FINANCIAL STATEMENTS

Electric Reliability Council of Texas, Inc.
December 31, 2009 and 2008
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

Electric Reliability Council of Texas, Inc.

Financial Statements

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Contents

Ernst & Young LLP
Suite 1800
401 Congress Avenue
Austin, Texas 78701

Tel: +1 512 478 9881
Fax: +1 512 473 3499
www.ey.com

Report of Independent Auditors

We have audited the accompanying statement of financial position of the Electric Reliability Council of Texas, Inc. ("ERCOT") as of December 31, 2009, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of ERCOT's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of ERCOT as of December 31, 2008 and for the year then ended, were audited by other auditors whose report dated April 23, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of ERCOT's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ERCOT's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Reliability Council of Texas at December 31, 2009, and the results of its activities and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

April 28, 2010

Electric Reliability Council of Texas, Inc.

Statements of Financial Position

	December 31	
	2009	**2008**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 78,815**	$ 121,570
Accounts receivable	**8,809**	4,344
Unbilled revenue	**6,590**	9,669
Restricted cash	**132,331**	225,297
Prepaid expenses and other current assets	**13,040**	16,656
Total current assets	**239,585**	377,536
Property and equipment, net	**114,389**	117,649
Systems under development	**313,007**	242,610
Debt issuance costs	**651**	895
Total assets	**$ 667,632**	$ 738,690
Liabilities and unrestricted net assets (deficit)		
Current liabilities:		
Accounts payable	**$ 5,722**	$ 8,167
Accrued liabilities	**13,753**	19,139
Deferred revenue	**4,270**	1,709
Market settlement liabilities	**79,204**	125,553
Security deposits	**132,331**	225,297
Regulatory liabilities, current portion	**78**	2,666
Notes payable, current portion	**168,470**	60,237
Total current liabilities	**403,828**	442,768
Notes payable	**196,208**	280,678
Derivative liability	**12,733**	14,752
Regulatory liabilities	**38,147**	15,558
Other long term liabilities	**1,726**	684
Total liabilities	**652,642**	754,440
Commitments and contingencies *(Notes 8 and 12)*		
Unrestricted net assets (deficit)	**14,990**	(15,750)
Total liabilities and unrestricted net assets (deficit)	**$ 667,632**	$ 738,690

The accompanying notes are an integral part of these financial statements.

Electric Reliability Council of Texas, Inc.

Statements of Activities and Net Assets (Deficit)

	Year Ended December 31	
	2009	**2008**
	(In Thousands)	
Operating revenues:		
System administration fees	**$ 128,519**	$ 130,079
Nodal implementation surcharge	**52,113**	47,752
Reliability organization pass-through	**6,940**	5,500
Membership fees and other	**3,552**	3,638
Total operating revenues	**191,124**	186,969
Operating expenses:		
Salaries and related benefits	**55,852**	52,147
Depreciation	**28,791**	31,886
Facility and equipment costs	**8,320**	6,701
Consulting and legal services	**12,559**	16,160
Administrative and other	**8,085**	8,509
Hardware and software maintenance and licensing	**9,752**	9,833
Amortization of regulatory asset	**52,113**	47,752
Total operating expenses	**175,472**	172,988
Income from operations	**15,652**	13,981
Other income (expense):		
Interest income	**3,502**	1,648
Interest expense	**(2,720)**	(8,658)
Change in valuation of interest rate swap	**2,019**	(7,786)
Non-operating income (expense)	**12,280**	(4,665)
Change in unrestricted net assets (deficit) before deferred pension costs	**30,733**	(5,480)
Deferred pension costs	**7**	(119)
Change in unrestricted net assets (deficit)	**30,740**	(5,599)
Unrestricted net deficit, beginning of year	**(15,750)**	(10,151)
Unrestricted net assets (deficit), end of year	**$ 14,990**	$ (15,750)

The accompanying notes are an integral part of these financial statements.

Electric Reliability Council of Texas, Inc.

Statements of Cash Flows

	Year Ended December 31	
	2009	**2008**
	(In Thousands)	
Cash flows from operating activities		
Change in unrestricted net assets (deficit)	**$ 30,740**	$ (5,599)
Adjustments to reconcile change in unrestricted net assets (deficit) to net cash provided by operating activities:		
Depreciation	**28,791**	31,886
Amortization of debt issuance costs	**244**	164
Change in valuation of interest rate swap	**(2,019)**	7,786
Change in valuation of investments	**–**	3,961
Change in valuation of assets due to sales and use tax refund	**8,758**	–
Net losses on disposition or impairment of capital assets	**27**	721
Changes in operating assets and liabilities:		
Accounts receivable	**(4,465)**	2,941
Unbilled revenue	**3,079**	(1,761)
Prepaid expenses and other assets	**3,616**	(11,146)
Other long-term liabilities	**1,042**	550
Regulatory assets	**–**	2,188
Accounts payable	**(2,073)**	(8,620)
Accrued liabilities	**(2,877)**	782
Deferred revenue	**2,561**	1,412
Regulatory liabilities	**30,545**	29,489
Net cash provided by operating activities	**97,969**	54,754
Cash flows from investing activities		
Capital expenditures for property and equipment and systems under development	**(118,161)**	(139,849)
Proceeds from sale of property and equipment	**23**	11
Net cash used in investing activities	**(118,138)**	(139,838)

Electric Reliability Council of Texas, Inc.

Statements of Cash Flows (continued)

	Year Ended December 31 2009	2008
	(In Thousands)	
Cash flows from financing activities		
Proceeds from issuance of notes payable	**$ 37,400**	$ 100,000
Repayment of notes payable	**(13,637)**	(18,037)
Payment of debt issuance costs	**–**	(172)
(Increase) decrease in restricted cash	**92,966**	(89,801)
Increase (decrease) in market settlement liabilities	**(46,349)**	42,408
Increase (decrease) in security deposits	**(92,966)**	89,801
Net cash provided by (used in) financing activities	**(22,586)**	124,199
Net increase (decrease) in cash and cash equivalents	**(42,755)**	39,115
Cash and cash equivalents, beginning of year	**121,570**	82,455
Cash and cash equivalents, end of year	**$ 78,815**	$ 121,570
Supplemental information		
Cash paid for interest	**$ 15,331**	$ 14,804
Supplemental disclosure of non-cash investing and financing activities		
Change in accrued capital expenditures	**$ (2,881)**	$ (6,272)
Capitalized interest	**$ 13,031**	$ 7,699

The accompanying notes are an integral part of these financial statements.

Electric Reliability Council of Texas, Inc.

Notes to Financial Statements

December 31, 2009 and 2008
(Dollars in Thousands)

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 percent of the electrical load in Texas. The ERCOT region has an overall generating capacity of approximately 76,000 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. ERCOT has no synchronous connections (alternating current) across state lines. As a result, ERCOT is considered "intrastate" and does not fall under the jurisdiction of the Federal Energy Regulatory Commission (FERC) except for reliability issues under the provisions of the Federal Energy Policy Act of 2005.

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).

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

Cash and cash equivalents consists primarily of amounts held by ERCOT on behalf of market participants for transmission congestion management funds and Qualified Scheduling Entity (QSE) prepayments of weekly settlement obligations (as described in Note 2 - Market Settlement Liabilities).

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

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 41.71 cents per megawatt hour of adjusted metered load in both 2009 and 2008 and is structured to provide funding for ERCOT's core operations and related services.

Nodal implementation surcharge – In 2006, ERCOT began collecting an additional rate of 6.63 cents per megawatt hour (real time net metered generation) in connection with the Texas Nodal Market Implementation Project (TNMIP) described in Note 10. 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. Effective January 2010, ERCOT increased the project surcharge to 37.5 cents per megawatt hour. Revenue recognition for this fee is impacted by regulatory requirements established by the PUCT as described in Note 10.

Reliability organization pass-through – In 2008, the system administration fee included 1.69 cents to fund the North American Electric Reliability Corporation (NERC) reliability functions performed primarily by Texas RE, a division of ERCOT. The system administration fees associated with expenses incurred by Texas RE were reported as reliability pass-through revenues. Effective January 2009, ERCOT replaced this portion of the fee with a fixed quarterly Electric Reliability Organization (ERO) billing. The ERO billing is based on actual NERC funding.

ERCOT's other revenue relates to services offered to its participants including 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.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 $27 and $721 in 2009 and 2008 respectively, representing the net book value of property and equipment that was disposed of or no longer in service. 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. 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.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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. If impairment exists, it is measured as the difference between the net book value of the asset and its estimated fair value. Impairment is computed by comparing the expected future cash flows, undiscounted and before interest, to the carrying value of the asset. No impairments requiring write-offs were identified in 2009 or 2008.

Interest Capitalization

Interest is capitalized in connection with the construction of major software systems and buildings and improvements. The 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 2009 and 2008, capitalized interest costs were $13,031 and $7,699, respectively.

Market Settlement Liabilities

Market settlement liabilities primarily represent two types of funds held on behalf of the ERCOT market: transmission congestion management funds and 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 annual and monthly auctions. 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 Corporate Standard, adopted by the Board of Directors, includes 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.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Market settlement liabilities consist of the following at December 31:

	2009	2008
TCR auction funds	**$ 67,122**	$ 115,628
QSE prepayments of settlement obligations	**12,082**	9,925
Total market settlement liabilities	**$ 79,204**	$ 125,553

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 lines of credit and term loan approximate their fair values. The fair value of the Company's senior notes payable is $71,618 and $84,326 as of December 31, 2009 and 2008. The fair value is estimated based on net present value calculations and quoted market prices for similar issues.

ERCOT uses interest rate swap agreements, which are derivative instruments, to reduce interest rate risk. 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 assets (deficit).

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Accounting for the Effects of Regulation

ERCOT is subject to the provisions of the Financial Accounting Standards Board (FASB) in accounting for the effects of rate regulation. These provisions require 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.

Investment Gains/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 were included in non-operating expense and represented 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.

As of December 31, 2008, ERCOT received distributions of $37,777 of its original investment of $47,842, and, based on the fund restrictions, ERCOT's remaining investment of $6,104 (net of losses) was classified as other current assets as of December 31, 2008. In 2009, ERCOT received additional distributions totaling $6,264 from The Reserve, which resulted in a gain of $160 in 2009. The gain is included in non-operating income in the statement of activities and net assets (deficit) and is a component of the unrestricted net assets at December 31, 2009.

In January 2010, based on a court ordered pro rata distribution of the remaining assets of the Primary Fund, ERCOT received an additional distribution from The Reserve of $3,217. Based on this distribution, ERCOT will recognize a gain in non-operating income in 2010.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

On January 1, 2009, ERCOT adopted Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133*, which is codified in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification (ASC). 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 and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

Effective for financial statements issued after June 15, 2009, ERCOT adopted SFAS No. 165, *Subsequent Events*, which is codified in the Subsequent Events Topic of the FASB ASC. SFAS No. 165 does not significantly change the prior accounting practice for subsequent events, except for the requirement to disclose the date through which an entity has evaluated subsequent events and the basis for that date. ERCOT has evaluated material subsequent events through April 28, 2010, the date the Company's financial statements were available to be issued.

Effective for financial statements issued after July 1, 2009, ERCOT adopted Accounting Standards Update (ASU) No. 2009-1, *Topic 105: Generally Accepted Accounting Principles – amendments based on Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles*. ASU No. 2009-1 re-defines authoritative generally accepted accounting principles (GAAP) for nongovernmental entities to comprise only the FASB ASC and, for Securities Exchange Commission (SEC) registrants, guidance issued by the SEC. Adoption of ASC No. 2009-01 only changed the referencing convention of GAAP in the ERCOT Financial Statements.

(Dollars in Thousands)

3. Fair Value Measurement

Fair value is 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. Fair value measurements are 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. In a three-tier fair value hierarchy, that prioritizes inputs to valuation techniques used for fair value measurement, the following levels were established for each input:

- 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.

(Dollars in Thousands)

3. Fair Value Measurement (continued)

The following tables set 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, 2009 and 2008.

As of December 31, 2009	Total	Level 1	Level 2	Level 3
Assets				
Cash equivalents (a)	$ 78,815	$ 78,815	$ –	$ –
Restricted cash (a)	132,331	132,331	–	–
Total assets	$ 211,146	$ 211,146	$ –	$ –
Liabilities				
Interest rate derivatives (c)	$ 12,733	$ –	$ 12,733	$ –
Total liabilities	$ 12,733	$ –	$ 12,733	$ –

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.

(Dollars in Thousands)

3. Fair Value Measurement (continued)

(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. In 2009, ERCOT received distribution from The Reserve of all investments (net of losses) classified as Level 3 at December 31, 2008. Changes in the fair value measurement of these investments for the year ended December 31, 2009 are as follows:

Balance as of January 1, 2009	$ 6,104
Collections and settlements	(6,104)
Ending balance as of December 31, 2009	$ –

4. Property and Equipment

Property and equipment consists of the following at December 31:

	2009	2008
Computer equipment and software	**$ 303,212**	$ 300,584
Building and leasehold improvements	**61,485**	57,372
Furniture and fixtures	**17,268**	14,732
Land	**246**	246
Vehicles	**124**	124
Construction in progress	**14,864**	317
	397,199	373,375
Accumulated depreciation	**(282,810)**	(255,726)
	114,389	117,649
Systems under development	**313,007**	242,610
Total property and equipment, net	**$ 427,396**	$ 360,259

Systems under development consist primarily of costs incurred for the market transformation project described in Note 10.

(Dollars in Thousands)

5. Notes Payable

ERCOT's notes payable consist of the following:

	2009	2008
Revolving lines of credit	**$ 84,000**	$ 46,600
Term loan	**212,500**	212,500
Senior notes	**68,178**	81,815
	$ 364,678	$ 340,915

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, 2009, the total debt outstanding under this line of credit is $75,000. 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, 2009, the total debt outstanding under this line of credit is $9,000. The loan agreement has a maximum amount of available credit of $50,000 and expires on December 31, 2010. As of December 31, 2009, 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, 2009 was 1.97 percent for the revolving lines of credit and the loan agreement, including amounts fixed by interest rate swaps. Additionally, at December 31, 2009, ERCOT pays a commitment fee of 0.10 percent on the unused portion of the revolving credit facilities and 0.25 percent on the unused portion of the loan agreement. During 2009 and 2008, ERCOT incurred commitment fees totaling $248 and $66, 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, 2009, ERCOT was in compliance with its debt covenants for these facilities.

(Dollars in Thousands)

5. Notes Payable (continued)

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, 2009, 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, 2009 was 4.54 percent, including amounts fixed by interest rate swaps. The term loan has several covenants, the most restrictive of which limits ERCOT's indebtedness. At December 31, 2009, ERCOT was in compliance with its debt covenants for the term loan.

Senior Notes

ERCOT has $68,178 outstanding in senior notes at December 31, 2009. These senior notes bear interest at 6.17 percent 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, 2009, ERCOT was in compliance with its covenants for the senior notes.

Future maturities of the senior notes and term loan are as follows:

	Senior Notes	Term Loan	Total
Year Ending December 31:			
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
	$ 68,178	$ 212,500	$ 280,678

(Dollars in Thousands)

6. Derivatives

Interest Rate Derivatives

The Company entered into variable to fixed rate swap agreements (Swaps) with three financial institutions. The notional amounts of the Swaps are primarily related to the term loan, with one Swap related to the revolving line of credit with JPMorgan Chase Bank. The Swaps generally mature concurrent with the respective borrowings' due dates. 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 related borrowing. The fixed rate terms of the Swaps and their notional values at December 31, 2009 are summarized in the following table.

Transaction Date	From	To	Fixed Rate Due to Counterparty	Notional Values at December 31, 2009
2007	Jul–07	Nov–10	5.4650%	$ 30,000
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
2009	Nov–09	Jun–12	2.4225%	40,000
2009	Nov–09	Jun–12	2.5225%	40,000

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

(Dollars in Thousands)

6. Derivatives (continued)

Derivative Financial Statement Presentation and Fair Values

At December 31, 2009 and 2008, the fair value of interest rate derivatives was reflected in the statements of financial position as follows:

	Liability Derivatives		
	Statements of Financial Position Location	**2009**	**2008**
Derivatives not designated as hedging instruments			
Interest rate derivatives	Derivative liabilities	**$ 12,733**	$ 14,752
Total		**$ 12,733**	$ 14,752

For the years ended December 31, 2009 and 2008, the unrealized derivative gains (losses) arising from interest rate derivatives were as follows:

	Location of Gain or (Loss) recognized in Income	**2009**	**2008**
Derivatives not designated as hedging instruments			
Interest rate derivatives	Change in valuation of interest rate swap	**$ 2,019**	$ (7,786)
Total		**$ 2,019**	$ (7,786)

7. 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.

(Dollars in Thousands)

7. Employee Benefit Plans (continued)

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

	2009	**2008**
75 percent of the employee's contribution up to 6 percent	**$ 2,050**	$ 1,681
10 percent of the employee's compensation	**6,511**	5,709
Total employer contributions	**$ 8,561**	$ 7,390

Defined Benefit Plan

During 2009, 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 2009 ERCOT recognized an increase in the post-retirement liability of $28, operating expenses of $35 and a decrease to deferred pension costs of $7.

(Dollars in Thousands)

8. 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:

2010	$	837
2011		666
2012		661
2013		670
2014		193
Thereafter		40
Total minimum lease payments	$	3,067

ERCOT recognized $936 and $809 of office rent expense in 2009 and 2008, respectively.

9. 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.

(Dollars in Thousands)

10. 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 assets (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 December 2010. Some of the development costs encompassed in the rate order would otherwise be treated as period costs under GAAP. 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. Through December 31, 2009, the Nodal surcharge fees received surpassed TNMIP development costs by $36,489 resulting in an increase to the regulatory liability.

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

	2009	2008
Nodal surcharge fees	**$ 52,113**	$ 47,752
Nodal costs not included in systems under development	**30,753**	30,435
Over collections	**(21,360)**	(17,317)
Regulatory assets (liabilities), beginning of year	**(15,129)**	2,188
Regulatory assets (liabilities), end of year	**$ (36,489)**	$ (15,129)

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 regulatory accounting, which provides for deferral of the income statement impact. Such charges are presented in the table above.

(Dollars in Thousands)

10. Accounting for the Effects of Regulation (continued)

The following is a summary of TNMIP development costs incurred:

	2009	2008
Salaries and related benefits	**$ 6,968**	$ 6,310
Depreciation	**10,618**	14,581
Facility and equipment costs	**880**	3,054
Consulting and legal services	**7,207**	3,197
Administrative and other	**145**	266
Hardware and software maintenance and licensing	**3,757**	3,106
Interest expense, net of adjustments (a)	**1,178**	(79)
Total TNMIP development costs	**$ 30,753**	$ 30,435

(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 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.

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 the future years.

(Dollars in Thousands)

10. Accounting for the Effects of Regulation (continued)

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 and deferred recognition of $3,095 in revenues with the regulatory liability in the same amount at December 31, 2008. In 2009, Texas RE collected $3,431 from NERC, collected $189 from meeting fees and fines, and earned $3 in interest income. Texas RE incurred expenses of $4,982 in performing functions delegated by NERC. This resulted in a decrease to the regulatory liability of $1,359 in 2009. As such, Texas RE has deferred recognition of $1,736 in revenues with the regulatory liability in the same amount at December 31, 2009. The NERC budgeting and true-up process provides that a portion of the deferred liability be applied toward the future budget year. Consistent with NERC's process, the amount of Texas RE's deferred liability to be applied toward 2010 funding will be $78 while the 2009 funding was $2,666. As such, these amounts are classified as current with the remaining $1,658 and $429 classified as non-current at December 31, 2009 and 2008, respectively.

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

	2009	2008
Texas RE collections	**$ 3,620**	$ 3,226
Texas RE interest income	**3**	91
Less: Texas RE costs	**4,982**	3,498
Less: Texas RE regulatory liability start–up adjustment	**–**	73
(Over) under collections	**1,359**	254
Regulatory (liabilities), beginning of year	**(3,095)**	(3,349)
Regulatory (liabilities), end of year	**$ (1,736)**	$ (3,095)
Current portion	**$ (78)**	$ (2,666)
Long term portion	**$ (1,658)**	$ (429)

11. 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

(Dollars in Thousands)

11. Sales and Use Tax Refund (continued)

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.

Acceptance and approval of ERCOT's refund request occurred during January 2009. 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. On April 2, 2009, ERCOT received a refund check from the Comptroller totaling $12,251 resulting from ERCOT's refund request for the earlier period from January 1, 2001 through December 31, 2004. In total, ERCOT received $26,672 from the Comptroller in 2009, with $3,453 of this refund related to interest.

In 2009, ERCOT recognized $3,453 as interest income and recognized the remaining $23,219 of the refund as follows: $11,432 as non-operating income and $3,029 payment to the City of Taylor as non-operating expense on the statement of activities and net assets (deficit); $4,306 reduction in TNMIP operating expenditures, which were deferred to the statement of financial position as discussed in Note 10; and $4,452 in asset basis adjustments on the statement of financial position.

12. 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.