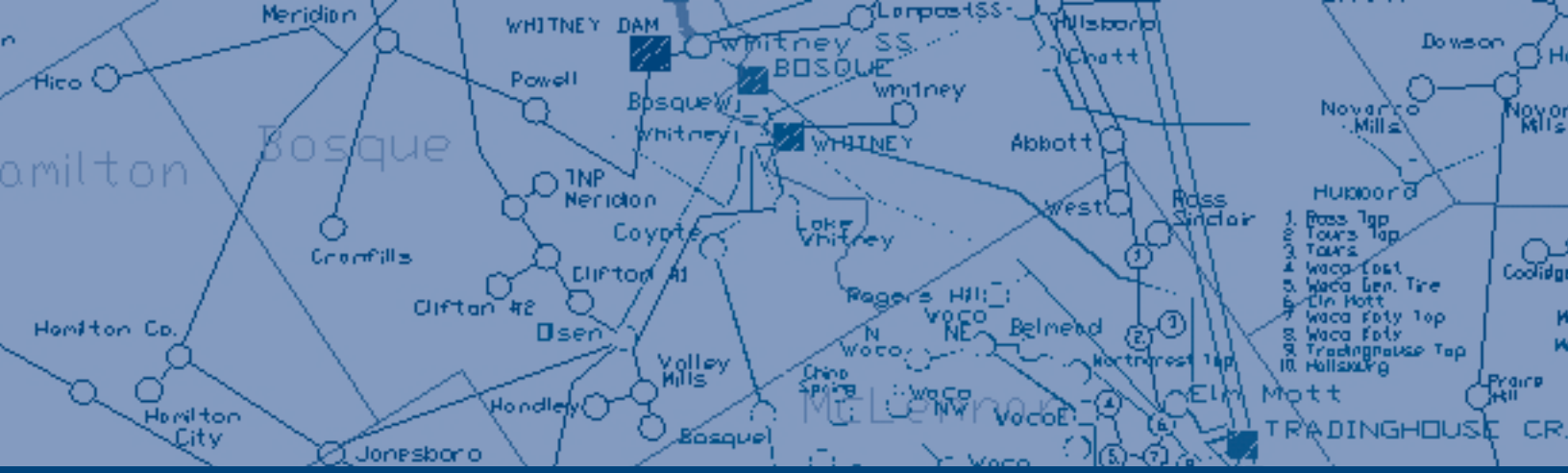
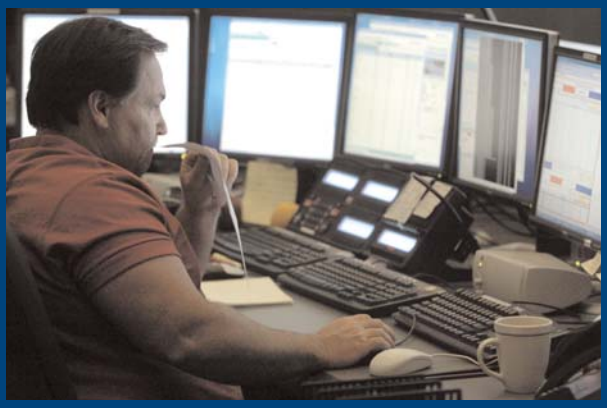
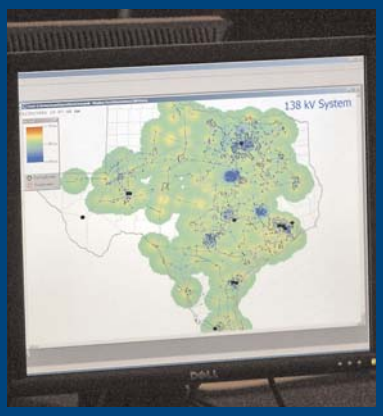


2006 ANNUAL REPORT

ELECTRIC RELIABILITY COUNCIL OF TEXAS





ERCOT Quick Facts

At a glance

71,812 megawatts generating capacity

62,339 megawatts system peak demand (August 2006)

14.6% reserve margin for 2007 (12.5% target)

38,000 miles of transmission lines

500 generation units

20 million Texans served

305 billion kilowatt-hours of power delivered annually

85% of Texas load

75% of Texas land area; 200,000 square miles

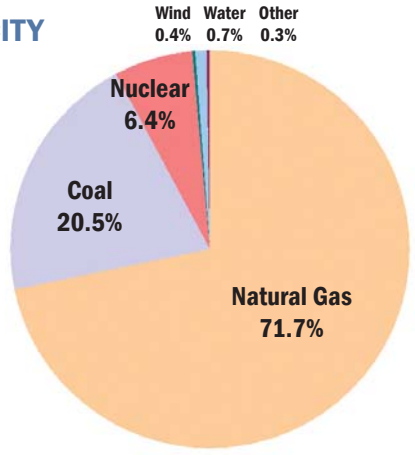
95% bilateral wholesale market; $27 billion

5% ERCOT-run balancing energy and ancillary services market; $1.9 billion

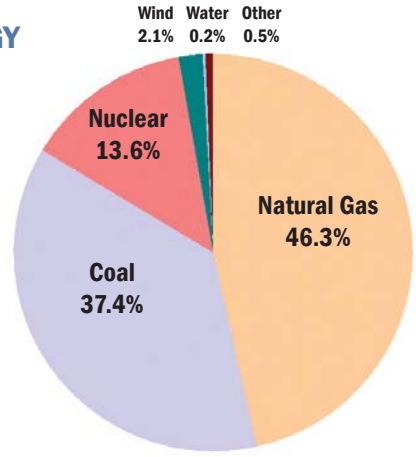
1.19 million market transactions daily

$1.53 billion in annual billings

CAPACITY



ENERGY



What do we do?

Senate Bill 7 (1999) restructured the Texas electric market by unbundling the investor-owned utilities and creating retail customer choice in those areas, and assigned ERCOT four primary responsibilities:

- System reliability – planning and operations
- Open access to transmission and distribution
- Retail switching process for customer choice – Only ISO with responsibilities as registration agent for retail transactions
- Wholesale market settlement for electricity production and delivery

Other Organizational Functions

Real-time grid reliability operations

Wholesale market administration

Ancillary services market administration

System planning coordination

Renewable Energy Credits management

Market participant/stakeholder activity support

How are we doing?

Generation Development

- 29,000 megawatts new generation added since 1996
- 2,800 megawatts retired; 8,700 megawatts mothballed (1,100 megawatts returned to service)
- 4,571 megawatts new generation committed (signed interconnection agreements completed)

Transmission Investment

- 5,200 circuit miles of transmission built since 1999
- 3,295 circuit miles of transmission under study
- $3.5 billion investment in transmission placed in service since 1999
- $3.1 billion under development

Retail Switching

- 44 percent of residential load switched to competitive provider
- 88 percent of small commercial load switched

What's ahead?

Comprehensive nodal market implementation in progress; new features online by January 2009 include:

- Nodal locational marginal pricing for generation
- Congestion revenue rights
- Day-ahead energy and ancillary services co-optimized market
- Day-ahead and hourly reliability unit commitment
- Price cap increases phased in through 2009

Contents

From the Chairman and CEO

The Electric Reliability Council of Texas marked its tenth anniversary as the Texas grid operator with a busy year of new challenges and ambitious initiatives.

Early in 2006, the Public Utility Commission approved the stakeholder-developed protocols for the Texas Nodal wholesale market implementation and started the clock ticking for a launch by the end of 2008. ERCOT employees are meeting the tight timeframe head-on. The nodal team selected six key vendors for the critical systems, constructed a complex timeline for the overlapping early-delivery system releases, and developed a detailed analysis of transition costs. We are off to a good start, but much more work lies ahead for the next two years as ERCOT begins to focus on market participant readiness and the integration of more than 400 system interface points.

Mark Armentrout
Board Chairman

Sam Jones
President and CEO

April presented a different test for ERCOT and the market participants – the first time in 17 years that rotating outages were needed to maintain reliability and the first time ever for ERCOT since consolidated system operations began in 2001. System operators and market participants responded to the challenge and averted what could have been an extended and widespread blackout – despite the loss of several generating units at peak hour on a day when reserves were already tight due to unpredicted and unusually high temperatures for April, and a significant amount of generation was offline for seasonal maintenance.

Another first occurred in August when the ERCOT system hit a record-high demand of 62,339 megawatts – 3.5 percent over the 2005 system record – and again, ERCOT the ISO and ERCOT market participants worked together to keep the power on across the grid.

Also in 2006, market operations passed the 3 million mark in completed retail switches; commercial operations processed more than 109,000 wholesale settlement statements and billings with 100 percent accuracy; and information technology improved reliability of retail systems to over 99.27 percent, besting the previous year's 96 percent score.

ERCOT was able to meet these operational challenges in 2006 without increasing the system administration fee. In addition, the board approved a 2007 budget holding the fee flat for the third consecutive year.

Clearly, ERCOT's first ten years have been marked by tremendous growth – over 29,000 megawatts of new generation and more than 5,200 circuit miles of transmission lines added to the grid since 1999 – in addition to the continuous adjustments necessary to accommodate the evolving demands of a rapidly growing electric market and population. With every challenge, the organization and the market participants worked together to turn their experiences into improved procedures and innovative solutions.

The future holds more fast-paced changes for employees and market participants as we move closer to launching the nodal market. But we face these challenges with confidence as we continue building on the strong working relationships that have already made ERCOT one of the top electric markets in the world.

Mark Armentrout
Chairman of the Board

Sam Jones
President and CEO

2006 Overview

January

Board endorses transmission upgrade project

The Board of Directors endorsed the proposed Kurten Switch Project to meet the long-term reliability needs in the Bryan-College Station area. The transmission upgrades should be completed by summer 2009.

February

Fourth independent board member selected

Michehl Gent, former president and CEO of the North American Electric Reliability Council (NERC), was approved as a new independent board member (unaffiliated with any ERCOT market participants).

March

System planning begins wind generation study

System planning began the process to assess wind generation potential throughout Texas for designation of renewable energy zones, in compliance with Texas Senate Bill 20, which requires the Public Utility Commission of Texas (PUC) to designate Competitive Renewable Energy Zones (CREZs) and develop transmission plans to deliver the power from these zones to customers.

Nodal market protocols approved with changes

The PUC approved the stakeholder-developed protocols for the Texas Nodal wholesale market and ordered ERCOT to move forward with the 2009 implementation.

April

Rotating outages used to avert grid blackout

On April 17, ERCOT instructed transmission operators across the region to curtail 1,000 megawatts (MW) of load to meet a generation shortfall related to a record April heat wave and the unexpected loss of several power plants during the day. The appeal resulted in short-term load curtailments, or "rolling blackouts," for various customers across the ERCOT region, but kept the lights on region-wide. The last time this occurred in the ERCOT region was December 22, 1989.

May

CEO position changes

Chief Operations Officer Sam Jones assumed the role of acting president and chief executive officer, following the resignation of Tom Schrader. The acting label was removed in July when the board named Jones the full-time president and CEO.

ERCOT Celebrates 10 Years

Although ERCOT's roots extend back to World War II, 1996 was the year ERCOT assumed its role of independent grid operator, following restructuring of the wholesale electric market. Today, ERCOT is one of ten ISOs in North America.

September 11, 1996 – ERCOT Becomes First ISO in US

The Board of Directors restructured its organization and initiated operations as a not-for-profit independent system operator (ISO), becoming the first electric industry ISO in the U.S.

May 21, 1999 – Legislature Deregulates Retail

The Texas Legislature passed legislation requiring the creation of a competitive retail electricity market to give customers the ability to choose their retail electric providers, starting Jan. 1, 2002.

1999-2001 – Market Protocols Developed through Stakeholder Collaboration

In thousands of hours of meetings and mark-up sessions, the stakeholders worked together to develop the rules and standards for implementing market functions necessary to support the competitive retail and wholesale electricity markets while maintaining the reliability of electric services.

July 31, 2001 – Ten Control Centers Merged into One

The existing 10 control areas in the ERCOT region were consolidated into a single control area.

January 1, 2002 – Retail Electric Market Opens

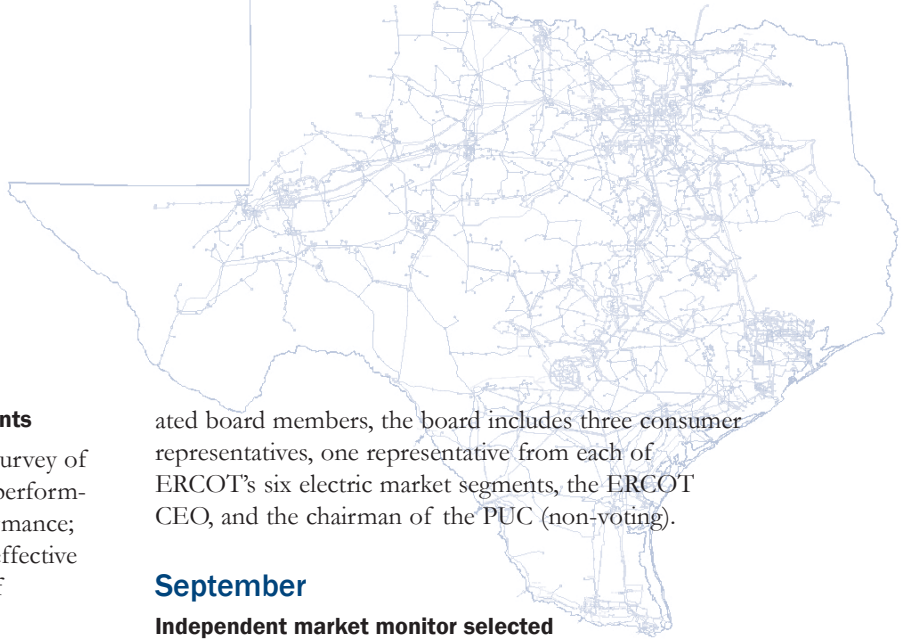
On January 1, 2002, ERCOT launched the competitive retail electric market – on time and on budget – allowing individuals and corporations in most Texas cities to choose power suppliers.

September 2003 – PUC Calls for Nodal Market

The Public Utility Commission of Texas (PUC) ordered ERCOT to develop a nodal wholesale market design.

March 30, 2006 – Nodal Market Protocols Approved

The PUC approved the stakeholder-developed protocols for the nodal market and ordered ERCOT to move forward with the 2009 implementation.



2006 Overview (continued)

ERCOT gets high scores from market participants

ERCOT received high marks on a third-party survey of market participants' perceptions of ERCOT's performance. Perceived strengths included staff performance; communications and Web site improvements; effective training; and timeliness, accuracy and format of data provided.

June

Forecast shows low reserves a few years away

The annual five-year peak demand and energy forecast was released, showing a reserve margin of 16 percent for the immediate summer but indicating a drop below the 12.5 percent minimum in a few years without the addition of new generation or the return of mothballed capacity (units currently out of service but able to operate at their owners' discretion). The assessment was based on a 2.3 percent increase in the projected annual demand growth rate, up from 1.8 percent used in 2005's assessment, due to a healthy economic outlook for Texas.

July

Board establishes separate compliance entity

The board approved a proposal to establish the Texas Regional Entity to serve as an independent and functionally separate compliance unit for the ERCOT region, in accordance with the Federal Energy Regulatory Commission's Electric Reliability Organization Reliability rule. The board directed ERCOT staff to begin drafting delegation agreements for the proposed "Texas Regional Entity" to submit to NERC in August.

August

ERCOT sets new record for electricity demand

ERCOT consumers used an average of 62,339 MW of power over the peak hour on August 17, exceeding the previous record of 61,660 MW, set on July 17, 2006. Before July, the all-time peak was 60,274 MW, recorded on Aug. 23, 2005.

New independent member joins board

Former telecommunications executive Jan Newton of Austin joined the 16-member ERCOT board, becoming the fifth independent board member (unaffiliated with any market participants). In addition to the five unaffiliated board members, the board includes three consumer representatives, one representative from each of ERCOT's six electric market segments, the ERCOT CEO, and the chairman of the PUC (non-voting).

September

Independent market monitor selected

The PUC selected Potomac Economics of Fairfax, VA, as the independent market monitor for the ERCOT region. Under the authority of and direction by the PUC, Potomac will analyze market rules and operation of the wholesale electric market in the ERCOT region to detect and prevent market manipulation strategies. The independent market monitor will also conduct investigations into irregular market events, support the PUC's enforcement activities, and work with the PUC and ERCOT to identify enhancements for the wholesale electricity market.

October

ERCOT at 96% completion of audit points

Under ERCOT's internal control management program, the organization has addressed 96 percent of the pre-2006 audit points and 98 percent have been verified, according to ERCOT's quarterly report to the Public Utility Commission. Thirty-seven audits have been completed since January 2005, 13 external and 24 internal.

November

Retail market tops 3 million completed switches

On November 1, ERCOT reached 3 million completed switches since the opening of the retail market. In addition, over 10.1 million move-in's and 5.8 million move-out's were completed as of November 1.

December

Reports analyze generation, transmission needs

ERCOT staff completed three reports addressing generation and transmission needs for the future: Transmission Alternatives for Competitive Renewable Energy Zones in Texas, Constraints and Needs Assessment (Five-Year Transmission Plan), and Long-Term System Assessment (10-Year Generation and Transmission Study).

System Operations

System operators ride out 'a perfect storm'

Monday, April 17, 2006, seared the ERCOT region with record-high 100-degree temperatures, exceeding the day-ahead forecast by 10 percent. Since April is typically a cooler month, a significant amount of generation – approximately 14,000 MW or 20 percent of available capacity – was down for annual springtime maintenance.

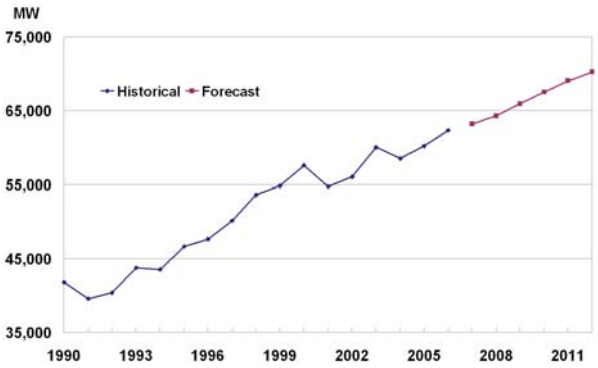
As temperatures continued to soar in the afternoon, system operators initiated curtailment of the interruptible loads, which appeared to stabilize the situation until the worst case scenario occurred. Leading into the hottest time of the day, four large generating units – totaling almost 1,700 MW – tripped off-line within minutes of one another, creating a statewide energy shortage. System operators immediately implemented the fail-safe emergency procedure – rotating electric outages – to prevent a widespread blackout. Approximately 200,000 households were affected for periods of 15-20 minutes over a 2-hour period.

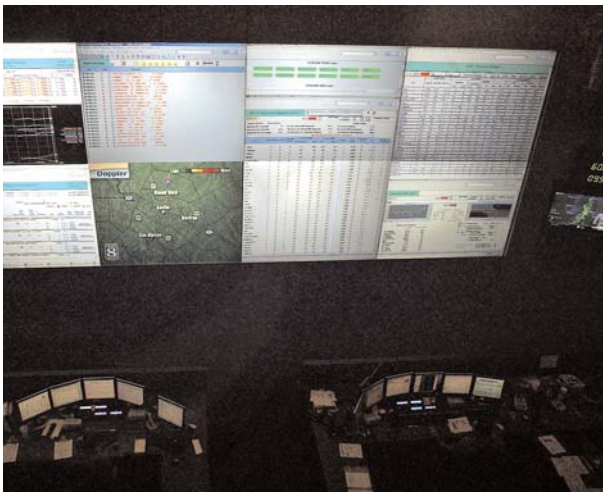
It was a "perfect storm" of events and marked the first time in 17 years that rotating outages were used. The peak demand for the day was 51,800 MW, which was 26 percent higher than the previous April peak set on April 28, 2005.

Emergency procedures revised

Although the April 17 event came off without a hitch operationally, ERCOT staff and several market participant committees evaluated "lessons learned" and recommended changes to the emergency plan to ensure more accurate and timely communications.

PEAK DEMANDS, 1990-2012





Under the revised plan, system operators have clear "triggers" for each step of the emergency plan, depending on the amount of responsive reserves available.

In addition, a new reserve discount factor was implemented, based on ERCOT staff studies of the percent of generating capacity historically undeliverable during periods of high temperatures and system demand.

ERCOT region hits record peak demand

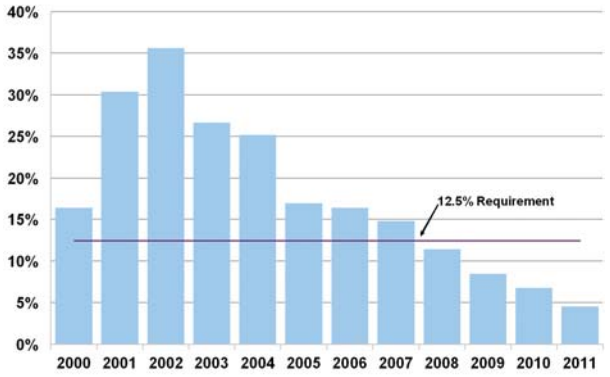
In August, the grid was prepared for the expected high temperatures. The region set a new all-time peak demand of 62,339 MW on August 17, greatly surpassing the pre-2006 record of 60,274 MW, set on August 23, 2005.

System Planning

Forecast shows need for new resources

The annual capacity, demand and reserves report in early summer showed the generation reserve margin dropping below the recommended level in a few years, attributable to the mothballing and retirement of older, less efficient generation facilities and to a robust state economy. Besides "sounding the alarm" for additional generation or demand resources, ERCOT also called for additional diversity in the fuel mix to reduce the system's vulnerability to supply disruption and volatile pricing due to a heavy reliance on natural gas (approximately 72 percent of installed capacity).

ERCOT RESERVE MARGINS, 2000-2011



Based on 2006 Capacity, Demand and Reserves Report; see page 2 for 2007 update

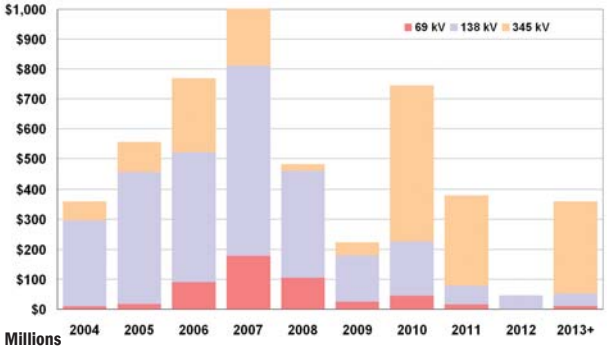
Over $1.3 billion invested in transmission

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

In 2006, ERCOT transmission providers completed improvement projects totaling over 1,800 circuit-miles of transmission and 22,000 megavolt-amperes (MVA) of autotransformer capacity, with an estimated capital cost over $1.3 billion.

ERCOT staff's 124-page annual report on transmission constraints and needs identified projects recommended to serve the electric system through 2011: 3,295 circuit-miles of transmission lines and 17,900 MVA of autotransformer capacity, estimated to cost $3.1 billion.

TRANSMISSION IMPROVEMENTS



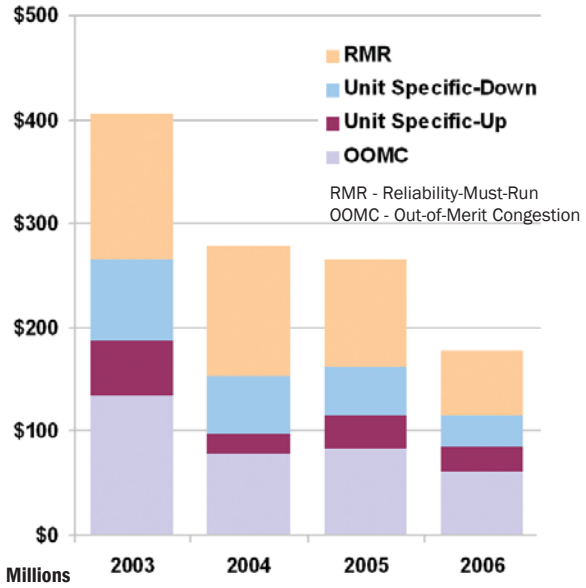
Numbers are based on projects being completed in the designated year and may not reflect actual investment in that year. Costs may be spread over several years.

Transmission upgrades reduce congestion

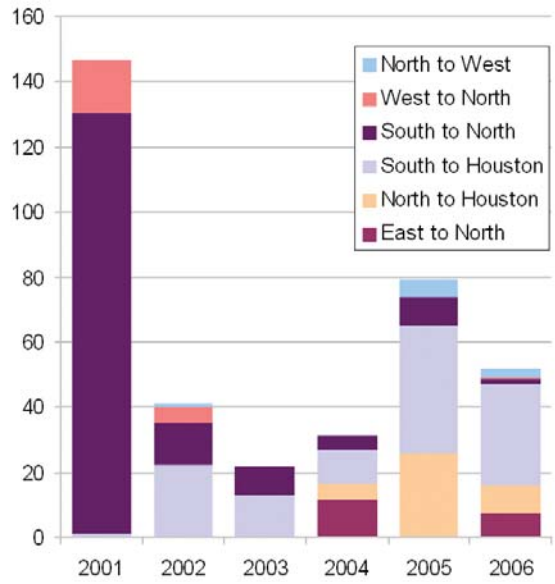
Interzonal congestion costs decreased from $79 million in 2005 to $51.9 million in 2006. The overall decrease in congestion costs from a high of $146 million in 2001 is attributed to implementation of direct assignment of zonal costs to market participants and ongoing improvements to the transmission system.

Intrazonal (or local) congestion costs decreased from $400 million in 2003 to $250 million in 2005 and less than $180 million in 2006, largely due to improvements in the transmission system and operations.

LOCAL CONGESTION COSTS



INTERZONAL CONGESTION COSTS



Millions

New report provides 10-year outlook

A new long-term system assessment, analyzing generation and transmission needs through 2016, was also completed in 2006, pursuant to a new Public Utility Commission (PUC) rule. The 90-page report concluded that new generation and transmission infrastructure is essential to accommodate load growth in the ERCOT region and to offset the probable retirement of older units.

Also, transmission upgrades, estimated to cost around $3 billion, will be required between 2011 and 2016, in addition to the $3.1 billion estimated for 2007-2011, reported in the five-year transmission plan.

The long-term assessment also found that continued high natural gas prices will probably result in more coal and wind generation additions. Because of environmental regulations, these units are likely to be located at greater distances from load centers in major metropolitan areas, which will require more bulk transmission lines to deliver power from the generation to the load.

Renewables study completed for CREZ

ERCOT staff initiated a comprehensive study on Competitive Renewable Energy Zones (CREZ) in Texas in response to Senate Bill 20 (August 2005), which requires the PUC to designate renewable energy zones and develop transmission plans to deliver the power from these zones to customers. The analysis provides a menu of options based on four areas: the coast, southwest Texas (McCamey area), central-western Texas (Abilene area) and the Panhandle.

Additional findings include:

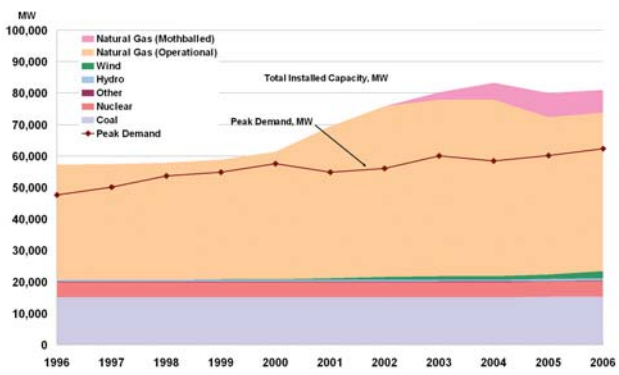
- New bulk transmission lines would be required to support additional export of wind generation out of the West Texas area;
- The coastal area has a lower capacity factor (a measure of the use of the installed wind capacity), but the wind output is more consistent with ERCOT's load and the transmission cost is the lowest;
- The Panhandle area has more wind generation resources with high annual capacity factors, but transmission cost is higher and the area is within the existing Southwest Power Pool region, not ERCOT.

The transmission report, long-term system assessment and the CREZ study are available on the ERCOT Web site at www.ercot.com.

Texas surpasses California in wind

In 2006, Texas moved ahead of California as the top wind-producing state with 2,370 MW of installed wind, compared to 2,323 MW in California. At the end of 2006, ERCOT had 2,508 MW of wind generation in service and a total of 4,850 MW of wind resources scheduled to be in service by the end of 2007.

GENERATION CAPACITY BY FUEL TYPE



Market Operations

Market participants and ERCOT staff worked together to continue refining the wholesale and retail markets.

ERCOT staff played a critical role in the stakeholder process by providing meeting management and technical support for 601 stakeholder meetings. The staff managed all activities for market rule changes including 70 Protocol Revision Requests (PRRs), 37 nodal PRRs, and more than 50 operating guide changes, plus over 400 accompanying recommendation reports.

ERCOT staff also provided business support for more than 300 market participant entities involved in day-to-day ERCOT operations, drafted and distributed 605 market notices across a diverse range of technical topics and delivered more than 1,000 days of structured education sessions for all stakeholders.

The testing staff administered four market-wide test flights required for recertification on Texas SET (the electronic transaction system that supports the retail market).

ERCOT also tested over 7,000 compilation and computing code changes and resolved 1,200 defects before releasing new systems into production.

Upgrades and improvements delivered by the project teams included development of a new ESI-ID (electric service identifier) profile to improve market-wide settlement accuracy, upgrade of the automated settlement metering system, replacement of the retail transaction processing engine and replacement of the transaction tracking and deviation resolution tool. All projects were implemented without market disruption.

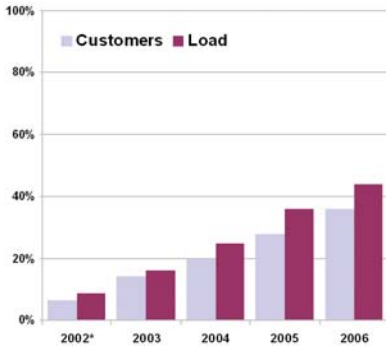
Switching and related retail transactions top 5 million for the year

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. In 2006 ERCOT processed 5 million retail transactions – including retail switches, move-ins and move-outs and other transactions, at nearly 100 percent within protocol.

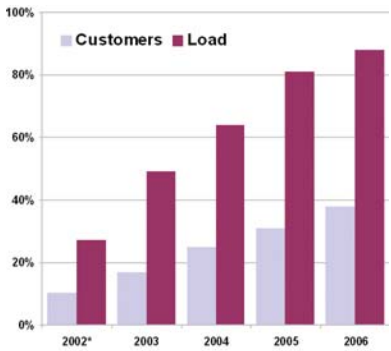
The Texas retail electricity market continued to set the standard nationally for success in customer choice. By year's end, 36 percent of residential customers had chosen a retail electric provider other than the incumbent utility, compared with 28 percent in 2005. Switching by commercial customers was at 38 percent, and industrial at 72 percent.

CUSTOMER SWITCHING: CUSTOMERS CHOOSING COMPETITIVE RETAIL PROVIDERS

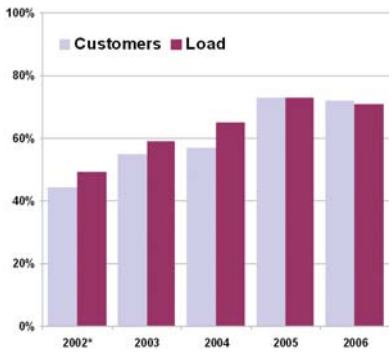
Residential



Small Non-residential



Large Non-residential



* 2002 numbers are estimates

The staff also coordinated three market-wide mass drops to the provider-of-last-resort for approximately 10,300 retail customers whose retail electric providers chose to exit that customer class or exit the market.

More than 19 new retail electric providers joined the ERCOT market in 2006.

Statements and billings processed at 100 percent accuracy

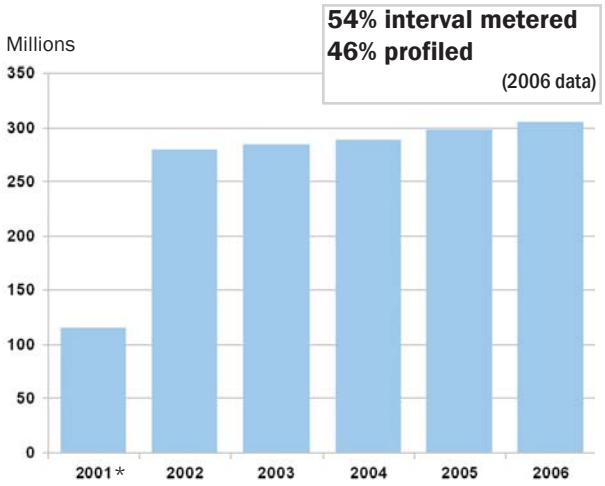
Managing the data and the settlements and billings processes that support the $27 billion wholesale market is a critical function of market operations.

Staff processed approximately 109,000 wholesale settlement statements and billings with 100 percent accuracy and 99.7 percent timeliness. All settlement and billing disputes for 2001-05 have been finalized.

In addition to managing the settlements and billings processes, ERCOT conducted Transmission Congestion Rights auctions totaling over $100 million – more than twice the amount in 2005.

Also, the finance division worked with market groups to develop process changes that will reduce credit exposure by approximately 62 percent upon full implementation.

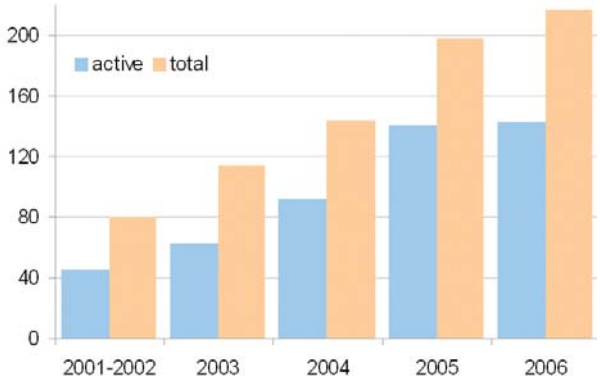
TOTAL ADJUSTED METERED LOAD



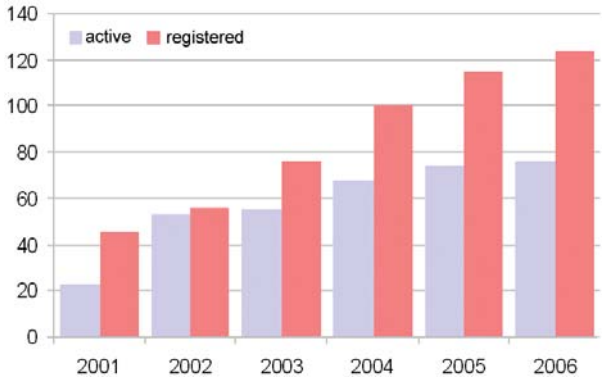
*2001 represents a partial year

MARKET PARTICIPANT GROWTH

Qualified Scheduling Entities



Competitive Retailers

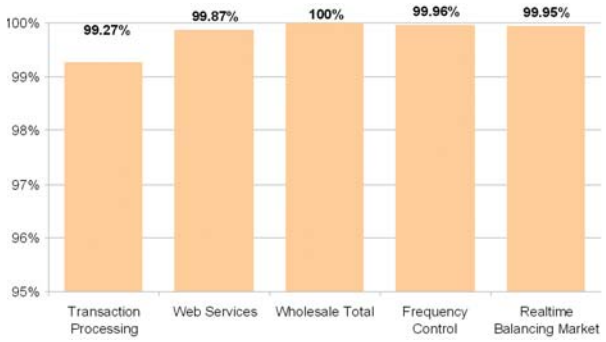


Information Technology

The information technology division focused on improving reliability of the retail systems, achieving a 99.27 percent rate for the year – a significant improvement from the previous year's 96 percent rate. The division also successfully negotiated the first service agreement between information technology and the retail segment.

The information technology group also selected a new large server standard by choosing a platform designed to execute the most high-volume systems in operation at ERCOT. This platform selection was part of a broader strategy to manage increasing data center costs and add the necessary computing and storage capacity for immediate growth in the zonal market and to service the needs of the upcoming nodal market.

NET SERVICE AVAILABILITY – 2006



Nodal Market Implementation

Nodal transition activities in high gear

In September 2003, the Public Utility Commission ordered ERCOT to develop a nodal wholesale market design. The Texas Nodal Program exists to facilitate the transition from a zonal to a nodal market and affects many business processes and systems including: a day-ahead market, reliability unit commitment, security constrained economic dispatch, and congestion revenue rights.

The nodal market is intended to significantly alter the way power is bought and sold in the ERCOT region. ERCOT is responsible for implementing the many protocol changes as designed by the market through a program of multiple business and technology projects.

Milestones for the nodal team in 2006 included:

- Designed an overall approach, scope and budget for implementing the nodal market
- Staffed the program
- Completed nearly all business requirements and conceptual designs and got them approved by the Transition Plan Task Force
- Successfully selected and signed agreements with critical vendors for the nodal program
- Successfully developed and presented an interim fee case to the PUC to fund the program.

Texas Nodal

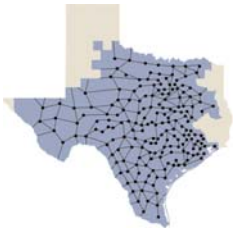
Zonal Market

In today's zonal market, the grid is divided into Congestion Management Zones (CMZs), which are defined by the Commercially Significant Constraints (CSCs). Several limitations have been identified with the current zonal model:

- Insufficient price transparency - This results in less efficient power dispatch, less efficient congestion management tools and muted or distorted signals for investment.
- Resources grouped by portfolio - Qualified scheduling entities (QSEs) submit schedules for a group of resources (portfolio) in a specific zone, and ERCOT operators have limited options to resolve congestion.
- Indirect assignment of local congestion - Participants who contribute to local congestion are not directly assigned the associated costs.

Nodal Market

Moving to a nodal design will satisfy the PUC order to directly assign local congestion.
In the nodal market, the grid will consist of more than 4,000 nodes, replacing today's CMZs.
The Texas Nodal design is expected to achieve lower overall costs through:



- Improved price signals - More granular pricing will encourage additional generation and/or transmission investment in the proper locations.
- Improved dispatch efficiencies - Dispatching at the resource level will yield a lower overall cost of power supply.
- Direct assignment of local congestion - Settlement prices are based on locational marginal costs.

SUMMARY OF CHANGES

Today's Zonal Market	Tomorrow's Nodal Market
Transmission congestion rights	Congestion revenue rights
No day-ahead energy market Day-ahead market for ancillary services procured for capacity	Day-ahead energy and ancillary services co-optimized market
Replacement reserve service and out-of-merit capacity	Day-ahead reliability unit commitment
Hour-ahead studies	Hourly reliability unit commitment
Portfolio-based offers by zone	Resource-specific for local congestion
Balancing energy service (BES) every 15 minutes Zonal congestion management by portfolio for CSCs Resource-specific for local congestion	Security constrained economic dispatch generally every five minutes (still 15-minute settlement) All congestion management will be resource-specific Enhanced load frequency control
Zonal average shift factors for resources	Actual shift factors for resources
Zonal market clearing prices for BES for generation and loads	Nodal locational marginal pricing (LMP) for generation Zonal weighted LMP for loads

Five-year Summary

FINANCIAL DATA ($/millions)	2002	2003	2004	2005	2006
Revenue	65.1	97.2	129.7	127.9	135.1
Direct Operating Expenses	57.7	69.4	79.1	80.8	85.9
Depreciation/Amortization	31.5	38.0	44.7	49.0	42.2
Net Interest Expense/(Income)	4.1	8.1	8.0	7.7	5.4
Total Expenses	93.3	115.5	131.8	137.5	133.5
Debt: Long Term	150.0	136.4	149.0	134.1	108.0
Debt: Short Term	0.0	13.6	29.4	26.1	73.1
Capital Expenditures	52.8	36.0	59.7	25.3	68.2
Administration Fee (per MWh)	$0.22	$0.33	$0.44	$0.42	$0.417

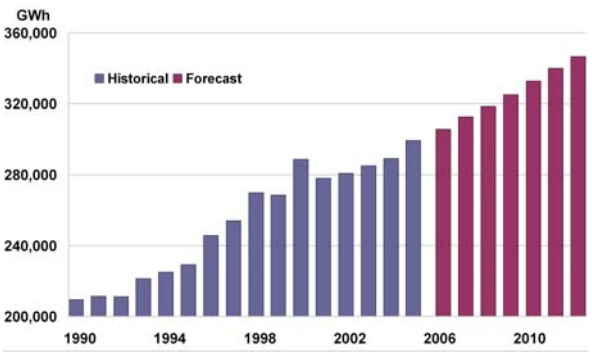
OPERATING DATA	2002	2003	2004	2005	2006
Peak Demand (MW)	56,248	60,095	58,531	60,274	62,339
Energy (GWh)	280,745	284,954	289,113	299,219	305,692
Reserve Margin (%)*	35.6	26.7	25.2	16.5	16.4
Transmission Improvements ($ millions)**	$400.9	$424.7	$360.1	$557.4	$749.4
Wind Generation Added (MW)	0	196.6	114	628	1,021
Local Congestion Costs ($ millions)*	$255.8	$405.2	$279.0	$266.7	$221.9

RETAIL TRANSACTIONS DATA	2002	2003	2004	2005	2006
Competitive Choice Customers	5,909,143	6,000,199	6,079,456	6,199,966	6,298,374
Switches Completed (cumulative)	535,785	1,188,829	1,646,346	2,287,492	3,134,197
Switches by Year	450,212	653,044	457,517	641,146	846,705
Residential	346,760	538,914	335,253	479,830	656,218
Small Non-residential	101,805	112,873	121,210	160,339	189,482
Large Non-residential	1,647	1,257	1,054	976	1,004
Total Load Migrated from AREP (MW)	10,019	15,676	20,211	25,640	29,721
Residential	1,615	3,535	5,156	7,454	9,601
Small Non-Residential	3,958	6,768	8,739	11,063	13,337
Large Non-Residential	4,446	5,373	6,316	7,123	6,783
Competitive Retail Total Transactions (000's)	78,960	95,826	89,060	92,368	94,857

** Methodology has changed during the five-year period*

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

ANNUAL ENERGY 1999 - 2012



ERCOT SYSTEM ADMINISTRATION FEE

Electric Reliability Council of Texas, Inc.

Financial Statements
December 31, 2006 and 2005

Electric Reliability Council of Texas, Inc.
Index
December 31, 2006 and 2005

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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, 2006 and 2005, 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 these 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

April 16, 2007

Electric Reliability Council of Texas, Inc.
Statements of Financial Position
December 31, 2006 and 2005

(in thousands of dollars)	2006	2005
Assets		
Current assets		
Cash and cash equivalents	$ 70,479	$ 85,272
Accounts receivable	6,053	6,625
Unbilled revenue	5,879	7,111
Restricted cash	58,048	96,676
Prepaid expenses and other current assets	8,239	3,942
Total current assets	148,698	199,626
Property and equipment, net	126,681	130,414
Systems under development	37,573	9,605
Deferred regulatory assets	7,735	-
Interest rate swap	214	78
Debt issuance costs	1,143	1,330
Total assets	$ 322,044	$ 341,053
Liabilities and Unrestricted Net Deficit		
Current liabilities		
Accounts payable	10,356	3,070
Accrued liabilities	16,035	15,443
Market settlement liabilities	71,270	84,379
Security deposits	58,048	96,676
Notes payable, current portion	73,137	26,137
Total current liabilities	228,846	225,705
Notes payable	107,952	134,089
Other long term liabilities	188	408
Total liabilities	336,986	360,202
Commitments and contingencies (Notes 6 and 9)		
Unrestricted net deficit	(14,942)	(19,149)
Total liabilities and unrestricted net deficit	$ 322,044	$ 341,053

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

Electric Reliability Council of Texas, Inc.
Statements of Activities and Net Deficit
Years Ended December 31, 2006 and 2005

(in thousands of dollars)	2006	2005
Operating revenues		
Transaction fees	$ 127,357	$ 125,488
Nodal surcharge fees	4,524	-
Membership fees and other	3,266	2,378
Total operating revenues	135,147	127,866
Operating expenses		
Salaries and related benefits	47,206	49,405
Depreciation	42,168	49,005
Facility and equipment costs	8,032	7,757
Consulting and legal services	10,433	9,321
Administrative and other	7,917	7,081
Hardware and software maintenance and licensing	7,740	7,189
Amortization of regulatory asset	4,524	-
Total operating expenses	128,020	129,758
Income (loss) from operations	7,127	(1,892)
Other income (expense)		
Interest income	2,200	1,494
Interest expense	(7,632)	(9,189)
Change in valuation of interest rate swap	136	78
Non-operating income	2,376	9
Change in unrestricted net deficit	4,207	(9,500)
Unrestricted net deficit, beginning of year	(19,149)	(9,649)
Unrestricted net deficit, end of year	$ (14,942)	$ (19,149)

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

Electric Reliability Council of Texas, Inc.
Statements of Cash Flows
Years Ended December 31, 2006 and 2005

(in thousands of dollars)	2006	2005
Cash flows from operating activities		
Change in unrestricted net deficit	$ 4,207	$ (9,500)
Adjustments to reconcile change in unrestricted net deficit to net cash provided by operating activities:		
Depreciation	42,168	49,005
Amortization of debt issuance costs	189	210
Change in valuation of interest rate swap	(136)	-
Net losses on disposition or impairment of capital assets	1,747	164
Changes in operating assets and liabilities:		
Accounts receivable	573	263
Unbilled revenue	1,232	143
Prepaid expenses and other assets	(4,298)	479
Other long-term liabilities	(220)	408
Regulatory assets	(7,735)	-
Accounts payable	7,525	(2,201)
Accrued liabilities	352	5,588
Net cash provided by operating activities	45,604	44,559
Cash flows from investing activities		
Capital expenditures for property and equipment and systems under development	(68,190)	(25,280)
Proceeds from sale of property and equipment	40	15
Net cash used in investing activities	(68,150)	(25,265)
Cash flows from financing activities		
Proceeds from issuance of short-term notes payable	47,000	-
Repayment of notes payable	(26,137)	(68,137)
Proceeds from issuance of long-term notes payable	-	50,000
Payment of debt issuance costs	(2)	(24)
(Increase) decrease in restricted cash	38,628	(74,277)
Increase (decrease) in market settlement liabilities	(13,108)	50,698
Increase (decrease) in security deposits	(38,628)	74,231
Net cash provided by financing activities	7,753	32,491
Net increase (decrease) in cash and cash equivalents	(14,793)	51,785
Cash and cash equivalents, beginning of year	85,272	33,487
Cash and cash equivalents, end of year	$ 70,479	$ 85,272
Supplemental information		
Cash paid for interest	$ 8,755	$ 9,435
Supplemental disclosure of non-cash investing and financing activities		
Accrued capital expenditures	$ 2,454	$ 2,453
Capitalized interest	$ 1,293	$ 591

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

(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 Corporation (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 70,000 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 electric service region is contained completely within the borders of Texas, and it has only a few ties across state lines to import or export power with neighboring reliability regions. As a result, ERCOT is considered "intrastate" and not under the jurisdiction of the Federal Energy Regulatory Commission except for reliability oversight.

ERCOT is governed by a Board of Directors composed of 16 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, municipal-owned utilities, and electric cooperatives. The remaining ten seats on the Board are filled by three consumer representatives, five 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.

(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 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 41.71 cents per megawatt hour in 2006 and 42 cents per megawatt hour in 2005. In 2006, ERCOT began collecting an additional rate of 6.63 cents per megawatt hour in connection with the market transformation project described in Note 8. 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 $1,747 and $164 in 2006 and 2005 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.

(in thousands of dollars)

ERCOT's depreciable lives (in years) for property and equipment are:

Asset Category	Depreciable Life
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 AICPA 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 from completed projects are transferred to property and equipment when the systems are placed in service.

Impairment
ERCOT evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is identified by comparing expected future cash flows, undiscounted and before interest, to the carrying value of the asset. If impairment exists, it is measured as the difference between the net book value of the asset and its estimated fair value. In 2006, ERCOT recorded charges of approximately $1,729 to reduce to zero the carrying value of certain software no longer in use. This charge is included in administrative and other expenses in the accompanying statement of activities and net deficit. ERCOT identified no impairments of long-lived assets in 2005.

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 2006 and 2005, capitalized interest costs were $1,293 and $591, respectively.

Market Settlement Liabilities
Market settlement liabilities primarily 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.

(in thousands of dollars)

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 Standards, 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.

Market settlement liabilities consist of the following at December 31:

	2006	2005
TCR auction funds	$ 50,094	$ 58,259
QSE prepayments of settlement obligations	21,176	26,120
Total market settlement liabilities:	$ 71,270	$ 84,379

Security Deposits
Market participants not meeting certain creditworthiness standards referenced 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.

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 values. The fair value of the Company's senior notes payable is $112,709 and $128,583 as of December 31, 2006 and 2005. The fair value is estimated based on net present value calculations and quoted market prices for similar issues.

ERCOT uses an interest rate swap agreement, which is a derivative instrument, to reduce interest rate risk. The interest rate swap agreement falls within the scope of Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. SFAS No. 133, and related interpretations establish accounting and reporting standards for derivative instruments and for hedging activities. In accordance with SFAS No. 133, ERCOT presents the interest rate swap at fair value in the statement of financial position and recognizes changes in its fair value in the statement of activities.

(in thousands of dollars)

Recoveries Relating to Former Employees
During 2006, ERCOT recorded non-operating income of $2,376 relating primarily to resolution of issues stemming from fraudulent activity perpetrated by former ERCOT employees in 2003 and 2004. ERCOT recognized $1,960 in recoveries under corporate insurance policies and $416 in recoveries under court ordered restitution from former ERCOT employees who engaged in the fraudulent activity.

3. Property and Equipment

Property and equipment consists of the following at December 31:

	2006	2005
Computer equipment and software	$ 248,027	$ 217,148
Buildings and leasehold improvements	57,200	57,918
Furniture and fixtures	12,517	11,640
Land	246	246
Vehicles	146	155
Construction in progress	704	238
	318,840	287,345
Accumulated depreciation	(192,159)	(156,931)
	126,681	130,414
Systems under development	37,573	9,605
Total property and equipment, net:	$ 164,254	$ 140,019

Systems under development consist primarily of costs incurred for the market transformation project described in Note 8.

4. Notes Payable

ERCOT's notes payable consist of the following:

	2006	2005
Revolving line of credit	$ 47,000	$ -
Term loan	25,000	37,500
Senior notes	109,089	122,726
	$ 181,089	$ 160,226

(in thousands of dollars)

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 $125,000 and expires on April 29, 2010. The term loan has a maximum amount of available credit of $50,000 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, 2006 was 5.55% for the term loan and was 5.54% for the revolving line of credit. Additionally, ERCOT pays a commitment fee of 0.05% on the unused portion of the revolving credit facility. During 2006, ERCOT incurred commitment fees totaling $32 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 debt service coverage to be maintained. At December 31, 2006, 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, 2006, ERCOT was in compliance with its covenants for the senior notes.

Future maturities of the notes are as follows:

Year Ending December 31	Senior Notes	Term Loan	Total
2007	$ 13,637	$ 12,500	$ 26,137
2008	13,637	12,500	26,137
2009	13,637	-	13,637
2010	13,637	-	13,637
2011	13,637	-	13,637
Thereafter through 2014	40,904	-	40,904
	$ 109,089	$ 25,000	$ 134,089

Interest Rate Swap Agreement

In 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, 2006, 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.

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

(in thousands of dollars)

The fair value of the Swap at December 31, 2006 and 2005 was approximately $214 and $78, respectively. Changes in the fair value of the Swap are included in other income in the statement of activities.

5. Employee Benefit Plans

Defined Contribution Plans

During 2006 and 2005, ERCOT sponsored 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 $1,133 and $1,595 for the years ending December 31, 2006 and 2005, respectively.

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 $4,464 and $4,121 for the years ended December 31, 2006 and 2005, respectively. The MP Plan was merged with the 401(k) Plan effective April 1, 2006 that resulted in a consolidated ERCOT retirement plan.

Defined Benefit Plan

During 2006, ERCOT determined that certain postretirement health benefits which it had offered since 1997 to employees constituted a defined benefit plan subject to SFAS No. 106, *Employer's Accounting for Postretirement Benefits Other Than Pensions.* The plan generally provided that employees hired in 1997 or later who retired between the ages of 55 and 65, and who had ten or more years of service to ERCOT, could continue to participate in the medical, dental and prescription drug coverage available to employees, subject to certain annual and lifetime benefit limits. ERCOT management has reviewed the features of the plan and obtained the advice of actuaries concerning ERCOT's benefit obligations under the plan, and concluded that those obligations were not material. ERCOT terminated the postretirement health benefits plan on June 30, 2006 and it is the opinion of management and ERCOT's General Counsel that ERCOT had no liability in connection with the plan at December 31, 2006.

(in thousands of dollars)

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:

2007	$	987
2008		989
2009		980
2010		956
2011		958
Thereafter		139
Total minimum lease payments	$	5,009

ERCOT recognized $831 and $730 of rent expense in 2006 and 2005, respectively.

Other long term liabilities of $188 at December 31, 2006 are comprised of long term deferred rent credits being amortized over the remaining five year lease term.

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 to QSEs that represent load proportionately based on their share of the total load. 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 QSEs that do not meet 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 system 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.

(in thousands of dollars)

8. Accounting for the Effects of Regulation

ERCOT applies the provisions of Statement of Accounting Standards No. 71, ("FAS 71") which requires regulated entities, in appropriate circumstances, to establish regulatory assets and/or liabilities, and thereby defer the income statement impact of certain charges because it is probable they will be recovered through future billings. During 2006, ERCOT began incurring significant costs associated with the Texas Nodal Market Implementation Project ("TNMIP"). In May 2006 the PUCT issued a rate order that provides for a supplemental rate of 6.63 cents per megawatt hour to fund ERCOT's TNMIP costs. Amounts earned under the rate order are presented as Nodal surcharge fees in the accompanying statement of activities. The PUCT also set forth the framework of the TNMIP rates, which provides for explicit recovery of all development costs and all debt service costs over the period of financing the project. The development period of the TNMIP is expected to be completed in 2008. Some of the development costs encompassed in the rate order would otherwise be treated as period costs under generally accepted accounting principles. As of December 31, 2006 ERCOT deferred $7,735 as a regulatory asset. During the development period of the TNMIP, the regulatory asset is amortized each period to the extent of Nodal surcharge fees recorded.

9. 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 the Company's accrued liability for this obligation was $2,733. 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 was not reflected as an accrued liability at December 31, 2006. The liability at December 31, 2005 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, the Company recognized expenses of $765, relating to the sales and use tax audit.

To avoid incurring additional penalties and interest, ERCOT made payments of $2,782 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

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

ERCOT Governance

Board of Directors

Mark Armentrout
Chairman
(unaffiliated)

Michehl Gent
Vice Chairman
(unaffiliated)

Brad Cox
Tenaska Power Services
(independent power marketer)

Andrew Dalton
Valero Energy Corporation
(industrial consumer)

Miguel Espinosa
(unaffiliated)

Nick Fehrenbach
City of Dallas
(commercial consumer)

Scott Gahn
Just Energy
(retail electric provider)

Carolyn Lewis Gallagher
(unaffiliated)

Paul Hudson
Chairman
Public Utility Commission
(ex-officio, non-voting)

Sam Jones
CEO, ERCOT (ex-officio)

Clifton Karnei
Brazos Electric Cooperative
(cooperative)

Suzi Ray McClellan
Office of Public Utility Counsel
(residential consumer, ex-officio)

Jan Newton
(unaffiliated)

Tom Standish
CenterPoint Energy
(investor-owned utility)

William Taylor
Calpine Corporation
(independent generator)

Dan Wilkerson
Bryan Texas Utilities
(municipal utility)

Officers

Sam Jones
President and Chief Executive Officer

Bill Bojorquez
Vice President of System Planning

Steve Byone
Vice President and Chief Financial Officer

Nancy Capezzuti
Vice President of Human Resources and Organizational Development

Ray Giuliani
Vice President and Chief of Market Operations

Ron Hinsley
Vice President and Chief Information Officer

Kent Saathoff
Vice President of System Operations

James Thorne
Vice President and General Counsel

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 ERCOT protocols and guides, and endorsement of major new transmission infrastructure recommendations. The board also oversees the affairs of the Texas Regional Entity (TRE), the independent division that was established in 2006 to serve as the regional entity for the ERCOT region, pursuant to the reliability provisions of the federal Energy Policy Act of 2005 (EPAct).

Under the board's oversight, ERCOT's stakeholder process is responsible for developing policies, procedures, and guidelines for power grid coordination, reliability, and market operations. Six standing committees and subcommittees supported by numerous working groups and task forces function within the stakeholder process.

LEGISLATIVE OVERSIGHT

Other than on issues arising under federal EPAct provisions, 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 system administration fee, which provides 98 percent of ERCOT's revenues, and has general oversight authority including the ability to conduct or order audits. TRE funds under EPAct are administered separately.

For most purposes, ERCOT, like the PUC, is 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. For EPAct purposes, ERCOT is accountable to the TRE and ultimately to the Federal Energy Regulatory Commission (FERC).

The Electric Reliability Council of Texas (ERCOT) manages the flow of electric power to approximately 20 million Texas customers - representing 85 percent of the state's electric load and 75 percent of the Texas land area. As the Independent System Operator for the region, ERCOT schedules power on an electric grid that connects 38,000 miles of transmission lines and more than 500 generation units. ERCOT also manages financial settlement for the competitive wholesale bulk-power market and administers customer switching for 5.9 million Texans in competitive choice areas. ERCOT is a membership-based 501(c)(6) nonprofit corporation, governed by a board of directors and subject to oversight by the Public Utility Commission of Texas and 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.

Electric Reliability Council of Texas, Inc.

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