Electric Reliability Council of Texas, Inc.

Financial Statements
December 31, 2007 and 2006

Electric Reliability Council of Texas, Inc.
Index
December 31, 2007 and 2006

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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 statements 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 Electric Reliability Council of Texas, Inc. (ERCOT) at December 31, 2007 and 2006, 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 23, 2008

Electric Reliability Council of Texas, Inc.
Statements of Financial Position
December 31, 2007 and 2006

(in thousands of dollars)	**2007**	**2006**
Assets		
Current assets		
Cash and cash equivalents	$ 82,455	$ 70,479
Accounts receivable	7,285	6,053
Unbilled revenue	7,908	5,879
Restricted cash	135,496	58,048
Prepaid expenses and other current assets	9,471	8,239
Total current assets	242,615	148,698
Property and equipment, net	136,178	126,681
Systems under development	137,710	37,573
Regulatory assets	2,188	7,735
Derivative asset	-	214
Debt issuance costs	914	1,143
Total assets	$ 519,605	$ 322,044
Liabilities and Unrestricted Net Deficit		
Current liabilities		
Accounts payable	16,057	10,356
Accrued liabilities	25,657	16,035
Market settlement liabilities	83,145	71,270
Security deposits	135,496	58,048
Notes payable, current portion	77,137	73,137
Total current liabilities	337,492	228,846
Notes payable	181,815	107,952
Derivative liability	6,966	-
Regulatory liabilities	3,349	-
Other long term liabilities	134	188
Total liabilities	529,756	336,986
Commitments and contingencies (Notes 6 and 9)		
Unrestricted net deficit	(10,151)	(14,942)
Total liabilities and unrestricted net deficit	$ 519,605	$ 322,044

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, 2007 and 2006

(in thousands of dollars)	**2007**	**2006**
Operating revenues		
System administration fees	$ 130,155	$ 127,357
Nodal implementation surcharge	32,034	4,524
Membership fees and other	3,737	3,266
Total operating revenues	165,926	135,147
Operating expenses		
Salaries and related benefits	45,731	47,206
Depreciation	33,898	42,168
Facility and equipment costs	8,074	8,032
Consulting and legal services	13,653	10,433
Administrative and other	6,621	7,917
Hardware and software maintenance and licensing	9,645	7,740
Amortization of regulatory asset	32,034	4,524
Total operating expenses	149,656	128,020
Income (loss) from operations	16,270	7,127
Other income (expense)		
Interest income	1,138	2,200
Interest expense	(5,474)	(7,632)
Change in valuation of interest rate swap	(7,180)	136
Non-operating income	37	2,376
Change in unrestricted net deficit	4,791	4,207
Unrestricted net deficit, beginning of year	(14,942)	(19,149)
Unrestricted net deficit, end of year	$ (10,151)	$ (14,942)

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, 2007 and 2006

(in thousands of dollars)	2007	2006
Cash flows from operating activities		
Change in unrestricted net deficit	$ 4,791	$ 4,207
Adjustments to reconcile change in unrestricted net deficit to net cash provided by operating activities:		
Depreciation	33,898	42,168
Amortization of debt issuance costs	256	189
Change in valuation of interest rate swap	7,180	(136)
Net losses on disposition or impairment of capital assets	55	1,747
Changes in operating assets and liabilities:		
Accounts receivable	(1,232)	573
Unbilled revenue	(2,029)	1,232
Prepaid expenses and other assets	(1,232)	(4,298)
Other long-term liabilities	(54)	(220)
Regulatory assets	5,547	(7,735)
Accounts payable	5,701	7,525
Accrued liabilities	(1,324)	352
Regulatory liabilities	3,349	-
Net cash provided by operating activities	54,906	45,604
Cash flows from investing activities		
Capital expenditures for property and equipment and systems under development	(132,668)	(68,190)
Proceeds from sale of property and equipment	-	40
Net cash used in investing activities	(132,668)	(68,150)
Cash flows from financing activities		
Proceeds from issuance of notes payable	176,000	47,000
Repayment of notes payable	(98,137)	(26,137)
Payment of debt issuance costs	-	(2)
(Increase) decrease in restricted cash	(77,448)	38,628
Increase (decrease) in market settlement liabilities	11,875	(13,108)
Increase (decrease) in security deposits	77,448	(38,628)
Net cash provided by financing activities	89,738	7,753
Net increase (decrease) in cash and cash equivalents	11,976	(14,793)
Cash and cash equivalents, beginning of year	70,479	85,272
Cash and cash equivalents, end of year	$ 82,455	$ 70,479
Supplemental information		
Cash paid for interest	$ 10,522	$ 8,755
Supplemental disclosure of non-cash investing and financing activities		
Change in accrued capital expenditures	$ 10,946	$ 2,454
Capitalized interest	$ 5,892	$ 1,293

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. 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 72,000 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: 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 PUCT 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.

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.

(in thousands of dollars)

Restricted Cash
Restricted cash primarily represents amounts received for security deposits from ERCOT's market participants.

Accounts Receivable and Revenue Recognition
ERCOT funds its operations primarily through transaction fees collected from electric service providers operating within the Texas grid. Two volume-related fees are charged pursuant to the ERCOT protocols and as approved by both the ERCOT board of directors and the PUCT, each of which is based on actual volume consumption. Revenues from these volume-related fees are 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.

System administration fee - This fee was 43.4 cents and 41.71 cents per megawatt hour of adjusted metered load in 2007 and 2006, respectively, and is structured to provide funding for ERCOT's core operations and related services.

Nodal implementation surcharge - In 2006, ERCOT began collecting an additional rate of 6.63 cents per megawatt hour (real time net metered generation) in connection with the Texas Nodal Market implementation project described in Note 8. Effective June 2007, ERCOT increased the project surcharge to 12.7 cents per megawatt hour. Revenue recognition for this fee is impacted by regulatory requirements established by the PUCT as described in Note 8.

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 $55 and $1,747 in 2007 and 2006 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 capitalizes 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 the carrying value of certain software and other assets no longer in use. This charge is included in administrative and other expenses in the accompanying statement of activities and net deficit. No impairments requiring write-offs were identified in 2007.

Interest Capitalization

Interest is capitalized in connection with the construction of major software systems and buildings and improvements. 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 2007 and 2006, capitalized interest costs were $5,892 and $1,293, respectively.

(in thousands of dollars)

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.

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:

	2007	2006
TCR auction funds	$ 47,861	$ 50,094
QSE prepayments of settlement obligations	35,284	21,176
Total market settlement liabilities:	$ 83,145	$ 71,270

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 revolving line of credit and term loan approximate their fair values. The fair value of the Company's senior notes payable is $100,921 and $112,709 as of December 31, 2007 and 2006. The fair value is estimated based on net present value calculations and quoted market prices for similar issues.

(in thousands of dollars)

ERCOT uses interest rate swap agreements, which are derivative instruments, to reduce interest rate risk. The interest rate swap agreements fall 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 these interest rate swaps at fair value in the statement of financial position and recognizes changes in fair value in the statement of activities and net deficit.

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 revenues and charges because it is probable they will be recovered or repaid in future periods.

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. During 2007, ERCOT recovered $34 relating to the fraudulent activity committed in 2003 and 2004. This amount is included in non-operating income in the accompanying statement of activities and net deficit.

Recent Accounting Pronouncements
In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued final staff positions that will defer the effective date of SFAS No. 157 by one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis and to exclude FASB No. 13, *Accounting for Leases,* and its related interpretive accounting pronouncements that address leasing transactions. ERCOT is currently evaluating the impact that adoption of SFAS No. 157 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, which permits entities to elect to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This election is irrevocable. SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. ERCOT is currently evaluating the impact that adoption of SFAS No. 159 will have on its financial statements.

(in thousands of dollars)

3. Property and Equipment

Property and equipment consists of the following at December 31:

	2007	2006
Computer equipment and software	$ 285,256	$ 248,027
Buildings and leasehold improvements	57,363	57,200
Furniture and fixtures	12,214	12,517
Land	246	246
Vehicles	124	146
Construction in progress	1,753	704
	356,956	318,840
Accumulated depreciation	(220,778)	(192,159)
	136,178	126,681
Systems under development	137,710	37,573
Total property and equipment, net:	$ 273,888	$ 164,254

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:

	2007	2006
Revolving line of credit	$ 51,000	$ 47,000
Term loan	112,500	25,000
Senior notes	95,452	109,089
	$ 258,952	$ 181,089

ERCOT has a revolving line of credit and a term loan with JPMorgan Chase Bank, as lead agent. The revolving line of credit, which is primarily used for short term working capital needs, has a maximum amount of available credit of $75,000 and expires on June 15, 2012. Individual borrowings under the revolving line of credit are structured to mature within one year. The term loan has a maximum amount of available credit of $212,500 and expires December 15, 2012. 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, 2007 was 5.06% for the term loan and 5.18% for the revolving line of credit. Additionally, ERCOT pays a commitment fee of 0.05% on the unused portion of both the term loan and the revolving credit facility. During 2007 and 2006, ERCOT incurred commitment fees totaling $61 and $32, respectively, in connection with the term loan and the revolving line of credit.

(in thousands of dollars)

The revolving line of credit and the term loan have several covenants, the most restrictive of which limit borrowings and investments, and require a certain minimum debt service coverage to be maintained. At December 31, 2007, 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, 2007, 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
2008	$ 13,637	$ 12,500	$ 26,137
2009	13,637	25,000	38,637
2010	13,637	25,000	38,637
2011	13,637	25,000	38,637
2012	13,637	25,000	38,637
Thereafter through 2014	27,267	-	27,267
	$ 95,452	$ 112,500	$ 207,952

Interest Rate Swap Agreement

In 2005 and 2007, the Company entered into variable to fixed rate swap agreements (the "Swaps") with two financial institutions. The notional amounts of the Swaps are related to the term loan and the Swaps mature concurrent with term loan payment due dates. The fixed rate terms of the Swaps and their notional values at December 31, 2007 are summarized in the following table. Under the terms of the Swaps, the Company pays the counterparties a fixed rate. In return, the counterparties pay the Company variable interest at LIBOR, which approximates, but does not precisely equal, the rate of interest on the term loan.

Transaction Date	From	To	Fixed Rate Due to Counterparty	Notional Value at December 31, 2007
2005	Nov-06	Nov-08	4.5825%	12,500
2007	Jul-07	Nov-10	5.4650%	50,000
2007	Nov-07	Nov-11	5.5490%	50,000
2007	Nov-08	Nov-12	5.6550%	30,000

(in thousands of dollars)

The Company is exposed to the risk of nonperformance if the counterparties default or if the swap agreements are terminated.

The fair values of the Swaps at December 31, 2007 and 2006 were approximately $(6,966) and $214, respectively.

5. Employee Benefit Plans

Defined Contribution Plans
ERCOT sponsors the ERCOT Defined Contribution 401(k) Plan (the “401(k) Plan”) which is subject to the provisions of the Employee Retirement Income Security Act of 1974. The 401(k) Plan utilizes a third-party administrator to assist in the administration. Employees participating in the 401(k) Plan are fully vested after five years. Employees must be 21 years of age to be eligible to participate.

Prior to April 1, 2006, ERCOT also sponsored the ERCOT Money Purchase Plan (the "MP Plan"). The MP Plan was merged with the 401(k) Plan effective April 1, 2006 that resulted in a consolidated ERCOT retirement plan.

ERCOT matches 75% of the employee’s contribution up to 6% of eligible compensation as defined in the 401(k) Plan document. In addition, ERCOT contributes 10% of a participant’s eligible compensation as defined in the 401(k) Plan document. Employees are fully vested for the ERCOT contributions of 10% after three years. Employer contributions to the 401(k) are summarized in the table below:

	2007	2006
75% of the employee's contribution up to 6%	$ 1,315	$ 1,133
10% of the employee's compensation	5,247	4,464
Total employer contributions	$ 6,562	$ 5,597

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:

2008	$ 973
2009	941
2010	928
2011	900
2012	32
Thereafter	123
Total minimum lease payments	$ 3,897

(in thousands of dollars)

ERCOT recognized $690 and $831 of rent expense in 2007 and 2006, respectively.

Other long term liabilities of $134 and $188 at December 31, 2007 and 2006, respectively, are comprised of deferred rent credits.

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 fees are substantially mitigated by the fact that, by Protocol, ERCOT's fees are paid from market receipts as a first priority before any market obligations are paid.

ERCOT's 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.

8. Accounting for the Effects of Regulation

Texas Nodal Market Implementation Project

During 2006, ERCOT began incurring significant costs associated with the Texas Nodal Market Implementation Project ("TNMIP"). Amounts earned under the rate order are presented as Nodal surcharge fees in the accompanying statement of activities and net deficit. 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 4th quarter 2008. Some of the development costs encompassed in the rate order would otherwise be treated as period costs under generally accepted accounting principles. Through December 31, 2007 and 2006 ERCOT incurred $2,188 and $7,735, respectively, more in TNMIP development costs than Nodal surcharge fees received. As such, these amounts are recorded as regulatory assets as of those dates. The regulatory asset is amortized each period to the extent of Nodal surcharge fees recorded.

The following is a reconciliation of ERCOT's regulatory assets at December 31:

	2007	2006
Nodal surcharge fees	$ 32,034	$ 4,524
Nodal costs not included in systems under development	26,487	12,259
(Over) under collections	$ (5,547)	$ 7,735
Regulatory assets, beginning of year	7,735	-
Regulatory assets, end of year	$ 2,188	$ 7,735

(in thousands of dollars)

Nodal development costs related to the systems under development are being capitalized as discussed in Note 2. All other TNMIP development costs are subject to the provisions of FAS 71, which provides for deferral of the income statement impact. Such charges are presented in the table above.

The following is a summary of TNMIP development costs incurred:

	2007	2006
Salaries and related benefits	$ 7,539	$ 1,843
Depreciation	8,738	4,649
Facility and equipment costs	3,112	89
Consulting and legal services	3,095	5,011
Administrative and other	293	116
Hardware and software maintenance and licensing	2,139	168
Interest expense	1,571	383
Total TNMP development costs	$ 26,487	$ 12,259

Texas Regional Entity

By order of the Federal Energy Regulatory Commission (FERC), North American Electric Reliability Corporation (NERC) has been designated as the Electric Reliability Organization (ERO).

In its capacity as ERO, NERC must prepare an annual operating budget and submit the budget to FERC for official regulatory approval.

During 2007, Texas Regional Entity (TRE), an independent division of ERCOT, was approved by FERC to contract with and perform certain activities for NERC. NERC has delegated authority to TRE to propose, monitor, and enforce federal electric reliability standards within the designated geographic area within Texas known as the ERCOT region.

Regulatory orders issued by FERC, approving the consolidated annual operating budget prepared and submitted by NERC, include requirement that NERC and entities to whom NERC has delegated some of its responsibility as the ERO are not entitled to keep financial variances realized as a result of their activity. If revenues exceed expenses incurred in a given year (favorable financial variance), the excess revenue realized in the year must be returned to rate payers in future years. Similarly, if revenues recorded are less than expenses incurred in a given year (unfavorable financial variance), the revenue shortfall realized in the year must be recovered from rate payers in future years.

In 2007, its first year of operation, TRE collected $4,871 from NERC and incurred expenses of $1,522 in performing functions delegated by NERC, resulting in a favorable financial variance of $3,349. As such, the TRE has deferred recognition of $3,349 in revenues and has established a regulatory liability in the same amount at December 31, 2007. Since the budgeting and true-up process within NERC provides that this deferral will impact revenues collected by TRE in the 2009 budget year, not 2008, the regulatory liability is classified as noncurrent.

(in thousands of dollars)

9. 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.