



Update on Investments and Outstanding Debt

ERCOT Board of Directors
17 November 2008

Steve Byone,

Vice President and Chief Financial Officer

- **Update on Investments**
- **Summary of Outstanding Debt and Maturity Profile**
- **Near-term Financial Considerations**



Update on Investments

- **ERCOT continues to receive and manage cash**
 - Acceptable form of collateral in support of market activity
 - Transmission Congestion Rights (TCR) auctions
 - Prepayments for settlement activity
 - Operational working capital fluctuations
- **All new investments (approximately \$76 million at October 31, 2008) are restricted to funds which invest in US Treasury (or Treasury backed) securities and are being held by Federated or JPMorgan Chase.**
- **Review of collateral management practices and Investment Corporate Standard underway**
 - Recommended changes must be reviewed with the Board
 - Last review and approval performed in November 2007

Investment Balances – The Reserve as of November 7, 2008

	Approximate Values		
	Primary Fund	US Govt Fund	Total
Fund Balance	25,109,672,614	10,445,447,909	35,555,120,523
ERCOT Investment Balance	23,531,721	147,919,777	171,451,498
ERCOT % of Total Fund Balance	0.09%	1.42%	0.48%
Cash Balance Held In Account	7,369,672,614	3,830,447,909	11,200,120,523
Cash Balance % of Total Fund	29.3%	36.7%	
Original ERCOT Investment Subjected to Hold	47,842,537	147,919,777	195,762,315
Less: Distributions to date	<u>(24,310,816)</u>		<u>(24,310,816)</u>
Net ERCOT Investment in Fund	23,531,721	147,919,777	171,451,498
Plus: Accrued interest	<u>191,405</u>	<u>123,884</u>	<u>315,289</u>
Total due from The Reserve	<u><u>23,723,126</u></u>	<u><u>148,043,661</u></u>	<u><u>171,766,787</u></u>
% Distributed to Date	50.81%	0.00%	12.42%
ERCOT, Inc (including TRE)	6,077,656		6,077,656
Market funds - TCR revenue and prepayments	17,454,065		17,454,065
Market funds - (QSE & TCR) Collateral		<u>147,919,777</u>	<u>147,919,777</u>
Total	<u><u>23,531,721</u></u>	<u><u>147,919,777</u></u>	<u><u>171,451,498</u></u>

Note: The Primary fund held approximately \$65 billion immediately prior to halting redemptions while The Reserve held approximately \$125 billion across all funds managed by the group.



Summary of Outstanding Debt and Maturity Profile

Summary of Debt Capacity

ERCOT, Inc. Summary of Debt Capacity \$ Million

	As of 11/7/2009				12/31/2008 Budget Debt Outstanding
	Board Authorized	Debt Capacity	Debt Outstanding	Credit Available	
Senior Notes	81.8	81.8	81.8	-	81.8
Term Loan	212.5	212.5	212.5	-	200.0
JPMorgan Chase/Wachovia Revolver	175.0	175.0	31.0	144.0	61.5
Bank of America Revolver	50.0	50.0	-	50.0	
Other (tbd)	150.0	-	-	-	
Totals	669.3	519.3	325.3	194.0	343.3

Note - ERCOT liquidity consisting of credit lines available and cash on hand is sufficient to fund projected cash needs beyond Q1 2009.

- **Source of working capital**
- **Partially fund projects**
 - Used to maintain a smooth fee rather than increasing or decreasing the fee (“spiking”) as project spending levels fluctuate from year to year
 - For longer term projects, improve matching of costs with those who benefit
- **The Nodal Program is a “special case” project which by year-end 2008 is expected to contribute approximately \$200 million or 60% of ERCOT’s year-end debt balance**
- **Generally, debt used for ERCOT projects support assets with a 3-5 year life (computer hardware and/or software) so payoff is quicker than traditional businesses with long life assets**

Nodal Spending and Debt – LTD 9/30/2008

Electric Reliability Council of Texas (ERCOT) Nodal Program Finances (Budget vs. Actual as of 09.30.08)

The following table summarizes Nodal program financial activity----spending, cost recovery, and debt outstanding----as of September 30, 2008.

Spending levels noted in the September Financial Summary are below the approved budgeted levels filed in the Revised Nodal Market Implementation Surcharge - Docket 35428 filed in March, 2008. (Noted in Lines 6, 8 and 10).

As of September 30th, debt financing for the Nodal program is approx. \$12M below year-end budget projections (Noted in Line 13).

Line	Calculation	LTD Actual (as of 09.30.08)	Source Reference Financial Summary (09/08)	Approved Budget	Source Reference Revised Nodal Surcharge Filing (Docket 35428)
1	Nodal Program Spend (excluding depreciation & interest- develop.)	288,659,691		308,861,326	Sch. 4 Line 11 and 13
2	Nodal Interest - Development	10,635,913		10,600,000	Sch. 4 Line 11
3	Nodal Program Costs (excluding depreciation)	<u>299,295,604</u>	Page 7	<u>319,461,326</u>	Sch. 4 Line 13
4	Less: Nodal Interdependent Spend	39,700,000	Page 11	39,720,226	Sch. 4 Line 15
5	Less: Nodal Interest	<u>10,635,913</u>		<u>10,600,000</u>	Sch. 4 Line 11
6	Nodal Program Costs to be Financed (excluding depreciation)	<u>248,959,691</u>		<u>269,141,100</u>	Sch. 4 Line 17
7	Less: 2009 Budget	-		1,600,000 (1)	Workpaper 3.1 Line 1
8	Nodal Program Costs Funded via Surcharge (excludes interest)	<u>248,959,691</u>		<u>267,541,100</u>	
9	Plus: Interest	10,635,913		17,000,000 (1)	Sch. 3 Line 2
10	Nodal Spend Funded via Surcharge	<u>259,595,604</u>		<u>284,541,100</u>	
11	Nodal Surcharge Revenue	72,361,158	Page 7	85,200,000 (1)	Sch. 2 Line 5
12					
13	Nodal Debt Financing	<u>187,234,446</u>		<u>199,341,100</u> (1)	Sch. 1 Line 9
14					
15	Nodal - % Equity Funded	28%		30%	

Note:

(1) Total Nodal program budget is reflected on Lines 1 - 6. To facilitate a comparison to December 31, 2008, the 2009 budget estimate of \$1.6 (Line 7) is subtracted from the total budget and both the interest and revenue budget amounts reflected are estimates through December 31, 2008.

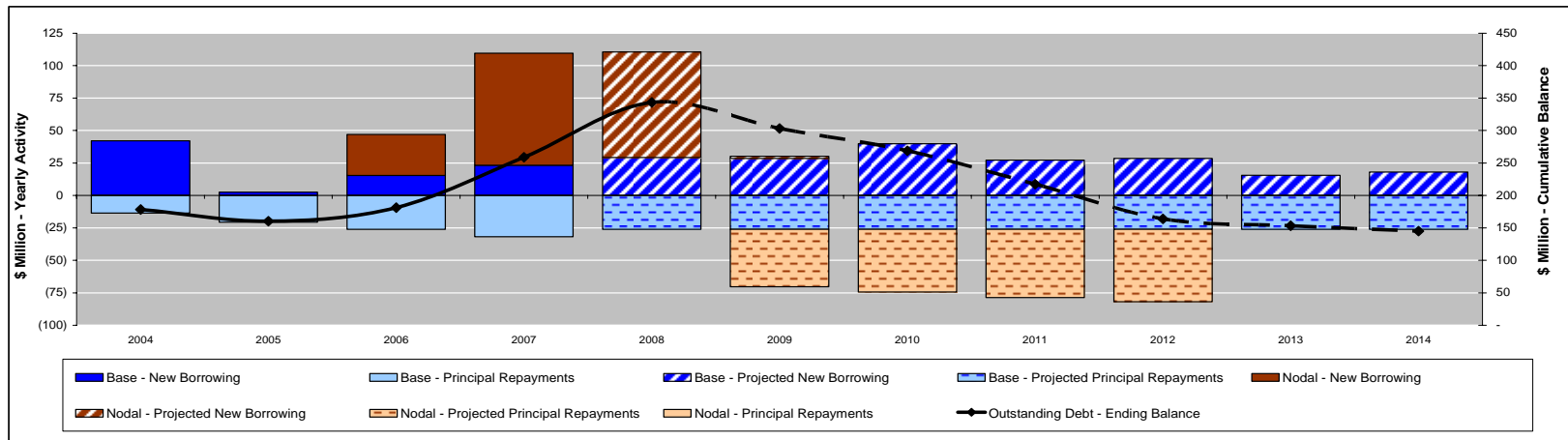
(2) Total Nodal Program Revenue Requirement calculation:

Nodal Program Costs to be Financed	\$269,141,100
Nodal Financing Costs through 12.31.08	17,000,000
Nodal Financing Costs through 2009 - 2012	<u>25,200,000</u>
	311,341,100

(3) Nodal program surcharge modified on three occasions since project inception:

- Interim Surcharge (\$.0663 per MWh) effective from October 1, 2006 to May 30, 2007
- Nodal Surcharge (\$.1270 per MWh) effective from June 1, 2007 to May 30, 2008
- Revised Nodal Surcharge (\$.1690 per MWh) effective June 1, 2008

Debt Balance and Maturity Profile

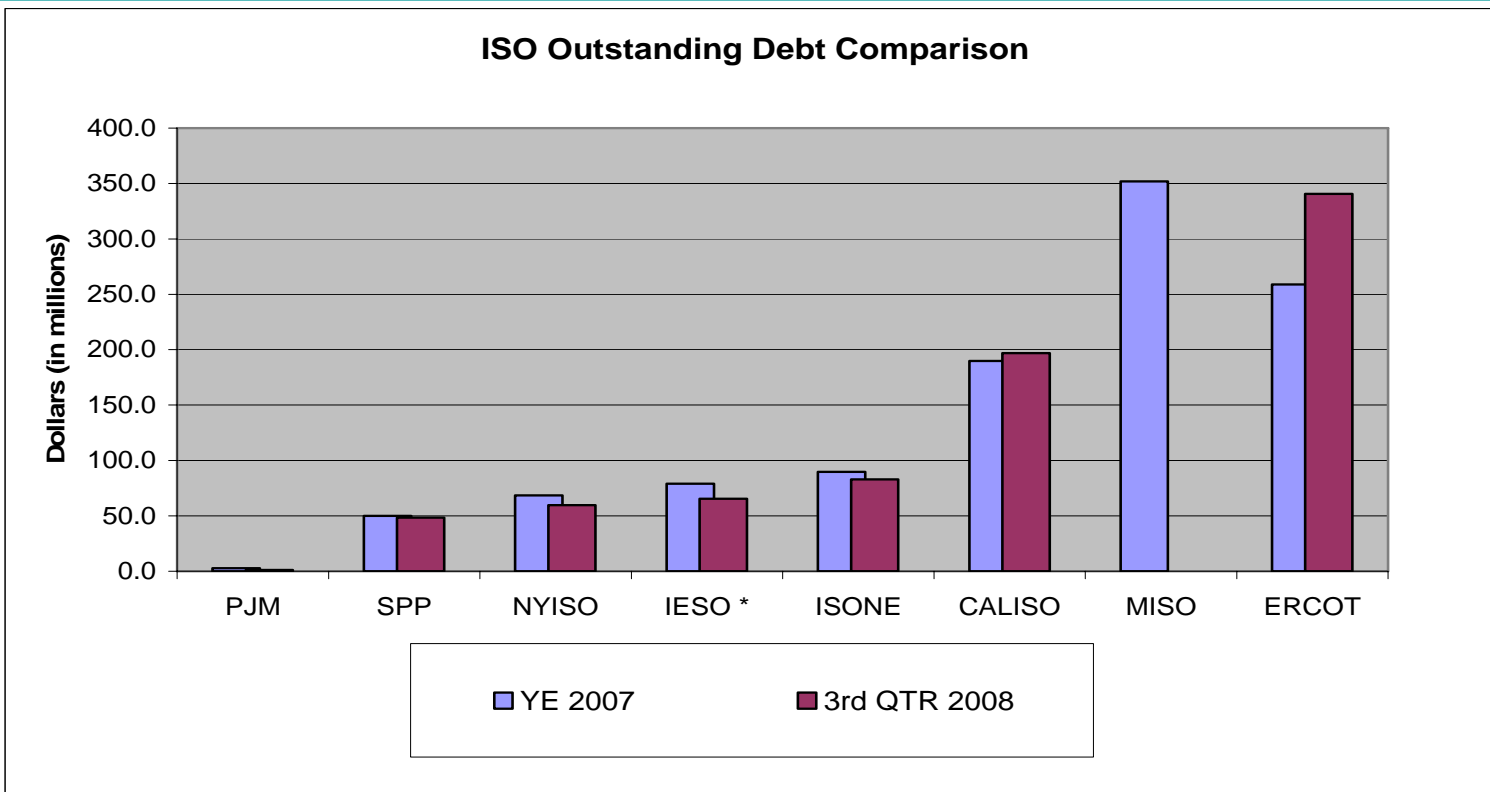


Line	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1 Beginning Balance											
2 Nodal Program	-	-	-	31.5	117.9	199.3	156.7	108.4	55.8	-	-
3 Base Operations	150.0	178.4	160.3	149.6	141.0	144.1	146.6	160.3	161.4	163.8	153.2
4 Sub-total	150.0	178.4	160.3	181.1	258.9	343.4	303.3	268.7	217.2	163.8	153.2
5											
6 New Borrowing											
7 Nodal Program	-	-	31.5	86.4	81.4	1.6	-	-	-	-	-
8 Base Operations	42.0	2.5	15.4	23.2	29.2	28.6	39.8	27.2	28.5	15.5	18.0
9 Sub-total	42.0	2.5	46.9	109.6	110.6	30.2	39.8	27.2	28.5	15.5	18.0
10											
11 Principal Repayments (1)											
12 Nodal Program (2)	-	-	-	-	-	(44.2)	(48.3)	(52.6)	(55.8)	-	-
13 Base Operations (3)	(13.6)	(20.6)	(26.1)	(31.8)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)
14 Sub-total	(13.6)	(20.6)	(26.1)	(31.8)	(26.1)	(70.3)	(74.4)	(78.7)	(81.9)	(26.1)	(26.1)
15											
16 Net Change											
17 Nodal Program	-	-	31.5	86.4	81.4	(42.6)	(48.3)	(52.6)	(55.8)	-	-
18 Base Operations	28.4	(18.1)	(10.7)	(8.6)	3.1	2.5	13.7	1.1	2.4	(10.6)	(8.1)
19 Sub-total	28.4	(18.1)	20.8	77.8	84.5	(40.1)	(34.6)	(51.5)	(53.4)	(10.6)	(8.1)
20											
21 Ending Balance											
22 Nodal Program	-	-	31.5	117.9	199.3	156.7	108.4	55.8	-	-	-
23 Base Operations	178.4	160.3	149.6	141.0	144.1	146.6	160.3	161.4	163.8	153.2	145.1
24 Sub-total	178.4	160.3	181.1	258.9	343.4	303.3	268.7	217.2	163.8	153.2	145.1
25											
26 Estimated Nodal Surcharge Revenue	-	-	4.5	32.0	47.9	54.0	55.1	56.3	57.3	-	-

NOTES:

- (1) ERCOT has the option to delay the term loan principal repayment of \$12.5M in 2008 and \$50M in 2009. The outstanding loan balance of \$212.5M would then be repaid in three equal installments in 2010 - 2012.
- (2) The Nodal Surcharge will expire after recovery of principal and interest as approved in the Final Order of Docket 35428 granted on May 13, 2008.
- (3) The amount included in the currently approved SAF for retirement of principal is assumed to remain constant until such time as a new SAF case is presented and approved by the PUCT.

ISO Outstanding Debt Comparison



ISO Outstanding Debt Comparison

	PJM	SPP	NYISO	IESO *	ISONE	CALISO	MISO	ERCOT
YE 2007	2.50	49.99	68.40	78.84	89.60	189.80	352.00	258.90
3rd QTR 2008	1.10	48.33	59.60	65.45	82.77	196.97	-	340.60

Note:

*The total debt for the IESO was provided in Canadian dollars (94.2 CAD for YE 2007 and 78.2 CAD for Q3 2008) and was hence converted to US dollars for this summary based on the conversion rate of 1.1948.



Near-Term Financial Considerations

- **ERCOT is operating within approved Board liquidity parameters**
- **An interim funding strategy for continuation of the Nodal Program is necessary**
 - Increase in spending authority required
 - Interim strategy allows time for completion of necessary reviews
 - Absolute level of Nodal Program debt is nearing previously expected peak
 - Additional debt is discouraged, especially prior to approval of a long-term debt retirement plan
 - Debt carrying costs are increasing
 - Maintaining final payoff of Nodal Program debt within useful life is strongly recommended
- **Preservation of long-term financial flexibility**
 - Long-term plans must recognize current credit market dynamics
 - Achieving the desired debt profile is likely to impact the ERCOT fee structure
 - Upon approval of a strategy for the Nodal Program, a comprehensive financing plan will be presented

Questions ?