Electric Reliability Council of Texas, Inc.

Financial Statements
December 31, 2008 and 2007

Electric Reliability Council of Texas, Inc.
Index
December 31, 2008 and 2007

PRICEWATERHOUSECOOPERS

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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, 2008 and 2007, 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, 2009

Electric Reliability Council of Texas, Inc.
Statements of Financial Position
December 31, 2008 and 2007

(in thousands of dollars)	**2008**	**2007**
Assets		
Current assets		
Cash and cash equivalents	$ 121,570	$ 82,455
Accounts receivable	4,344	7,285
Unbilled revenue	9,669	7,908
Restricted cash	225,297	135,496
Prepaid expenses and other current assets	16,656	9,471
Total current assets	377,536	242,615
Property and equipment, net	117,649	136,178
Systems under development	242,610	137,710
Regulatory assets	-	2,188
Debt issuance costs	895	914
Total assets	$ 738,690	$ 519,605
Liabilities and Unrestricted Net Deficit		
Current liabilities		
Accounts payable	8,167	16,057
Accrued liabilities	19,139	25,360
Deferred revenue	1,709	297
Market settlement liabilities	125,553	83,145
Security deposits	225,297	135,496
Regulatory liabilities, current portion	2,666	-
Notes payable, current portion	60,237	77,137
Total current liabilities	442,768	337,492
Notes payable	280,678	181,815
Derivative liability	14,752	6,966
Regulatory liabilities	15,558	3,349
Other long term liabilities	684	134
Total liabilities	754,440	529,756
Commitments and contingencies (Notes 7 and 10)		
Unrestricted net deficit	(15,750)	(10,151)
Total liabilities and unrestricted net deficit	$ 738,690	$ 519,605

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, 2008 and 2007

(in thousands of dollars)	**2008**	**2007**
Operating revenues		
System administration fees	$ 130,079	$ 128,118
Nodal implementation surcharge	47,752	32,034
Reliability organization pass-through	5,500	2,037
Membership fees and other	3,638	3,737
Total operating revenues	186,969	165,926
Operating expenses		
Salaries and related benefits	52,147	48,453
Depreciation	31,886	33,898
Facility and equipment costs	6,701	5,352
Consulting and legal services	16,160	13,653
Administrative and other	8,509	6,621
Hardware and software maintenance and licensing	9,833	9,645
Amortization of regulatory asset	47,752	32,034
Total operating expenses	172,988	149,656
Income (loss) from operations	13,981	16,270
Other income (expense)		
Interest income	1,648	1,138
Interest expense	(8,658)	(5,474)
Change in valuation of interest rate swap	(7,786)	(7,180)
Non-operating expense	(4,665)	37
Change in unrestricted net deficit before deferred pension costs	(5,480)	4,791
Deferred pension costs	(119)	-
Change in unrestricted net deficit	(5,599)	4,791
Unrestricted net deficit, beginning of year	(10,151)	(14,942)
Unrestricted net deficit, end of year	$ (15,750)	$ (10,151)

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, 2008 and 2007

(in thousands of dollars)	2008	2007
Cash flows from operating activities		
Change in unrestricted net deficit	$ (5,599)	$ 4,791
Adjustments to reconcile change in unrestricted net deficit to net cash provided by operating activities:		
Depreciation	31,886	33,898
Amortization of debt issuance costs	164	256
Change in valuation of interest rate swap	7,786	7,180
Change in valuation of investments	3,961	-
Net losses on disposition or impairment of capital assets	721	55
Changes in operating assets and liabilities:		
Accounts receivable	2,941	(1,232)
Unbilled revenue	(1,761)	(2,029)
Prepaid expenses and other assets	(11,146)	(1,232)
Other long-term liabilities	550	(54)
Regulatory assets	2,188	5,547
Accounts payable	(7,890)	5,701
Accrued liabilities	52	(1,344)
Deferred revenue	1,412	20
Regulatory liabilities	29,489	3,349
Net cash provided by operating activities	54,754	54,906
Cash flows from investing activities		
Capital expenditures for property and equipment and systems under development	(139,849)	(132,668)
Proceeds from sale of property and equipment	11	-
Net cash used in investing activities	(139,838)	(132,668)
Cash flows from financing activities		
Proceeds from issuance of notes payable	100,000	176,000
Repayment of notes payable	(18,037)	(98,137)
Payment of debt issuance costs	(172)	-
Increase in restricted cash	(89,801)	(77,448)
Increase in market settlement liabilities	42,408	11,875
Increase in security deposits	89,801	77,448
Net cash provided by financing activities	124,199	89,738
Net increase in cash and cash equivalents	39,115	11,976
Cash and cash equivalents, beginning of year	82,455	70,479
Cash and cash equivalents, end of year	$ 121,570	$ 82,455
Supplemental information		
Cash paid for interest	$ 14,804	$ 10,522
Supplemental disclosure of non-cash investing and financing activities		
Change in accrued capital expenditures	$ (6,272)	$ 10,946
Capitalized interest	$ 7,699	$ 5,892

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 or the Company), 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 direct current 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 (FERC) 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.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to current year classifications.

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 $250 for each account.

(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 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 per megawatt hour of adjusted metered load in both 2008 and 2007 and is structured to provide funding for ERCOT's core operations and related services. These revenues are presented net of revenues associated with the reliability functions performed by Texas Regional Entity (Texas RE) described below.

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 (TNMIP) described in Note 9. Effective June 2007, ERCOT increased the project surcharge to 12.7 cents per megawatt hour, and, effective June 2008, ERCOT increased the project surcharge to 16.9 cents per megawatt hour. Revenue recognition for this fee is impacted by regulatory requirements established by the PUCT as described in Note 9.

Reliability organization pass-through - The system administration fee includes 1.69 cents which funds the North American Electric Reliability Corporation (NERC) reliability functions performed primarily by Texas RE, a division of ERCOT. System administration fees associated with expenses incurred by Texas RE are reported as reliability pass-through revenues. Such expenses, and related revenues, are adjusted annually for regulatory deferrals.

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 non-operating income of $721 and $55 in 2008 and 2007 respectively, representing the net book value

(in thousands of dollars)

of property and equipment that was disposed of or no longer in service during the period. Repairs and maintenance costs are expensed when incurred.

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 American Institute of Certified Public Accountants 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. No impairments requiring write-offs were identified in 2008 or 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 2008 and 2007, capitalized interest costs were $7,699 and $5,892, respectively.

(in thousands of dollars)

Market Settlement Liabilities
Market settlement liabilities primarily represent two types of funds held on behalf of the ERCOT market: 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 (TCR) 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 TCR program and ERCOT Protocols.

ERCOT's Financial Standards, adopted by the Board of Directors, include a provision that funds held as a result of 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:

	2008	2007
TCR auction funds	$ 115,628	$ 47,861
QSE prepayments of settlement obligations	9,925	35,284
Total market settlement liabilities:	$ 125,553	$ 83,145

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)(4) 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 $84,326 and $100,921 as of December 31, 2008 and 2007. 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 SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, 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.

Unrealized Investment Losses
Based on market events in 2008 related to The Reserve's Primary Fund, ERCOT recorded a valuation reserve of $3,961 on its money market investments as of December 31, 2008. These unrealized losses are included in non-operating expense and represent the decrease in fair market value of ERCOT's investments in the Primary Fund. In addition, The Reserve imposed redemption restrictions on all investments in the Primary Fund and established a plan for the liquidation and distribution of fund assets. Under this plan established by The Reserve, all Primary Fund assets will become liquid in late 2009.

In December 2008, the ERCOT Board of Directors adopted a policy clarifying that ERCOT would bear all investment losses associated with The Reserve investment including those that could potentially be allocated to Market Participants and Texas RE. Of the total $3,961 loss recognized in 2008, ERCOT incurred $2,939 related to Market Participants and $271 related to Texas RE. As such, the full amount of the valuation reserve of $3,961 is included in non-operating expense in the statement of activities and net deficit and is a component of the unrestricted net deficit at December 31, 2008.

As of December 31, 2008, ERCOT has received distributions of $37,777 of its original investment of $47,842. Based on the current fund restrictions, ERCOT's remaining investment of $6,104 (net of losses) is classified as other current assets as of December 31, 2008. In February and April 2009, ERCOT received additional distributions of $3,179 and $2,151, respectively, from The Reserve.

Recent Accounting Pronouncements
In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133.* This standard expands the disclosure requirements for derivative instruments to provide information regarding (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for ERCOT on January 1, 2009, and the adoption of this standard is not expected to have a significant impact on ERCOT's financial statements.

(in thousands of dollars)

3. Fair Value Measurement

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. The criterion that is set forth in this standard is applicable to fair value measurement where it is permitted or required under other accounting pronouncements; accordingly, it does not require any additional items to be measured at fair value. On January 1, 2008, ERCOT adopted SFAS No. 157. The adoption of SFAS No. 157 reflects the application of FSP FAS 157-2, *Effective Date of FASB Statement No. 157,* which defers the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS No. 157 did not have a material effect on the 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. On January 1, 2008, ERCOT adopted SFAS No. 159. At adoption, ERCOT did not elect the fair value option for any assets or liabilities.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement. As a means to illustrate the inputs used, SFAS No. 157 establishes a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 valuations use quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 valuations use inputs, other than those included in Level 1, that are observable for the asset or liability, either directly or indirectly.

- Level 3 valuations use unobservable inputs for the asset or liability. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The input may reflect the assumptions of the reporting entity of what a market participant would use in pricing an asset or liability.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

(in thousands of dollars)

The following table sets forth by level within the fair value hierarchy ERCOT's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008.

As of December 31, 2008	Total	Level 1	Level 2	Level 3
Assets				
Cash equivalents (a)	$ 121,570	$ 121,570	$ -	$ -
Restricted cash (a)	225,297	225,297	-	-
Other current assets (b)	6,104	-	-	6,104
Total assets	$ 352,971	$ 346,867	$ -	$ 6,104
Liabilities				
Interest rate derivatives (c)	$ 14,752	$ -	$ 14,752	$ -
Total liabilities	$ 14,752	$ -	$ 14,752	$ -

(a) Amounts consist of deposits in banks and money market investments with an average maturity of 90 days or less. The Company calculates fair value using the market approach.
(b) Amounts consist of money market investments with an average maturity of one year or less with current fund restrictions on redemptions. The Company calculates fair value for these other current assets using the market approach.
(c) Amounts consist of interest rate swaps with pricing information generated from observable market data and adjusted for credit-risk.

As described in Note 2, the Company's money market investments in The Reserve's Primary Fund incurred a loss in 2008 and were subject to redemption restrictions. Changes in the fair value measurement of these investments classified as Level 3 in the fair value hierarchy for the year ended December 31, 2008 are as follows:

Balance as of January 1, 2008	$ -
Conversion of Level 1 securities to Level 3	47,842
Realized and unrealized losses	(3,961)
Collections and settlements	(37,777)
Ending balance as of December 31, 2008	$ 6,104

(in thousands of dollars)

4. Property and Equipment

Property and equipment consists of the following at December 31:

	2008	2007
Computer equipment and software	$ 300,584	$ 285,256
Buildings and leasehold improvements	57,372	57,363
Furniture and fixtures	14,732	12,214
Land	246	246
Vehicles	124	124
Construction in progress	317	1,753
	373,375	356,956
Accumulated depreciation	(255,726)	(220,778)
	117,649	136,178
Systems under development	242,610	137,710
Total property and equipment, net:	$ 360,259	$ 273,888

Systems under development consist primarily of costs incurred for the market transformation project described in Note 9.

5. Notes Payable

ERCOT's notes payable consist of the following:

	2008	2007
Revolving lines of credit	$ 46,600	$ 51,000
Term loan	212,500	112,500
Senior notes	81,815	95,452
	$ 340,915	$ 258,952

Revolving Lines of Credit

ERCOT has two revolving lines of credit with JPMorgan Chase Bank, as lead agent, and a separate loan agreement with Bank of America, NA. These facilities are primarily used for short term working capital needs, and individual borrowings under these facilities are structured to mature within one year. The first revolving line of credit has a maximum amount of available credit of $75,000 and expires on June 15, 2012. As of December 31, 2008, the total debt outstanding under this line of credit is $46,600. The second revolving line of credit has a maximum amount of available credit of $100,000 and expires on November 1, 2010. As of December 31, 2008, there are no outstanding borrowings under this line of credit. The loan agreement has a maximum amount of available credit of $50,000 and expires on November 4, 2009. As of December 31, 2008, there are no outstanding borrowings under this loan agreement.

The interest rates on these facilities are 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, 2008 was 1.02% for the revolving lines of credit and the loan agreement. Additionally, at December 31, 2008,

(in thousands of dollars)

ERCOT pays a commitment fee of 0.10% on the unused portion of the revolving credit facilities and the loan agreement. During 2008 and 2007, ERCOT incurred commitment fees totaling $66 and $61, respectively, in connection with its debt facilities. The revolving lines of credit have several debt covenants, the most restrictive of which limits ERCOT's indebtedness. At December 31, 2008, ERCOT was in compliance with its debt covenants for these facilities.

Term Loan
ERCOT also has a term loan with JPMorgan Chase Bank, as lead agent. The term loan has a maximum amount of available credit of $212,500 and expires on December 15, 2012. At December 31, 2008, the term loan is fully drawn with outstanding borrowings of $212,500. As such, there is no commitment fee due on the facility. The interest rates on the term loan are based on prime rate, a Eurodollar based rate, or other rate as described in the debt agreement. The effective rate of interest at December 31, 2008 was 3.69%. The term loan has several covenants, the most restrictive of which limits ERCOT's indebtedness. At December 31, 2008, ERCOT was in compliance with its debt covenants for the term loan.

Senior Notes
ERCOT has $81,815 outstanding in senior notes at December 31, 2008. These senior notes bear interest at 6.17% and are due in equal annual principal payments through May 2014. The senior notes 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 revolving lines of credit. At December 31, 2008, 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
2009	$ 13,637	$ -	$ 13,637
2010	13,637	70,833	84,470
2011	13,637	70,833	84,470
2012	13,637	70,834	84,471
2013	13,637	-	13,637
2014	13,630	-	13,630
	$ 81,815	$ 212,500	$ 294,315

Interest Rate Swap Agreement
The Company entered into variable to fixed rate swap agreements (Swaps) with two financial institutions. The notional amounts of the Swaps are related to the term loan and the Swaps generally mature concurrent with term loan payment dues dates. The fixed rate terms of the Swaps and their notional values at December 31, 2008 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.

(in thousands of dollars)

Transaction Date	From	To	Fixed Rate Due to Counterparty	Notional Value at December 31, 2008
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
2008	Nov-08	Nov-12	3.2130%	50,000

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, 2008 and 2007 were approximately $(14,752) and $(6,966), respectively.

6. Employee Benefit Plans

Defined Contribution Plan

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.

ERCOT matches 75% of the employee's contribution up to 6% of eligible compensation as defined in the 401(k) Plan document. Employees are fully vested for the ERCOT match of 75% after five years. 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:

	2008	2007
75% of the employee's contribution up to 6%	$ 1,681	$ 1,315
10% of the employee's compensation	5,709	5,247
Total employer contributions	$ 7,390	$ 6,562

Defined Benefit Plan

During 2008, ERCOT offered post-retirement health benefits to employees hired in 1997 or earlier and who retire between age 55 and 65 with 10 years or more of service. This plan allows retirees to participate in the medical and prescription drug coverage available to employees, subject to certain annual and lifetime benefit limits.

Related to this plan, in 2008 ERCOT recognized a post-retirement liability of $154, operating expenses of $35 and an increase to net deficit for deferred pension costs of $119.

(in thousands of dollars)

7. 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:

2009	$	1,108
2010		1,120
2011		261
2012		32
2013		32
Thereafter		72
Total minimum lease payments	$	2,625

ERCOT recognized $809 and $690 of rent expense in 2008 and 2007, respectively.

Deferred rent credits of $128 and $134 are included in other long term liabilities at December 31, 2008 and 2007, respectively.

8. 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.

9. Accounting for the Effects of Regulation

Texas Nodal Market Implementation Project (TNMIP)
During 2006, ERCOT began incurring significant costs associated with the 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 allowable development costs and all debt service costs over the financing period of the project. The current project plan as filed with the PUCT reflects a completion date of 4th Quarter 2010. Some of the development costs encompassed in the rate

(in thousands of dollars)

order would otherwise be treated as period costs under generally accepted accounting principles. Through December 31, 2007, ERCOT incurred $2,188 more in TNMIP development costs than Nodal surcharge fees received. As such, this amount was recorded as a regulatory asset. Through December 31, 2008, the Nodal surcharge fees received surpassed TNMIP development costs by $15,129 resulting in a regulatory liability at December 31, 2008.

The following is a reconciliation of TNMIP's long term regulatory assets and liabilities at December 31:

	2008	2007
Nodal surcharge fees	$ 47,752	$ 32,034
Nodal costs not included in systems under development	30,435	26,487
Over collections	(17,317)	(5,547)
Regulatory assets, beginning of year	2,188	7,735
Regulatory assets (liabilities), end of year	$ (15,129)	$ 2,188

TNMIP 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 SFAS 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:

	2008	2007
Salaries and related benefits	$ 6,200	$ 7,539
Depreciation	14,581	8,738
Facility and equipment costs	2,982	3,112
Consulting and legal services	3,051	3,095
Administrative and other	594	293
Hardware and software maintenance and licensing	3,106	2,139
Interest expense, net of adjustments (a)	(79)	1,571
Total TNMIP development costs	$ 30,435	$ 26,487

(a) In 2008, ERCOT recorded a $784 reduction to TNMIP interest expense to properly reflect TNMIP interest expense based on life-to-date TNMIP expenses and surcharge revenue.

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

(in thousands of dollars)

Regulatory orders issued by FERC, approving the consolidated annual operating budget prepared and submitted by NERC, include a 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, Texas RE 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. This resulted in deferred recognition of $3,349 in revenues and a regulatory liability in the same amount at December 31, 2007. In 2008, Texas RE collected $3,226 from NERC and earned $91 in interest income. Texas RE incurred expenses of $3,498 in performing functions delegated by NERC and recorded a $73 start-up adjustment to the regulatory liability. This resulted in a decrease to the regulatory liability of $254 in 2008. As such, Texas RE has deferred recognition of $3,095 in revenues with the regulatory liability in the same amount at December 31, 2008. The NERC budgeting and true-up process now provides that a portion of the deferred liability be applied toward the 2009 budget year. Consistent with NERC's process, the amount of Texas RE's deferred liability to be applied toward 2009 funding will be $2,666. As such, this amount is classified as current with the remaining $429 classified as non-current at December 31, 2008.

The following is a reconciliation of Texas RE regulatory liabilities at December 31:

		2008		2007
Texas RE collections	$	3,226	$	4,871
Texas RE interest income		91		-
Less: Texas RE costs		3,498		1,522
Less: Texas RE regulatory liability start-up adjustment		73		-
(Over) under collections		254		(3,349)
Regulatory (liabilities), beginning of year		(3,349)		-
Regulatory (liabilities), end of year	$	(3,095)	$	(3,349)
Current portion	$	(2,666)	$	-
Long term portion	$	(429)	$	(3,349)

10. Contingencies

Sales and Use Tax Refund

In 2008, ERCOT filed a request with the Texas Comptroller of Public Accounts' office (Comptroller) seeking refund of all Texas State sales and use tax paid from January 1, 2001 through April 30, 2008. In April 2008, the Internal Revenue Service recognized ERCOT as a 501(c)(4) organization as described in the Internal Revenue Code, retroactive to January 1, 2001. As a tax-exempt organization under 501(c)(4), ERCOT is exempt from federal income tax and Texas State sales and use tax. Prior to this recognition in 2008, ERCOT was deemed a 501(c)(6) organization and was exempt from federal income tax but subject to Texas State sales and use tax.

(in thousands of dollars)

Audit procedures were performed in 2008 by the Comptroller's office; however, acceptance and approval of ERCOT's refund request did not occur until January 29, 2009. Due to uncertainties associated with the ultimate outcome of this matter, ERCOT did not record any potential refund as a contingent gain related to the sales and use tax as of December 31, 2008.

On February 6, 2009, ERCOT received a refund check from the Comptroller totaling $14,421 resulting from ERCOT's refund request for the period January 1, 2005 through April 30, 2008. An additional $12,016 related to a refund request for the earlier period from January 1, 2001 through December 31, 2004 was approved on March 12, 2009, and ERCOT received a refund check from the Comptroller on April 2, 2009.

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.