribution up to 6% of compensation as defined in the 401(k) Plan document. Employer contributions to the 401(k) Plan were \$1,595 and \$1,179 for the years ending December 31, 2005 and 2004, respectively.

**Electric Reliability Council of Texas, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

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*(in thousands of dollars)*

For the MP Plan, ERCOT contributes 10% of a participant's annual salary as defined in the MP Plan document. Employer contributions to the MP Plan were \$4,121 and \$2,926 for the years ended December 31, 2005 and 2004, respectively.

**6. Lease and Contract Commitments**

The Company has noncancellable operating leases and service contracts providing telecommunication services, system infrastructure and office facilities. Most notably, ERCOT leases approximately 45,000 square feet of office space in Austin, Texas under a 120 month lease. The facility lease began in the second quarter of 2001 and includes provisions for two 60 month renewals upon completion of the initial lease term. Minimum payments due under these commitments are:

2006	\$	661
2007		661
2008		661
2009		661
2010		661
Thereafter		267
Total minimum lease payments	\$	<u>3,572</u>

ERCOT recognized \$730 and \$938 of rent expense in 2005 and 2004, respectively.

Other long term liabilities of \$408 at December 31, 2005 are comprised of long term deferred rent credits of \$242 being amortized over the remaining five year lease term and a \$166 contractual commitment relating to the purchase of a software application and associated application support.

**7. Concentrations**

ERCOT provides reliability and market services to QSE's. ERCOT settles the costs of these services by passing through the costs of such services from the providers to the users of such services. In the event that a QSE is unable to make payment on its market obligations, ERCOT's Protocols stipulate that the amount of the default is to be allocated proportionately to the remaining QSE's. In order to limit the risks associated with such occurrences, ERCOT requires a cash security deposit, letter of credit, corporate guaranty, or surety bond from the QSEs if they do not meet a certain credit standards. Credit risk related to trade receivables associated with ERCOT's system administration fee is substantially mitigated by the fact that, by Protocol, ERCOT's administrative fee is paid from market receipts as a first priority before any market obligations are paid.

ERCOT's system administration fee revenue is driven by the demand for electricity rather than the number of QSEs. In the event that any QSE ceased to operate, another QSE would assume the role in response to the demand for electricity. As such, ERCOT believes its exposure to a material reduction in revenues associated with the loss of any QSE is limited.



**Electric Reliability Council of Texas, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

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*(in thousands of dollars)*

**8. Contingencies**

**Sales and Use Tax Audit**

In March 2005 the Texas Comptroller of Public Accounts' office (Comptroller) initiated an audit of ERCOT's sales and use tax payments and obligations for the four-year period covering 2001 through 2004. In March 2006, the Comptroller issued ERCOT its Notification of Audit Results which included the determination that ERCOT has a sales and use tax liability of \$2,778 relating to the audit period. At December 31, 2005 and 2004 the Company's accrued liability for this obligation was \$2,733 and \$1,968 respectively. An additional \$45 in interest relating to the first three months of 2006 is included in the sales and use tax assessment by the Comptroller. This amount is not reflected as an accrued liability at December 31, 2005. The liability at December 31, 2004 was recorded based on management's estimate of the probable outcome of this matter based on available information; the audit was incomplete at that time. In 2005 and 2004 the Company recognized expenses of \$765 and \$884, respectively, relating to the sales and use tax audit.

To avoid incurring additional penalties and interest, ERCOT made payment to the Comptroller on March 29, 2006 for the assessed sales and use tax liability. However, ERCOT is pursuing a hearing of redetermination to potentially reduce the assessed liability and recover some portion of the sales and use tax payment remitted to the Comptroller.

**General Contingencies**

The Company is party to regulatory and legal proceedings that management considers to be normal actions to which an enterprise of its size and nature might be subject. Such proceedings are not anticipated to have a material impact on ERCOT's financial condition, results of operations or cash flow.

# ERCOT MEMBERS

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Accent Energy Texas	Energy Data Source	Occidental Chemical Corporation
American Electric Power Service Corp.	Entergy Solutions	Office of the Public Utility Counsel
AES Corporation	Exelon Generation Company	PPM Energy
Air Products and Chemicals	ExxonMobil Power & Gas Services	PSEG Texgen I
Alcoa	First Choice Power	Rainbow Energy Marketing Corporation
American National Power	Flint Hills Resources	Rayburn Country Electric Cooperative
Aquila, Inc. dba Aquila Networks	Floresville Electric Light & Power System	Reliant Energy
Austin Energy	Formosa Plastics Corp., Texas	Rio Grande Electric Cooperative
Austin White Lime Company	Fort Belknap Electric Cooperative	San Bernard Electric Cooperative
Bartlett Electric Cooperative	FPL Energy	San Patricio Electric Cooperative
Belfalls Electric Cooperative	Fulcrum Power Services	Sempra Energy Solutions
Big Country Electric Cooperative	Garland Power & Light	Sempra Generation
BOC Gases	GEUS	Sempra Texas Services
BP Energy Company	Gexa Energy LP, dba Gexa Energy	Sharyland Utilities
Brazos Electric Power Cooperative	Golden Spread Electric Cooperative	Sitara Energy
Brownsville Public Utilities Board	Grayson-Collin Electric Cooperative	South Plains Electric Cooperative
Brubaker & Associates	Green Mountain Energy Company	South Texas Aggregation Project
Bryan Texas Utilities	Gregory Power Partners	South Texas Electric Cooperative
Calpine Corporation	Guadalupe Valley Electric Cooperative	Southwest Texas Electric Cooperative
Cargill Power Markets	Guadalupe-Blanco River Authority	Spark Energy
CenterPoint Energy	Halliburton Energy Services	Star Electricity dba StarTex Power
Champion Energy Services	Hamilton County Electric Cooperative	Strategic Energy
Chaparral Steel Midlothian	HEB Grocery Company	Stream Gas and Electric
Chevron Phillips Chemical Company	HILCO Electric Cooperative	Suez Energy Marketing NA
Cincinnati Gas and Electric Company	Himalaya Power	Tara Energy
Cirro Group	Hino Electric Holding Company	Tenaska Energy
Cities Aggregation Power Project	J. Aron & Company	Tenaska Power Services Co.
City of Coleman	J-A-C Electric Cooperative	Texas Genco
City of College Station	Jackson Electric Cooperative	Texas Independent Energy
City of Dallas	Just Energy Texas	Texas Instruments Incorporated
City of Georgetown	Karnes Electric Cooperative	Texas Municipal Power Agency
City of Lampasas	Kerrville Public Utility Board	Texas Petrochemicals
Cobisa Corporation	Liberty Power Corp.	Texas-New Mexico Power Company
Coleman County Electric Cooperative	Liberty Power Corp., LLC	Tex-La Electric Cooperative
Comanche Electric Cooperative Assoc.	Liberty Power Texas	Ticona Polymer
Commerce Energy	Lower Colorado River Authority	Tri-County Electric Cooperative
Concho Valley Electric Cooperative	Lyondell Chemical Company	TriEagle Energy
Constellation Energy Commodities Grp.	Magic Valley Electric Cooperative	TXI Power Company
Cooke County Electric Cooperative	McLennan County Electric Cooperative	TXU Electric Delivery Company
Coral Power	Medina Electric Cooperative	TXU Energy Company
CoServ Electric	Mid-South Elec. Coop. dba Mid-South Synergy	TXU Generation Co. LP dba TXU Power
CPS Energy	Mpower Retail Energy	United Cooperative Services
Denton Municipal Electric	Navarro County Electric Cooperative	Valero Refining - Texas
Direct Energy	Navasota Valley Electric Cooperative	Victoria Electric Cooperative
Dow Chemical Company	New Braunfels Utilities	Wal-Mart Stores
Dynegy Power Corporation	North Amer. Energy Credit&Clearing-Delivery	Weatherford Municipal Utility System
Eagle Energy Partners I	Nucor Corporation	Wharton County Electric Cooperative
ECONergy Energy Corporation	Nueces Electric Cooperative	Wise Electric Cooperative

## ERCOT BOARD OF DIRECTORS

### Mark Armentrout

Chair  
(unaffiliated)

### Robert Manning

Vice Chair  
HEB Stores  
(commercial customer)

### Brad Cox

Tenaska Power Services  
(independent power marketer)

### Carolyn Lewis Gallagher

(unaffiliated)

### Clifton Karnei

Brazos Electric Cooperative  
(cooperative)

### Andrew Dalton

Valero Energy Corporation  
(industrial consumer)

### Michehl Gent

(unaffiliated)

### Suzi Ray McClellan

Public Utility Counsel  
(residential consumer, ex-officio)

### Miguel Espinosa

(unaffiliated)

### Darrell Hayslip

Calpine (independent generator)

### Thomas F. Schrader

CEO, ERCOT (ex-officio)

### Scott Gahn

Just Energy  
(retail electric provider)

### Paul Hudson

Public Utility Commission of Texas  
(ex-officio, non-voting)

### Tom Standish

CenterPoint Energy  
(investor-owned utility)

### Bob Kahn

Austin Energy (municipal utility)

### BOARD AND STAKEHOLDER PROCESS

The ERCOT Board of Directors has general overall responsibility for managing the affairs of ERCOT, including approval of the budget and capital spending priorities, approval of revisions to the ERCOT protocols and guides, and endorsement of major new transmission infrastructure recommendations.

ERCOT's Technical Advisory Committee (TAC) reports to the board and is responsible for developing policies, procedures, and guidelines for power grid coordination, reliability, and market operations. Five standing sub-committees supported by numerous working groups and task forces report to TAC. TAC membership is entirely stakeholder-based, with a voting structure represented across the spectrum of stakeholder segments.

### LEGISLATIVE OVERSIGHT

ERCOT is subject to oversight by the Texas Legislature and is fully regulated by the Public Utility Commission of Texas (PUC). The PUC approves the ERCOT administration fee, which provides 98 percent of ERCOT's revenues, and has general oversight authority including the ability to conduct or order audits.

ERCOT and the PUC are accountable to the Texas Legislature and its jurisdictional committees, including the Senate Business and Commerce Committee, House Regulated Industries Committee, and the joint Electric Utility Restructuring Legislative Oversight Committee.

## ERCOT OFFICERS

### Sam Jones

Acting CEO  
Executive Vice President and Chief  
Operating Officer

### Steve Byone

Vice President and Chief Financial Officer

### Nancy Capezzuti

Vice President of Human Resources and  
Organization Development

### Ray Giuliani

Vice President and Chief of Market  
Operations

### Ron Hinsley

Vice President and Chief Information Officer

### James Thorne

Vice President and General Counsel



**Electric Reliability Council of Texas, Inc.**

**Austin  
7620 Metro Center Drive  
Austin TX 78744  
512/225-7000**

**Taylor  
2705 West Lake Drive  
Taylor TX 76574  
512/248-3000**