ELECTRIC RELIABILITY COUNCIL OF TEXAS

2007 ANNUAL REPORT

ERCOT Quick Facts

At a glance

72,820 megawatts (MW) generating capacity

62,339 MW system peak demand (August 2006)

13.8% reserve margin for 2008 (12.5% target)

38,000 miles of transmission lines

550 generation units

21 million Texans served

307 billion kilowatt-hours of power delivered annually

85% of Texas load

75% of Texas land area

$30 billion market size

95% bilateral wholesale market

5% ERCOT-run balancing energy and ancillary services market

$1.9 billion in annual billings

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
- 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

Wholesale market administration

Ancillary services market administration

System planning coordination

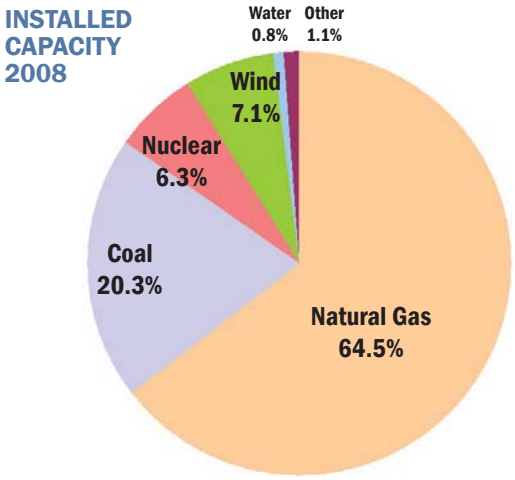
Renewable Energy Credits management (statewide)

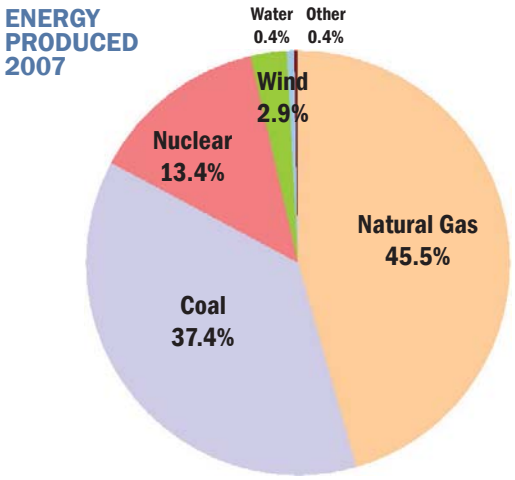
Market participant/stakeholder activity support

How are we doing?

Generation Development

- 34,000 MW new generation added since 1996
- 10,245 MW of committed resources through 2013 (generation with interconnection agreements and air permits); includes 4,258 MW wind (effective load-carrying capacity of 370 MW)
- 104,000 MW of generation interconnection requests in the queue, including approximately 49,000 MW wind, 15,500 MW nuclear, 31,000 MW natural gas, and 8,500 MW coal (April 2008)





Transmission Investment

- 6,200 circuit miles of transmission built since 1999
- 2,538 circuit miles of transmission under study
- $3.9 billion investment in transmission placed in service since 1999
- $3 billion under development

Retail Service by Competitive Retailers

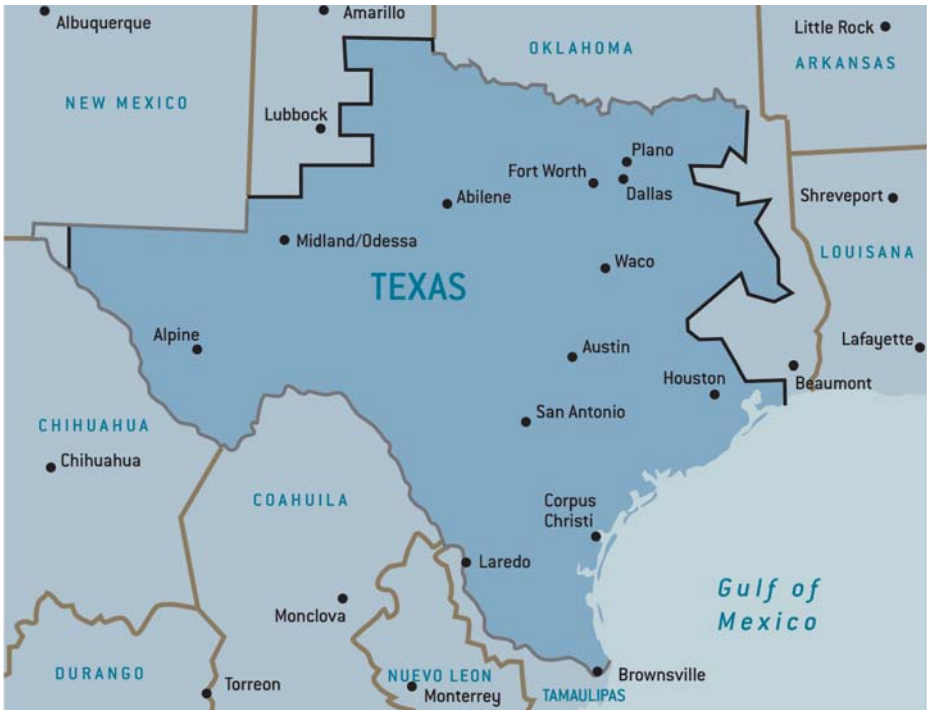
- 46% of residential load
- 66% of small commercial load

What's ahead?

Comprehensive nodal market implementation, anticipated launch in 2009, to 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



The Electric Reliability Council of Texas (ERCOT) manages the flow of electric power to approximately 21 million Texas customers – representing 85 percent of the state's electric load and 75 percent of the Texas land area. The ERCOT Region includes Houston, Dallas, Fort Worth, San Antonio, Austin, Corpus Christi, Abilene and the Rio Grande Valley. ERCOT does not include the El Paso area, the Texas Panhandle, Northeast Texas (Longview, Marshall and Texarkana), and Southeast Texas (Beaumont, Port Arthur, and the Woodlands).

Mark Armentrout
Board Chairman

From the Chairman

The Electric Reliability Council of Texas, Inc., had a very successful 2007, meeting or surpassing virtually all of our metrics for reliability, open access to the market, customer choice, and ensuring accurate and timely information. We also successfully launched a new independent division of ERCOT, the Texas Regional Entity, to comply with new federal regulations stemming from the 2005 US Energy Policy Act.

Other highlights for ERCOT's 2007 performance include Moody's Investor Service's upgrading our credit rating to Aa3, reducing borrowing costs, and receiving an unqualified opinion on our SAS 70 audit, a first for ERCOT.

But perhaps most importantly, the Board wants to recognize the efforts, talents, and skills of the staff of ERCOT and all the staffs of the market participants who achieved these goals for the benefit of the people, communities and businesses who rely on the Texas electric grid and the ERCOT market. Without them doing their part, Texas would not be the great place to do business that it is.

The Board of Directors is looking forward to a challenging year as we get ready for the launch of the nodal market. We are very supportive of the ERCOT staff and the market participants working diligently on market readiness tasks and training on a tight timeline.

In July 2007, ERCOT welcomed Bob Kahn as chief executive officer, following the retirement of Sam Jones. We are pleased to have someone with his seasoned experience to lead ERCOT into its future.

Mark Armentrout
Chairman of the Board

Board of Directors

Mark Armentrout
Chairman
(unaffiliated)

Michehl Gent
Vice Chairman
(unaffiliated)

Don Ballard
Office of Public Utility Counsel
(residential consumer, ex-officio)

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)

Carolyn Lewis Gallagher
(unaffiliated) *April 2005-March 2008*

Bob Helton
International Power America
(independent generator)

Charles Jenkins
Oncor Electric Delivery
(investor-owned utility)

Bob Kahn
CEO, ERCOT
(ex-officio)

Clifton Karnei
Brazos Electric Cooperative
(cooperative)

Jan Newton
(unaffiliated)

Barry Smitherman
Chairman
Public Utility Commission
(ex-officio, non-voting)

Robert Thomas
Green Mountain Energy
(retail electric provider)

Dan Wilkerson
Bryan Texas Utilities
(municipal utility)

Bob Kahn
President and CEO

From the CEO

In my first year as CEO, I quickly learned why ERCOT is recognized as one of the top electric markets in the world. First, we have the solid foundation of a well-designed competitive market as established by the Texas Legislature and implemented under the guidance and oversight of the Public Utility Commission.

Second, and perhaps most fundamental to our success, is the collaborative stakeholder process – market participants, customers, industry members, and regulators working side by side with the ERCOT staff to enable the development and evolution of an effective and highly reliable electricity market.

A few examples of why the ERCOT market is widely considered to be one of the most successful in the world:

- More than 104,000 megawatts (MW) of new generation projects are in the queue, including 15,500 MW of nuclear and 49,000 MW of wind – more interest than in any other state;
- 1,619 MW of wind generation came online last year, maintaining ERCOT's leadership in integration of renewable generation in the nation;
- More than 6,200 miles of transmission lines have been built since 1999 – 2,500 miles in just the last two years;
- 46 percent of residential customers had switched from the incumbent utility, at the end of 2007, just five years after launching the retail market.

Finally, I have been very impressed with the skills and expertise of the ERCOT staff. I believe that working collaboratively, we – the Commission, ERCOT staff, and the stakeholders – can look forward to more successes.

Bob Kahn
President and CEO

Vision

ERCOT is recognized as a world-class independent system operator of reliable, open and non-discriminatory electric markets.

Mission

ERCOT nurtures the development of an effective and highly reliable electricity market in Texas by:

- Providing independent advice to facilitate and enable innovation;
- Collaborating with customers, industry members, and regulators;
- Delivering high quality and cost-effective services;
- Developing a highly qualified expert staff.

To fulfill its statutory obligations established by the Texas Legislature, ERCOT will:

- Ensure access to the transmission and distribution systems for all buyers and sellers of electricity on nondiscriminatory terms;
- Ensure the reliability and adequacy of the regional electric network;
- Ensure that information relating to a customer's choice of retail electric providers is conveyed in a timely manner to the persons who need the information;
- Ensure that electricity production and delivery are accurately accounted for among the generators and wholesale buyers and sellers in the region.

System Operations

Operators weather ice storm

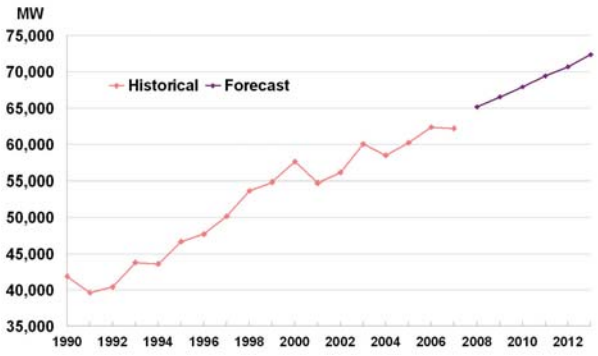
Shortly into 2007, icy weather fell upon much of the state. ERCOT system operators weathered the mid-January storm with no major operational issues. Many system operators and engineering support staff spent several nights in nearby hotels between their shifts to ensure that they would be able to get to work despite the icy conditions. The peak demand during the ice storm was 50,404 megawatts (MW) – a 31 percent increase over the previous year's January peak.

Energy consumption up slightly

Energy consumption for the year increased less than 1 percent over the 2006 total, at 307 million megawatt-hours (MWh) compared to last year's 305 million MWh of net energy for load.

The highest hourly demand for 2007 was 62,188 MW on August 13, slightly less than the all-time maximum peak demand of 62,339 MW, set on August 17, 2006.

PEAK DEMANDS, 1990-2013

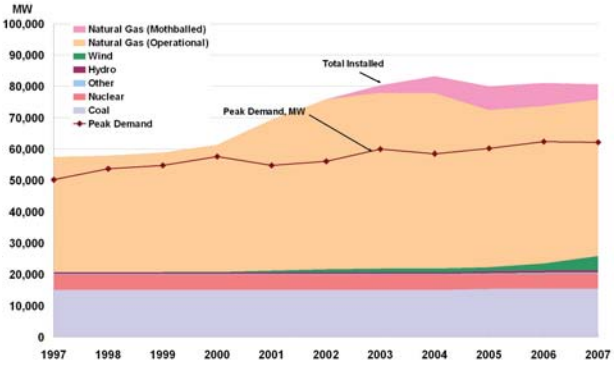


New operator training simulator completed

The new control center simulator system at ERCOT's Taylor training facility went "live" in May following a year of implementation work by ERCOT staff and the vendor. Four cycles of simulator training for ERCOT ISO system operators and the region's transmission operator operations personnel were completed.

The simulator allows operators to receive hands-on

GENERATION CAPACITY BY FUEL TYPE, 1997-2007



training on extreme system conditions without any impact to the grid. The system replicates the ERCOT control center computer systems and also includes a power system model to mimic the behavior of power systems and a subsystem to create events under various operating conditions. The simulator system also incorporates real-time market data in parallel with the normal real-time operation of the ERCOT system. In addition, operations and notifications of energy scheduling entities are included to simulate their expected actions.

ERCOT has a total of 48 system operators staffing two control centers, one primary and one backup facility. The control rooms run two shifts all day, every day, with eight individuals on every shift. Each operator receives more than 120 hours of training per year. Federal reliability standards require that grid operators receive continuing training (depending on the operator's responsibilities) for operator re-certification, which occurs every three years. ERCOT operators hold the highest level of certification, which requires 200 hours of continuing training. The certification standard also requires that a minimum of 30 hours of simulator training is included.

Operators coordinate region-wide storm drill

Operators received additional training during the annual storm drill. In November, 33 transmission operators and energy schedulers from across the ERCOT region participated in a severe weather drill.

The drill simulated a severe winter storm with multiple transmission outages and generation shortages, which culminated in rotating blackouts over 200,000 households to prevent a system-wide blackout. Energy schedulers and transmission and distribution providers were able to test backup emergency plans and practice communications with ERCOT during events leading up to the simulated ice storm and the rotating outages, as well as restoration activities.

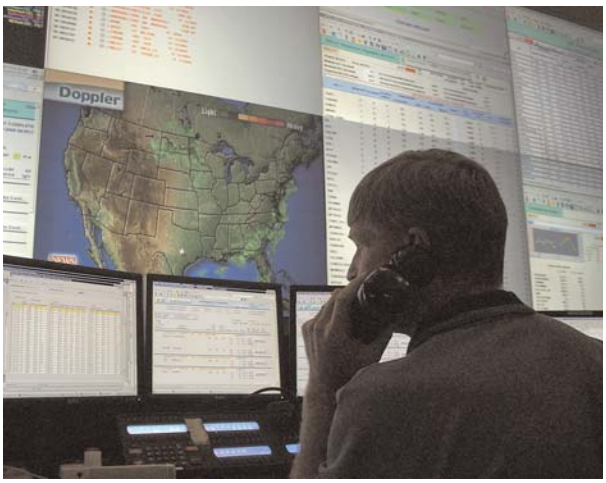
Operating standards department established for compliance

An operating standards department was established with initial staffing dedicated to maintaining compliance with NERC Reliability Standards and ERCOT Protocols. The first audit addressed was from NERC/Texas Regional Entity and resulted in an accepted mitigation plan for six minor deficiencies with no penalty.

Also, ERCOT's internal audit department conducted an audit of system operators and found them in compliance with 99.8 percent of operating procedures with the one exception being a low-risk violation that has been remedied.

Nodal activities impact market operating systems staff

The market operating systems staff redeployed 75 percent of its workforce to work on the nodal market project, while maintaining necessary support of zonal activities. Accomplishments for the year included:



- Completed Nodal Market Management System (MMS) design and walk-through, including updating of MMS Baseline 1 and 2 business requirements;
- Completed MMS Pre-Factory Acceptance Testing;
- Initiated Common Interface Model (CIM) engagement, which is a critical requirement for nodal implementation.

Additional accomplishments

Other 2007 achievements in system operations included:

- Implementation of Real-time Constraint Activity Manager, enabling real-time evaluation of the effect of individual generating units on a transmission constraint in order to dispatch units more effectively for local congestion; necessary for Nodal Security Constrained Economic Dispatch operations;
- Completion of 14 capital projects within budget, including the operator training simulator, mid-term load forecast phase I and improvements to the reliability of frequency input into control systems;
- Implementation of a temperature-dependent reserve discount factor in place of a fixed 7 percent. The discount factor now varies from 4 to 7 percent, based upon temperature, and more accurately represents actual reserves on the grid, reducing the need for and cost of maintaining additional reserves.

System Planning

ERCOT leads nation in wind energy

The ERCOT region has garnered recognition as a national leader in integrating wind energy. At the end of 2007, ERCOT had more than 4,700 MW of installed wind generation – significantly higher than any other state. An additional 2,700 MW of wind plants are already scheduled to begin operations in 2008, and over 44,000 MW are in various stages of interconnection studies.

As the transmission system nears the limits of how much wind energy transfer it can handle, the Public Utility Commission is working on the designation of Competitive Renewable Energy Zones (CREZ), as instructed by Texas Senate Bill 20 (2005) to facilitate transmission development.

ERCOT system planning staff provided expert testimony and related support for the CREZ docket. At the commission's direction, the planning staff developed a process for analyzing four specific CREZ scenarios. The PUC is expected to designate the CREZ zones in mid-2008, with specific transmission-project filings to follow.

Renewable Energy Credit program most active in US

In 2007, ERCOT administered the Texas Renewable Energy Credits (REC) trading program for 68 resource entities and 318 other market participants, issuing almost 10 million RECs to Texas renewable energy generation companies. Companies must generate a megawatt-hour of energy to earn one REC. Ninety-one competitive retail electricity providers retired 3.4 million RECs in order to satisfy the annual mandate within the portfolio standard. An additional 1.6 million RECs were retired in the voluntary market. Entities retire RECs in the voluntary market to substantiate their "green energy" support of the clean-air initiative in Texas.

The REC program in Texas is the longest running and the most active in the US, and it is accomplishing its goal of bringing "clean" renewable resources into Texas at a record pace.

The REC trading program was established as part of the Legislature's restructuring of the state's electricity market in 1999. The original statutory goal of the program was to install 2,000 MW of additional, new renewable resource generation in Texas by the year 2009, adding to the 880 MW already existing. In 2005 the renewable portfolio standard was increased to 5,880 MW of renewable generation by 2015.

Texas has rapidly moved beyond the original goals. More than 4,000 MW of wind power has been added since 2001. Texas surpassed California in 2006 as the leading state in the US in wind capacity.

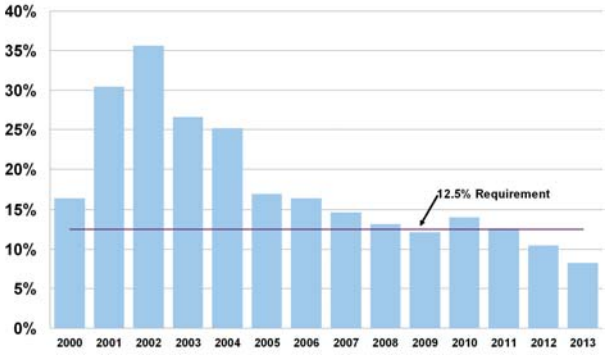
Generation short-term outlook improves

System planning released the annual summer assessment and five-year projection in May, showing the generation reserve margin dropping below the 12.5 percent minimum as early as 2009. The winter update in December reflected an improved short-term outlook due to the addition of 836 MW of planned generating capacity beginning in 2009 plus 2,460 MW in 2010.

Based on the forecast's "snapshot in time," reserves continue to look tight in 2011, 2012 and 2013. Potential resources that are not added to the assessment include over 4,000 MW of generation capacity which is currently mothballed but could be brought back into service or repowered to take advantage of the present fuel and transmission infrastructure.

Other potential resources include units that are in the final phase of an interconnection study but lack either an air permit or an executed interconnection agreement. At the end of 2007, ERCOT was tracking new generation proposals in the final phase totaling 15,517 MW by 2013.

ERCOT RESERVE MARGINS, 2000-2013



Also during the year, the system planning division:

- Completed the analyses and recommendations for 17 transmission projects through the Regional Planning Group review process;
- Processed a record 127 generation interconnection requests and completed more than 100 interconnection screening studies.

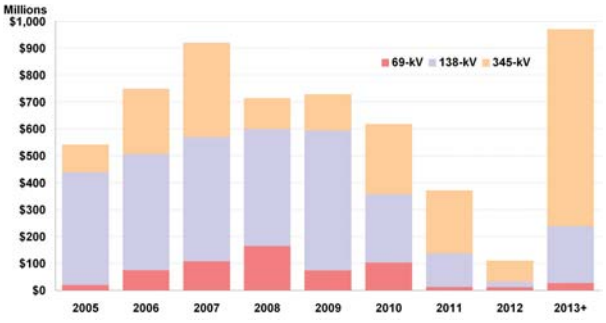
$3 billion in transmission improvements proposed

ERCOT's annual transmission planning report issued in December 2007 included $3 billion in proposed projects for the next five years, expected to add 2,538 miles of transmission lines and autotransformer capacity.

The major 345-kV transmission lines planned include:

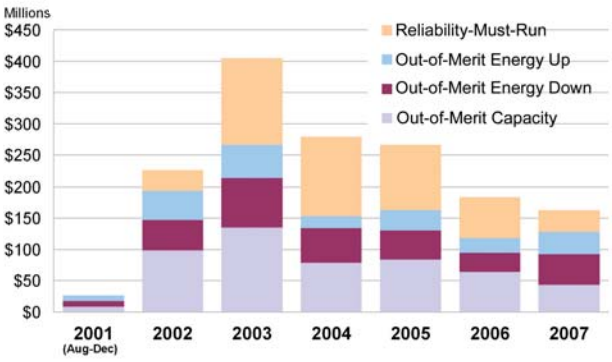
- 88 circuit miles, Bell County East – Twin Oaks, operational 2012
- 198 circuit miles, Red Creek – Killeen line, operational 2012
- 38 circuit miles, Oklaunion – Bowman line, operational 2012
- 22 circuit miles, Nacogdoches – Lufkin line, operational 2012
- 103 circuit miles, Clear Spring – Salado, operational 2010/2011
- 110 circuit miles, San Miguel – Laredo, operational 2010

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.

INTRAZONAL (LOCAL) CONGESTION COSTS



- 7 circuit miles, West Levee – Norwood (Dallas/Fort Worth), operational 2009.

Since 2005, ERCOT transmission service providers have completed more than 2,500 circuit miles of transmission lines and approximately 28,000 MVA of autotransformer capacity, with an estimated capital cost of $2.2 billion.

Congestion costs decreasing

The transmission report also analyzed costs to resolve zonal congestion (between zones) and intrazonal congestion (local). After several years of decrease, transmission congestion costs appear to be level between 2006 and 2007, but overall costs may trend higher until planned lines are added, the report noted.

Intrazonal congestion costs are highly dependent on local generation availability, the limits of the transmission infrastructure, the local area demand, and projected load growth. ERCOT has worked with market participants to develop short-range and long-range plans to minimize intrazonal congestion costs. Due to new transmission and other operational improvements, annual intrazonal congestion costs were reduced from $405 million in 2003 to $183 million in 2006 and about $163 million in 2007.

Moving to the nodal market design will allow more efficient congestion management through improved dispatch efficiencies at the resource level, rather than by portfolio. The nodal market is expected to achieve lower congestion costs by allowing more direct assignment of local congestion.

Market Operations

ERCOT staff supports stakeholder process

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 more than 700 stakeholder meetings in 2007, compared to 601 in 2006. The staff managed all activities for 168 market rule changes, including 49 Protocol Revision Requests (PRRs), 56 nodal PRRs, and more than 63 guide revisions, plus more than 576 accompanying recommendation reports.

ERCOT staff also provided business support for 348 market participant entities involved in day-to-day ERCOT operations, drafted and distributed 821 market notices across a diverse range of technical topics, and delivered 1,748 days of structured education sessions for all stakeholders, up from 1,000 in 2006.

Electronic transaction system upgraded

Upgrades and improvements delivered by the project teams included development of version 3.0 of Texas Standard Electronic Transaction (SET), the electronic transaction system that supports the retail market.

The project teams also completed an automated solution for mass transition of ESI-IDs (Electric Service Industry Identifier, the unique identifier for each retail customer in ERCOT), creation of new data marts in the operational data store, and upgrades to load profiling and metering software application systems. All projects were implemented without market disruption.

The testing staff administered four market-wide test flights required for recertification on Texas SET 3.0.

ERCOT also tested more than 5,000 compilation and computing code changes and resolved over 900 defects before releasing new systems into production.

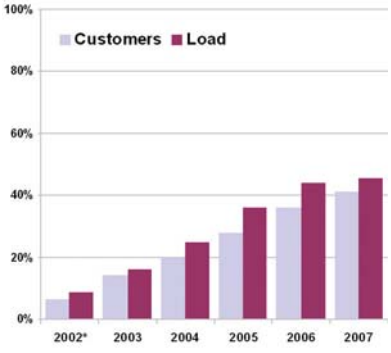
Switching and related retail transactions top 5 million for the year

ERCOT is unique among independent system operators with its central role in assuring conveyance of retail customer switch requests, move-ins and move-outs, and meter-read data. In 2007 ERCOT processed 5.1 million retail transactions – including retail switches, move-ins and move-outs and other transactions, at nearly 100 percent within protocol.

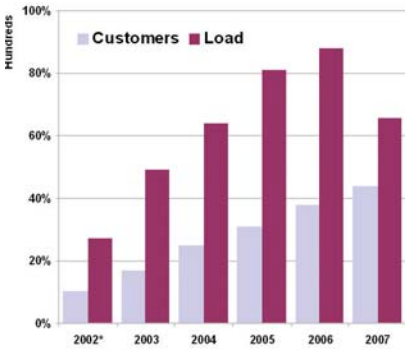
The Texas retail electricity market continued to set the standard nationally for success in customer choice. By year's end, 41 percent of residential customers were served by a retail electric provider other than the incumbent utility, compared with 36 percent in 2006. Competitive service to commercial customers was at 44 percent, and industrial at 71 percent.

CUSTOMER SWITCHING: CUSTOMERS CHOOSING COMPETITIVE RETAIL PROVIDERS

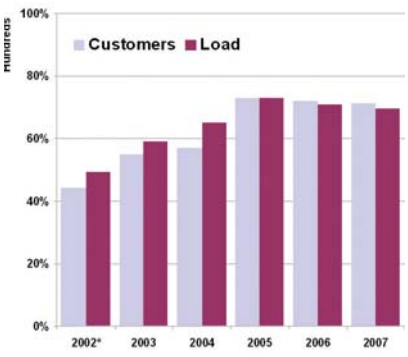
Residential



Small Non-residential



Large Non-residential



* 2002 numbers are estimates

Staff implemented new PUC provider-of-last-resort rules outlined in Substantive Rule 25.43. There were no market-wide mass drops to the providers-of-last-resort during 2007.

More than 14 new retail electric providers joined the ERCOT market in 2007.

Settlement processing 100 percent accurate

Managing the data and the settlements and billings processes that support the $30 billion wholesale market is a critical function of market operations.

Staff processed more than 128,000 wholesale statements and invoices with 100 percent accuracy and 99.3 percent timeliness.

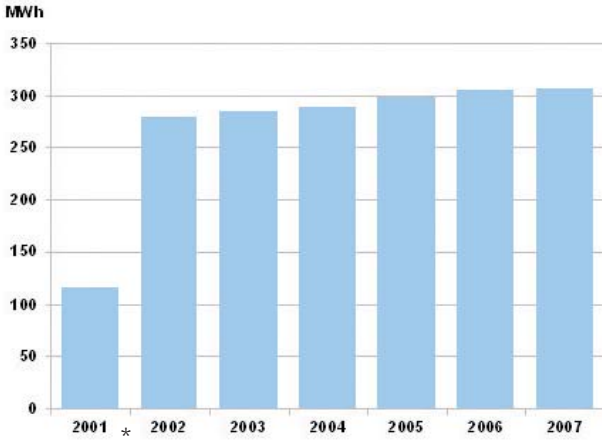
Over $66 million auctioned in Transmission Congestion Rights

In addition to managing the settlements and billings processes, ERCOT conducted Transmission Congestion Rights (TCR) auctions totaling $66.7 million. A TCR is a financial instrument that enables market participants to hedge against the risk of incurring congestion charges between pricing zones.

In the nodal market, TCRs will be replaced by Congestion Revenue Rights (CRR). A CRR is a financial instrument that enables market participants to hedge against the risk of incurring congestion charges between pricing nodes.

CRRs are defined by a megawatt amount, settlement point of injection, and settlement point of withdrawal. CRR owners will pay or get paid the product of the CRR megawatt amount and the locational-marginal-pricing difference between the CRR injection and withdrawal settlement points. CRRs will be auctioned by ERCOT monthly and annually, and auction revenues will be returned to loads.

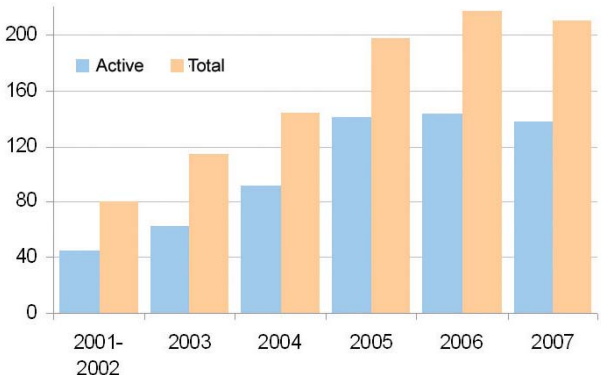
TOTAL ADJUSTED METERED LOAD



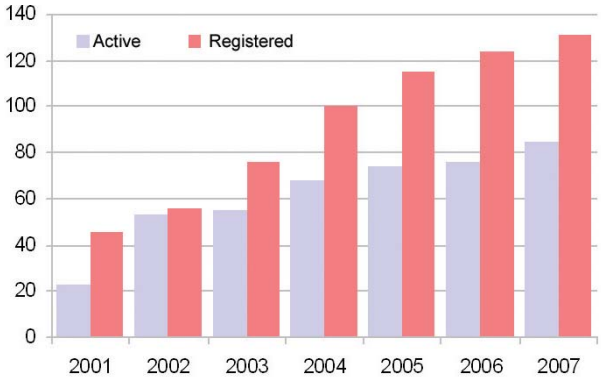
*2001 represents a partial year

MARKET PARTICIPANT GROWTH

Qualified Scheduling Entities



Competitive Retailers



Information Technology

Technology infrastructure investments

In 2007 ERCOT information technology continued on its mission to further align with the needs of the market, to operate under the notion of a business-within-a-business, and to strive for operational excellence.

ERCOT made the needed investment in hardware and software to meet the technology demands of the upcoming nodal market and to enable the continued growth of the existing ERCOT market.

In preparation for the nodal market, ERCOT information technology completed a major migration of enterprise class servers and also increased the number of deployed servers by 109 percent. This migration in conjunction with a successful server virtualization initiative allowed ERCOT to deploy the quantity of systems required to launch the nodal market while remaining within ERCOT's current data center footprint. ERCOT also continued to add the needed data storage environment to support this growth and solidify the reliability of the operating environment.

The right tools for the job

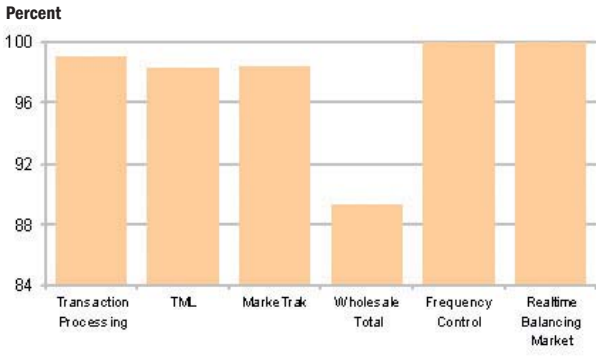
As the technology demands of the nodal market became clear, ERCOT invested in technology management tools to automate best-practice methodologies. Migration to best-practice incident and problem management tools that enable staff to resolve problems more quickly were completed. These tools, complemented by new systems-monitoring software and staff training to utilize the new tools, will ensure that the information technology staff has the information needed to support ERCOT's mission.

Customer focus

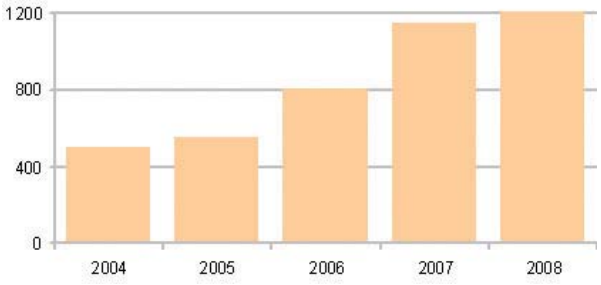
ERCOT information technology formalized its first service-level agreement with market participants for the ERCOT retail transaction processing platform in 2006. Building upon the success of this agreement and working with market participants, the scope of the service-level agreements was expanded in 2007 to include two additional key retail market participant tools, Texas Market Link and MarkeTrak, a tool used by the market to follow issues through resolution.

Information technology also began discussions with market participants regarding the formalization of service-level agreements for the delivery of reports and extracts of key market data that will be completed in 2008.

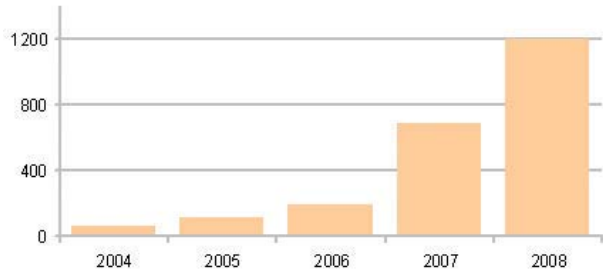
MAJOR SYSTEMS AVAILABILITY, 2007



NUMBER OF SERVERS, 2004-2008



TERABYTES OF STORAGE, 2004-2008



The systems and applications required to run the nodal market will have service levels negotiated with market participants before the systems enter a production capacity.

Additional accomplishments

Other accomplishments for the year included:

- Successfully implementing Texas SET 3.0;
- Analyzing the retail switching systems and development of a plan to improve performance in this area;
- Reducing PaperFree duplicate transactions;
- Extending the life of Austin and Taylor data centers and adding additional server capacity through new virtualization technologies;
- Implementing new electronic data warehouse tools to improve the reliability and speed of getting information out to the market.

Nodal Market Implementation

ERCOT, market participants work together on tight schedule

The ERCOT staff and market participants worked steadily during the year in preparation for the nodal market implementation.

The biggest challenges ahead include a tight timeline for the delivery and testing of the Market Management System; infrastructure constraints (power, space and cooling limiting the speed of some projects and trials); and integration issues (building 400-500 interfaces and working with the three main vendors on integration of models and communications).

Nearly all systems and their integration will be independently checked and tested prior to the final qualification test. It will be conducted by the intended users of the systems, and all market participants will be required to participate.

Major milestones accomplished

Several key items were achieved in accordance with schedule including:

- Implementation of Locational Marginal Pricing module;
- Implementation of new hardware infrastructure;
- Launch of the market participant registration system;
- Multiple software deliveries for early delivery systems;
- Market participants able to sign onto the nodal systems and begin their development and testing;
- Significant improvement in quality measurement program for nodal;
- Completion of draft nodal service-level agreement.

Texas Nodal

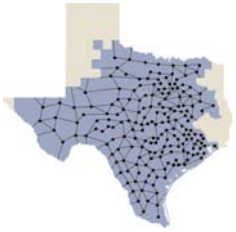
Zonal Market

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 efficiently resolve congestion.
- Indirect assignment of local congestion - Participants who contribute to local congestion are not appropriately 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 and more efficient congestion management.
- More 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)	2003	2004	2005	2006	2007
Revenue	97.2	129.7	127.9	135.1	165.9*
Direct Operating Expenses	69.4	79.1	80.8	85.9	115.8
Depreciation/Amortization	38.0	44.7	49.0	42.2	33.9
Net Interest Expense/(Income)	8.1	8.0	7.7	5.4	4.3
Total Expenses	115.5	131.8	137.5	133.5	154.0
Debt: Long Term	136.4	149.0	134.1	108.0	181.8
Debt: Short Term	13.6	29.4	26.1	73.1	77.1
Capital Expenditures	36.0	59.7	25.3	68.2	132.7
Administration Fee (per MWh)	$0.33	$0.44	$0.42	$0.417	$0.417

OPERATING DATA	2003	2004	2005	2006	2007
Peak Demand (MW)	60,095	58,531	60,274	62,339	62,188
Energy (GWh)	284,954	289,113	299,219	305,692	307,064
Reserve Margin (%)	26.7	25.2	16.5	16.4	14.6
Transmission Improvements ($ millions)**	$424.7	$360.1	$557.4	$749.4	$919.5
Wind Generation Added (MW)	196.6	114	628	1,021	1,619
Local Congestion Costs ($ millions)***	$405.2	$279.0	$266.6	$183.6	163.5

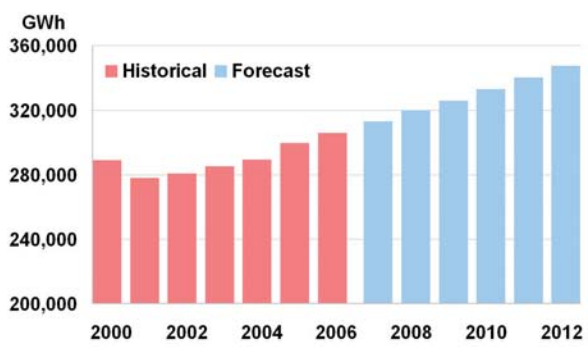
RETAIL TRANSACTIONS DATA	2003	2004	2005	2006	2007
Competitive Choice Customers	6,000,199	6,079,456	6,199,966	6,298,374	6,401,101
Switches Completed (cumulative)	1,188,829	1,646,346	2,287,492	3,134,197	3,849,436
Switches by Year	653,044	457,517	641,146	846,705	715,239
Residential	538,914	335,253	479,830	656,218	578,727
Small Non-residential	112,873	121,210	160,339	189,482	135,586
Large Non-residential	1,257	1,054	976	1,004	926
Total Load Migrated from AREP (MW)	15,676	20,211	25,640	29,721	26,473
Residential	3,535	5,156	7,454	9,601	9,831
Small Non-Residential	6,768	8,739	11,063	13,337	9,937
Large Non-Residential	5,373	6,316	7,123	6,783	6,705
Competitive Retail Total Transactions (000's)	95,826	89,060	92,368	94,857	93,684

** Includes $32 million from nodal surcharge and $2 million from NERC ERO fee*

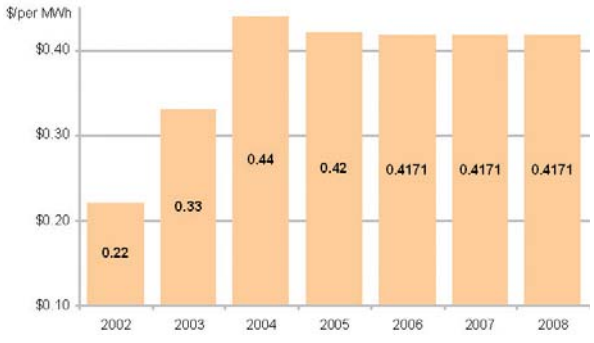
*** Based on projects completed in the designated year; may not reflect annual costs since costs may be spread over several years*

**** Methodology has changed during the five-year period. Past years' updated to reflect changes following re-settlements and true-ups.*

ANNUAL ENERGY, 2000 - 2012



ERCOT SYSTEM ADMINISTRATION FEE, 2002-2008



ERCOT Members

7-Eleven
Accent Energy Texas
AES Corporation
Air Liquide Large Industries US
Air Products and Chemicals
Airtricity
American Electric Power
Andeler Corporation
Austin Energy
Austin White Lime
Barclays Bank
Bartlett Electric Cooperative
Bear Energy
Big Country Electric Coop.
Big Lots
Blu Power of Texas
BOC Energy Services
BOC Gases
BP Energy Company
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Brubaker & Associates
Bryan Texas Utilities
Calpine Corporation
Cargill Power Markets
CenterPoint Energy
Champion Energy Services
Chaparral Steel Company
ChevronPhillips Chemical
Cielo Wind Power
Cirro Group
Cities Aggregation Power Proj.
Citigroup Energy
City of Abilene
City of Alamo
City of Alice
City of Allen
City of Arlington
City of Belton
City of Benbrook
City of Brownwood
City of Carrizo Springs
City of Carrollton
City of Cedar Hill
City of Cleburne
City of College Station
City of Colleyville
City of Corpus Christi
City of Crockett
City of Dallas
City of Dilley
City of Duncanville
City of Eastland
City of Farmers Branch
City of Gainesville
City of George West
City of Grand Prairie
City of Grapevine
City of Harker Heights
City of Harlingen
City of Honey Grove
City of Irving
City of Keller
City of Killeen
City of La Feria
City of Lewisville
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City of North Richland Hills
City of Odessa
City of Ovilla
City of Paris
City of Plano
City of Point Comfort
City of Port Lavaca
City of Portland
City of Robinson
City of Rockport
City of Rowlett
City of Sachse
City of San Angelo
City of Snyder
City of Sweetwater
City of Tyler
City of University Park
City of Victoria
City of Waco
City of Waxahachie
City of Whitney
CMC Steel Texas
Cobisa Corporation
Coleman County Electric Cooperative
Comanche Electric Cooperative
Commerce Energy
Concho Valley Electric Cooperative
ConocoPhillips Company
Constellation Energy Commodities Group
Constellation NewEnergy
Cooke County Electric Cooperative Association
Coral Power
CoServ Electric
CPS Energy
DB Energy Trading
Denton Municipal Electric
Direct Energy
Dow Chemical Company (The)
Dynegy Power Corp.
Eagle Energy Partners I
Econnergy Energy Co.
Exelon Generation Company
ExxonMobil Power & Gas Svcs
Federated Department Store
First Choice Power
Flint Hills Resources
Floresville Electric L & P Syst.
Formosa Plastics
Fort Belknap Electric Coop.
Fortis Energy Mkt & Trading
FPL Energy
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Garland Power & Light
Georgetown Utility Systems
GEUS
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Golden Spread Electric Cooperative
Grayson-Collin Electric Coop.
Green Mountain Energy
Gregory Power Partners
Guadalupe-Blanco River Auth.
Halliburton Energy Services
Hamilton County Electric Coop.
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HILCO Electric Cooperative
Himalaya Power
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Karnes Electric Cooperative
Kerrville Public Utility Board
Keystone Energy Partners
Kohls Department Store
Liberty Power Corp.
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Lowe's Home Centers
Lower Colorado River Authority
Lyondell Chemical Company
Magic Valley Electric Coop.
Marathon Oil Company
McDonald's USA
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Medina Electric Cooperative
Mid-South Electric Coop. Assoc.
Mirant Energy Trading
MorganStanley Capital Group
Navarro County Electric Coop.
Navasota Energy Management
Navasota Valley Electric Coop.
New Braunfels Utilities
North American. Energy Credit & Clearing
NRG Texas
Nucor
Nueces Electric Cooperative
Occidental Chemical Corp.
Occidental Power Services
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PetSmart
PPM Energy
PSEG Texgen I
Radio Shack
Rainbow Energy Marketing
Rayburn Country Electric Coop.
Reliant Energy
Rio Grande Electric Cooperative
Safeway
San Bernard Electric Coop.
San Patricio Electric Cooperative
Sempra Energy Solutions
Sharyland Utilities
Sid Richardson Carbon and Energy
Signal Hill Power
Sitara Energy
South Plains Electric Coop.
South.Texas Aggregation Power Project.
South Texas Electric Coop.
Southwest Texas Electric Coop.
StarTex Power
Strategic Energy
Stream Energy
Suez Energy Marketing NA
Sweetwater Wind 2
TAC Residential Consumer Rep.
Tara Energy
Taylor Electric Cooperative
Tenaksa Power Services Co.
Tenaska Energy
Texas Independent Energy
Texas Industries
Texas Instruments
Texas Municipal Power Agency
Texas Petrochemicals
Texas-New Mexico Power Co.
The Colony
Topaz Power Group LLC
Town of Addison
Town of Flower Mound
Town of Highland Park
Town of Laguna Vista
Town of South Padre Island
Town of Woodsboro
Tri-County Electric Cooperative
TriEagle Energy
TXU Electric Delivery Company
TXU Energy Company
TXU Generation Co.
United Cooperative Services
Valero
Valero Refining - Texas
Verde Renewable Energy Inc.
Victoria Electric Cooperative
W Power and Light
Walgreens
Wal-Mart Stores
Weatherford Municipal Utility
Wharton County Electric Coop.
Whole Foods
Wise Electric Cooperative
Wolf Hollow I
Xtend Energy

ERCOT Governance

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Chairman
(unaffiliated)

Michehl Gent
Vice Chairman
(unaffiliated)

Don Ballard
Office of Public Utility Counsel
(residential consumer, ex-officio)

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)

Carolyn Lewis Gallagher
(unaffiliated) *April 2005-March 2008*

Bob Helton
International Power America
(independent generator)

Charles Jenkins
Oncor Electric Delivery
(investor-owned utility)

Bob Kahn
CEO, ERCOT
(ex-officio)

Clifton Karnei
Brazos Electric Cooperative
(cooperative)

Jan Newton
(unaffiliated)

Barry T. Smitherman
Chairman
Public Utility Commission
(ex-officio, non-voting)

Robert Thomas
Green Mountain Energy
(retail electric provider)

Dan Wilkerson
Bryan Texas Utilities
(municipal utility)

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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

Mike Grable
Vice President and General Counsel

Ron Hinsley
Vice President and Chief Information Officer

Kent Saathoff
Vice President of System Operations

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 (Texas RE), the independent division that FERC 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. Texas RE 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 Texas RE, NERC, and the Federal Energy Regulatory Commission.

The Electric Reliability Council of Texas (ERCOT) manages the flow of electric power to approximately 21 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 550 generation units. ERCOT also manages financial settlement for the competitive wholesale bulk-power market and administers customer switching for 6 million Texans in competitive choice areas. ERCOT is a membership-based 501(c)(4) 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 consumers, cooperatives, independent generators, independent power marketers, retail electric providers, investor-owned electric utilities (transmission and distribution providers), and municipal-owned electric utilities.

Electric Reliability Council of Texas, Inc.

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