Assumptions
Potential Credit Risk Model
FYE-2008 and 2007 Initial OW

Note: All assumptions presented here are relevant for both the FYE-2008 and 2007 Initial OW sets of analysis unless otherwise noted herein.

Default Parameters (other than credit scoring)

Default Correlation Types –

Default Correlation Type	Business	Definition to qualify for category
1	Generation	>70% of combined load and generation volume is generation[1]
2	Small load	<10,000 MWh/day of load (and <30% of combined load and generation volume is generation)[1]
3	Large load	>10,000 MWh/day of load (and <30% of combined load and generation volume is generation)[1]
4	Trading	Minimal load or generation
5	Public power	Munis and coops
6	Mixed	Relatively balanced mix of load and generation

Default Correlation Matrix –

	Generation	Small load	Large load	Trading	Public power	Mixed
Default Type	1	2	3	4	5	6
1 Generation	20%	0%	0%	0%	10%	10%
2 Small load	0%	30%	20%	0%	5%	5%
3 Large load	0%	20%	25%	0%	10%	5%
4 Trading	0%	0%	0%	10%	0%	5%
5 Public power	10%	5%	10%	0%	20%	10%
6 Mixed	10%	5%	5%	5%	10%	20%

Market Events –

Type	Description	Probability of defaulting near a "high price day"
1	SR / LR	50%
2	Gen, Trader, PP, Mixed	20%

Unpaid days prior to a trigger –

M	T	W	Th	F	Sa	Su
24	25	26	20	21	22	23

Trigger day through resolution –

Type	Description	Default mode	Number of days of exposure
a)	SR	Mass Transition	9 – 15 days – see schedule below + 3 days for MT
b)	All others	Bankruptcy / other	6 - 12 days – see schedule below

Price Parameters

Natural Gas Forward Prices
Price Contract Used – NYMEX Henry Hub Futures Contract & Houston Ship Channel Basis
Contract Months – May 2009 - December 2013

Price Correlation Matrix –
FYE 2008

	North	South	West	Houston
North	100.0%	85.3%	63.2%	84.8%
South	85.3%	100.0%	55.3%	96.9%
West	63.2%	55.3%	100.0%	52.7%
Houston	84.8%	96.9%	52.7%	100.0%

Initial OW

	North	South	West	Houston
North	100.0%	87.2%	91.7%	91.0%
South	87.2%	100.0%	85.5%	89.5%
West	91.7%	85.5%	100.0%	85.8%
Houston	91.0%	89.5%	85.8%	100.0%

Comments: Correlations are calculated between each hub based on historical log price changes within base price series with jumps removed. These correlations have been updated since the OW simulations, and were calculated based on the period of May 1, 2008 to April 30, 2009. The more recent historical correlations indicate that there is slightly less price correlation among zones than when OW did their report. Currently, we have no better estimate of future price correlation than the most recent historical price correlation; therefore, ERCOT used the most recent price correlation in the December 31, 2008 estimation of exposure.

NOTE – Some negative prices that occurred in the West Zone during the period from May 1, 2008 to April 30, 2009 were replaced with a $20 price in order to allow log normal prices to be calculated for the purpose of determining price correlations.

Price Jump Parameters –

Category	Price Jump Assumptions
Frequency of jump days	7 %
Percent likelihood of a 1-, 3- or 6-day jump series	75%, 20%, 5% respectively
Frequency of jumps common to multiple zones	80%
Average jump size (above base price)	80 $/MWh
99th % highest expected jump	375 $/MWh

Exposure Parameters

Volume Data –
Period – May 1, 2008 - April 30, 2009
Distinct volumes for North, South, West & Houston Zones:

Volume Escalation –

During a market-driven event

	Red to 0	Main Hist	20%	40%	70%	100%
Generators	10%	50%	30%	9%	0%	1%
Small retailer	5%	20%	40%	10%	0%	25%
All others	0%	50%	40%	9%	0%	1%

After a market-driven event

	Maintain at escalation	Return to historical levels	Maximum
Gen/LR/PP/Mixed	30%	70%	
Small retailer	30%		70%
Traders	0%	100%	

For a non-market driven event

	Red to 0	Main Hist	20%	40%	70%	100%
Generators	10%	50%	30%	9%	0%	1%
Small retailer	0%	20%	0%	0%	0%	80%
All others	10%	50%	35%	5%	0%	0%

Collateral Parameters

Collateral Parameters –

Num of extrapolated days (for ADT)	40
Num of EAL values for "look back"	9

Number of days for NLRI calculation	21
Number of future NLRI days	7
NLRI price multiplier	150%

	Type	M	T	W	Th	F	Sa	Su
Base	1	8	8	8	8	8	7	6
Holiday First Thursday	2	8	8	8	8	8	7	6
Holiday First Friday	3	8	8	8	9	8	7	6
Holiday First Monday	4	8	8	8	9	11	10	9
Holiday First Tuesday	5	9	8	8	9	11	10	9
Holiday First Wednesday	6	9	9	8	9	11	10	9
Holiday Second Thursday	7	9	9	9	9	11	10	9
Holiday Second Friday	8	9	9	9	8	11	10	9
Holiday Second Monday	9	9	9	9	8	8	7	6
Holiday Second Tuesday	10	8	9	9	8	8	7	6
Holiday Second Wednesday	11	8	8	9	8	8	7	6
Christmas On Monday	12	9	9	9	9	12	11	10
Christmas On Tuesday	13	10	9	9	9	11	10	9
Christmas on Wednesday	14	9	10	9	9	11	10	9
Christmas on Thursday	15	9	9	9	9	11	10	9
Christmas on Friday	16	9	9	9	12	11	10	9

Default Parameters (Credit Scoring Model)

For the FYE-2008 model results, the probability of default was determined for each Counter-Party (CP) as follows:

Financial Statements –
The financial statements for QSEs that were analyzed in the Credit Scoring Model were for the period ending December 31, 2008.

Probability of Default (PD) –

For the FYE-2008 model results, the probability of default is determined for each Counter-Party (CP) as follows:

If the CP is	Then, the CP will receive a mid-point PD that maps from:
Non-rated with financials	**For both Base and Current Case**
	A rating determined by the Credit Scoring Model using the methodology outlined on page 2 of this appendix
Non-rated without financials	A rating of CCC+
Publicly rated	A rating assigned by Fitch, S&P or Moody's

Special case for un-rated subsidiary with rated parent	**Base Case**
	A rating that considers both: o The stand alone rating of the CP o CCC+ if no financials are provided or o Rating determined by the Credit Scoring Model o The parent's public rating The rating assigned will be between the stand alone rating of the CP and that of the parent based on the strength of the relationship between the two entities.
	Current Case
	o Where Cash or a Letter of Credit is provided, a rating will be assigned as in the Base Case. o Where a Guarantee is provided, the CP's rating will be: o Its Guarantor's rating if the CP is a strategic subsidiary of the Guarantor o Assigned as in the Base Case if the CP is not related to its Guarantor or is a nonstrategic subsidiary o The Guarantor's PD may be discounted if the Guarantee is de minimus relative to the entities size or activity

Credit Scoring Model Assumptions –

Quantitative Factors – 70% weight		**Qualitative Factors – 30% weight**	
Proposed Factor	**Weight**	**Proposed Factor**	**Weight**
Working Capital/Sales	15%	Ability to access funding in difficult market environment	25%
Cash flow from ops/Sales	15%	Late payment history	15%
Current Ratio	10%	Experience of company leadership	15%
Equity/Assets	20%	Recent growth	15%
EBITDA/Interest Expense	10%	Risk management policies and practices	15%
EBITDA/Sales	10%	Quality and timeliness of reporting of financial information	10%
Net Income/Assets	10%	Length of time in business	5%
Tangible Net Worth	10%		

For the 2007 Initial Oliver Wyman model results, the probability of default was determined for each Counter-Party (CP) as follows:

Probability of Default (PD) –

If the CP is	Then, the CP will receive a mid-point PD that maps from:
Non-rated with financials	**For both Base and Current Case**
	A rating determined by the Credit Scoring Model using the methodology outlined on page 2 of this appendix
Non-rated without financials	A rating of CCC+
Publicly rated	A rating assigned by Fitch, S&P or Moody's

Special case for un-rated subsidiary with rated parent	**For both Base and Current Case**
	A rating that considers both o The stand alone rating of the CP o CCC+ if no financials are provided or o Rating determined by the Credit Scoring Model o The parent's public rating The rating assigned will be between the stand alone rating of the CP and that of the parent based on the strength of the relationship between the two entities

Credit Scoring Model Assumptions –

Quantitative Factors – 70% weight		**Qualitative Factors – 30% weight**	
Proposed Factor	**Weight**	**Proposed Factor**	**Weight**
Working Capital/Sales	30%	Ability to access funding in difficult market environment	25%
Current Ratio	10%	Late payment history	15%
Equity/Assets	20%	Experience of company leadership	15%
EBITDA/Interest Expense	10%	Recent growth	15%
EBITDA/Sales	10%	Risk management policies and practices	15%
Net Income/Assets	10%	Quality and timeliness of reporting of financial information	10%
Total Assets	10%	Length of time in business	5%