Item 8.1: CEO Update

H.B. “Trip” Doggett
President & Chief Executive Officer

Board of Directors Meeting
ERCOT Public
January 15, 2013

Financial Performance (Updated through December 2012)

Budget vs. Actual Performance: $3.7 Million Favorable

Revenues

$5.1 Million favorable 2011 carry forward

$1.4 Million unfavorable system administration fees

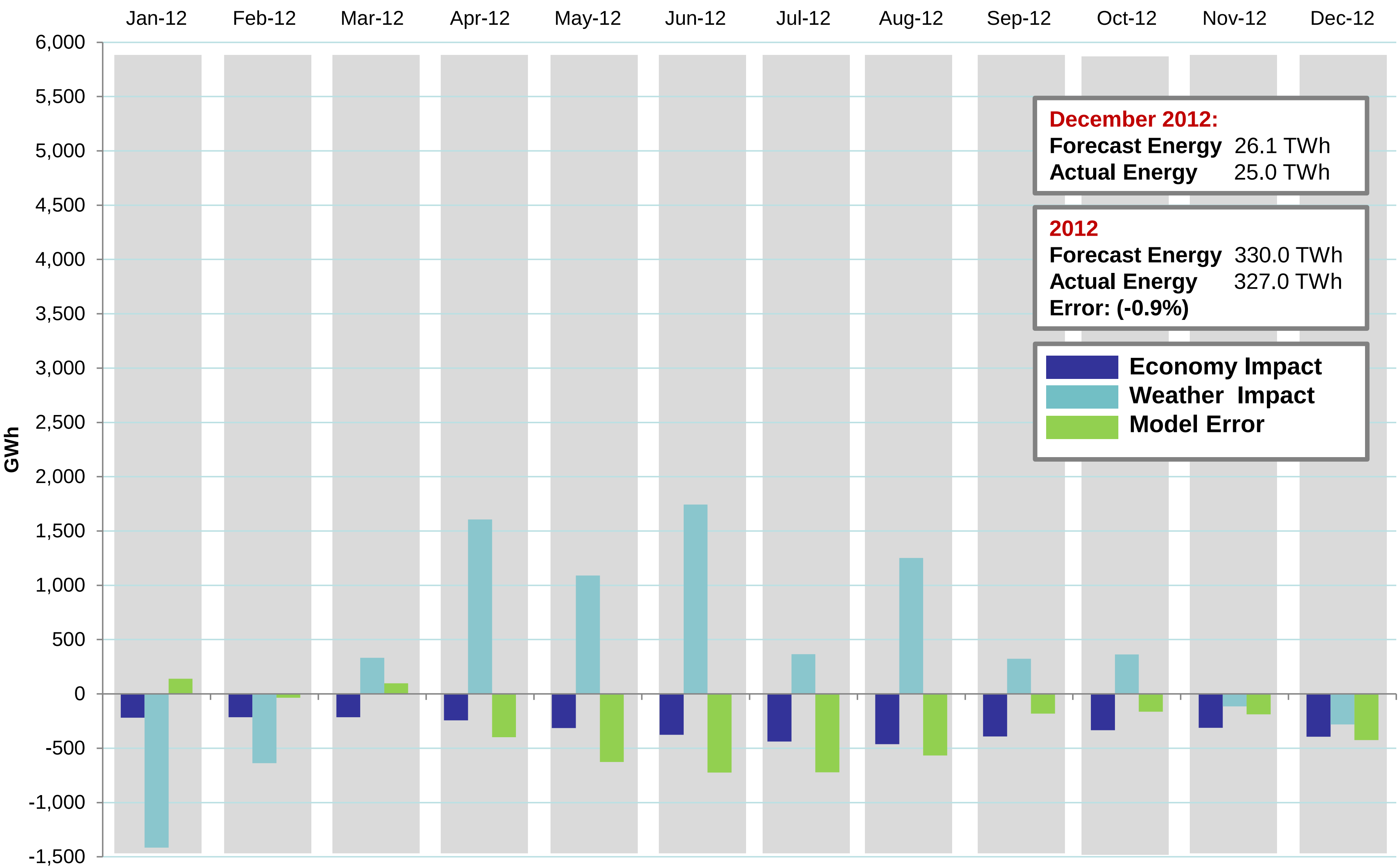
Expenses

$4.6 Million unfavorable outside services

$2.7 Million favorable salary & related benefits

$1.6 Million favorable hardware & software maintenance & licensing

IMPACTS OF ECONOMY & WEATHER – 2012



NEW WIND GENERATION RECORD – 25 DEC 2012

- **A new wind record of 8,638 MW occurred on Dec 25, 2012 at 3:11pm**
  - Non-Coastal Wind = 7,301 MW
  - Coastal Wind = 1,337 MW
  - Wind was supplying 25.7% of the 33,585 MW load

- **Previous record of 8,521 MW occurred on Nov 10, 2012 at 10:21am**
  - Non-Coastal Wind = 7,408 MW
  - Coastal Wind = 1,113 MW
  - Wind was supplying 25.9% of the 32,867 MW load

Loss of Load Probability (LOLP) Study Update

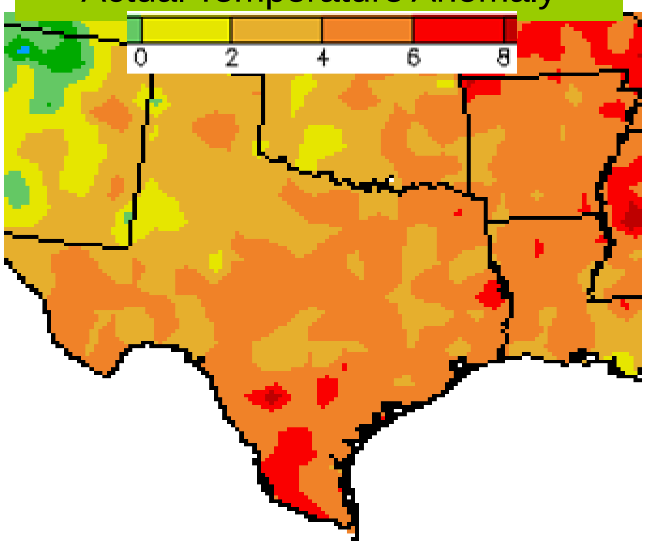
- To develop recommendations regarding changes to the ERCOT Target Reserve Margin (currently 13.75%) and the Effective Load-Carrying Capability (ELCC) of wind generation resources (currently 8.7%)
- ERCOT completed the previous study in November 2010
- Current study was delayed due to incorrect wind generation data
- Differences between the previous and current studies:
  - The new study uses 15 years (1997-2011) of load and wind data, with more detailed & consistent modeling and includes the correlation between wind and load
  - Updated unit outage information (although significant gaps in the availability and quality of unit outage data remain)
  - Separate analyses of the ELCC of wind resources in coastal counties (Cameron, Kenedy, San Patricio, and Willacy counties) and the rest of ERCOT
- Draft results will be presented at the upcoming GATF meeting on January 18
- Results are expected to be discussed at GATF, WMS and TAC
- Depending on stakeholder discussions and review, study results will likely be presented at the BOD meeting in March or May 2013

Winter 2012-13 Temperature Outlook Update

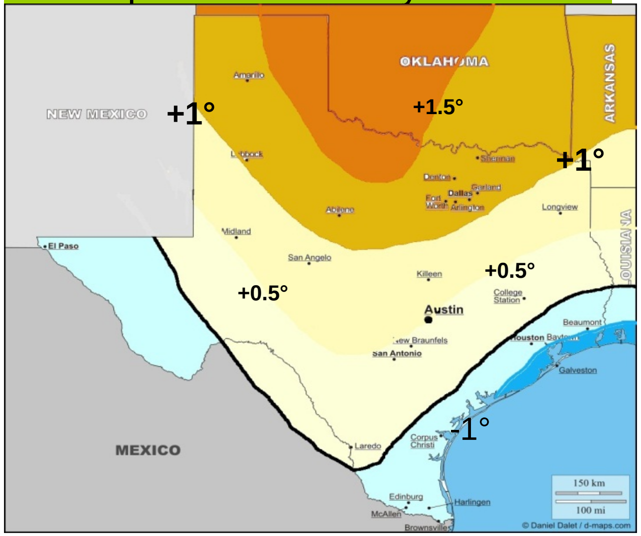
Temperature Outlook

- No changes from the original winter forecast issued in November; still expecting a mild winter for most of Texas.
- All of ERCOT experienced a warmer than normal December.
- 2006-07 (one of four primary analogs) does provide a colder risk -- especially mid-to-late winter. The January weather pattern suggests a mostly cold West and mostly mild East for the U.S. – with the colder air occasionally affecting Texas (especially West and South TX).

December 2012
Actual Temperature Anomaly



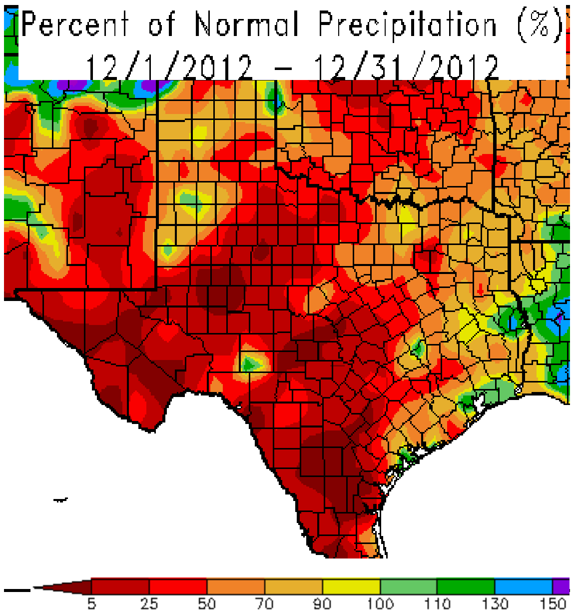
Winter (Dec 1-Feb 28)
Temperature Anomaly Outlook

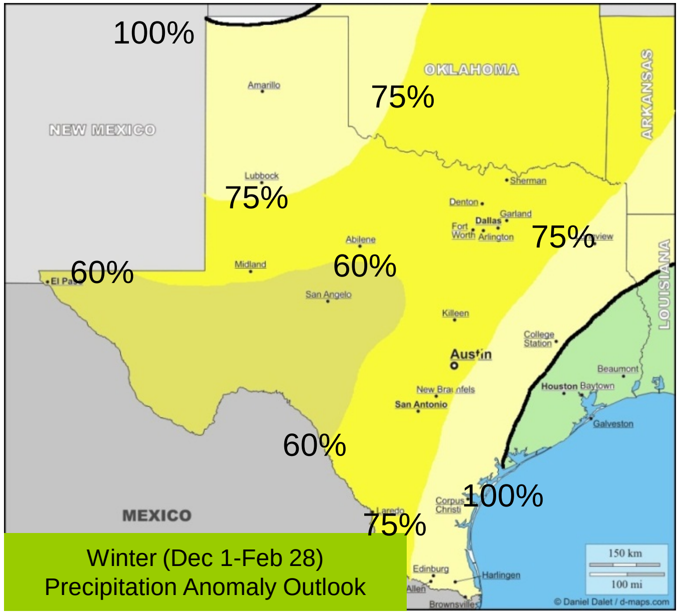


WINTER 2012-13 PRECIPITATION OUTLOOK UPDATE

Precipitation Outlook

- No changes from the original winter forecast issued in November; still expecting a dry winter for most of Texas.
- All of ERCOT experienced a drier than normal December.
- Preferred winter analogs: 1952-53, 1953-54, 2003-04, 2006-07 (1950s was a period of extreme, long-term drought for Texas).
- Of the three winter months, January holds the best opportunity for significant precipitation in ERCOT as a whole – and January 2007 was a wetter-than-normal month. A wet January does not – at this point – suggest a long-term wetter pattern change.





Texas Drought Conditions – Oct 4, 2011

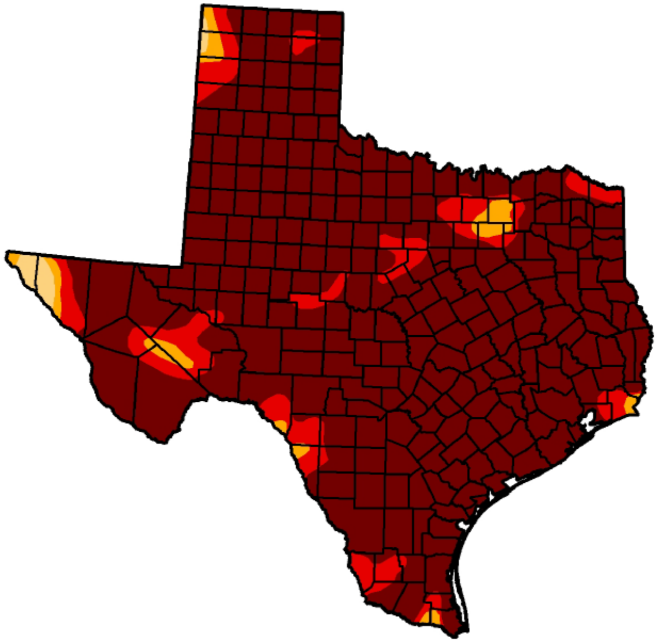
U.S. Drought Monitor

October 4, 2011
Valid 7 a.m. EST

Texas

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	0.00	100.00	100.00	99.16	96.99	87.99
Last Week (09/27/2011 map)	0.00	100.00	100.00	99.16	96.65	85.75
3 Months Ago (07/05/2011 map)	2.41	97.59	95.73	94.39	90.21	71.30
Start of Calendar Year (12/28/2010 map)	7.89	92.11	69.43	37.46	9.59	0.00
Start of Water Year (09/27/2011 map)	0.00	100.00	100.00	99.16	96.65	85.75
One Year Ago (09/28/2010 map)	75.57	24.43	2.43	0.99	0.00	0.00



Intensity:

- *D0 Abnormally Dry*
- *D1 Drought - Moderate*
- *D2 Drought - Severe*
- *D3 Drought - Extreme*
- *D4 Drought - Exceptional*

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://droughtmonitor.unl.edu

USDA

National Drought Mitigation Center

Released Thursday, October 6, 2011

TEXAS DROUGHT CONDITIONS – MAY 15, 2012

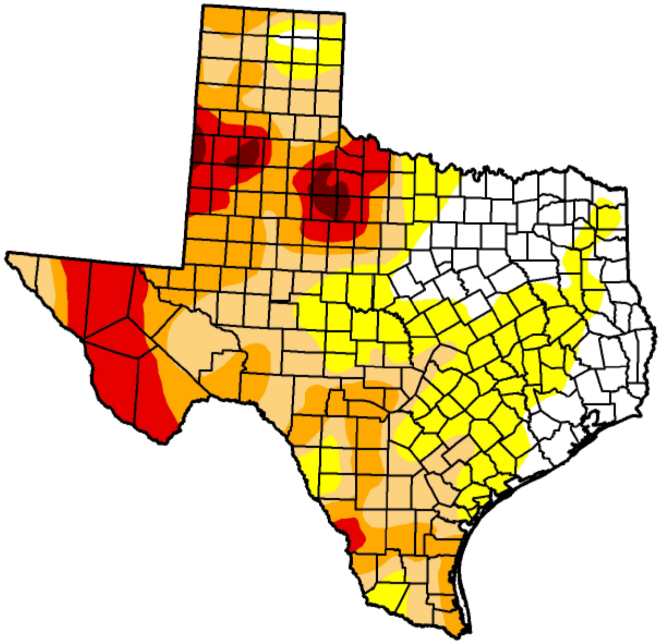
U.S. Drought Monitor

May 15, 2012
Valid 7 a.m. EST

Texas

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	18.50	81.50	56.79	33.55	13.54	1.40
Last Week (05/08/2012 map)	17.80	82.20	65.93	48.16	23.57	7.38
3 Months Ago (02/14/2012 map)	4.93	95.07	89.08	76.46	53.27	20.41
Start of Calendar Year (12/27/2011 map)	0.01	99.99	97.83	84.81	67.32	32.36
Start of Water Year (09/27/2011 map)	0.00	100.00	100.00	99.16	96.65	85.75
One Year Ago (05/10/2011 map)	0.00	100.00	97.78	93.89	82.06	47.55



Intensity:

- *D0 Abnormally Dry*
- *D1 Drought - Moderate*
- *D2 Drought - Severe*
- *D3 Drought - Extreme*
- *D4 Drought - Exceptional*

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://droughtmonitor.unl.edu

Released Thursday, May 17, 2012
Brad Rippey, U.S. Department of Agriculture

TEXAS DROUGHT CONDITIONS – JAN 1, 2013

U.S. Drought Monitor

January 1, 2013
Valid 7 a.m. EST

Texas

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	3.04	96.96	87.00	65.39	35.03	11.96
Last Week (12/25/2012 map)	4.54	95.46	88.31	64.13	34.48	10.32
3 Months Ago (10/02/2012 map)	16.69	83.31	65.97	32.55	16.16	3.23
Start of Calendar Year (01/01/2013 map)	3.04	96.96	87.00	65.39	35.03	11.96
Start of Water Year (09/25/2012 map)	9.13	90.87	78.73	57.41	24.91	5.18
One Year Ago (12/27/2011 map)	0.01	99.99	97.83	84.81	67.32	32.36

Intensity:

- *D0 Abnormally Dry*
- *D1 Drought - Moderate*
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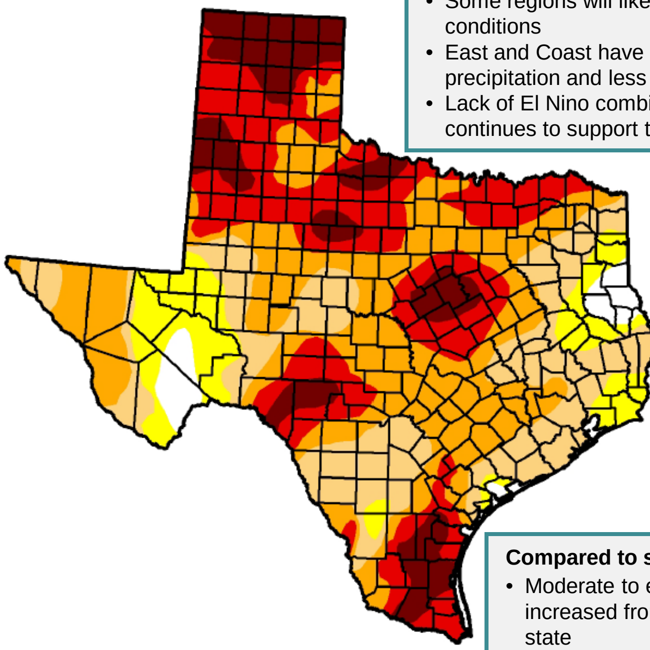


- Drought conditions will likely not improve for most regions in Texas
- Some regions will likely experience worsening conditions
- East and Coast have more potential for precipitation and less –ve impact on the drought
- Lack of El Nino combined with AMO+/PDO- continues to support this trend

Compared to six months ago

- Moderate to exceptional drought increased from 76.76% to 87.00% of the state
- Extreme to exceptional increased from 8.77% to 35.03%

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

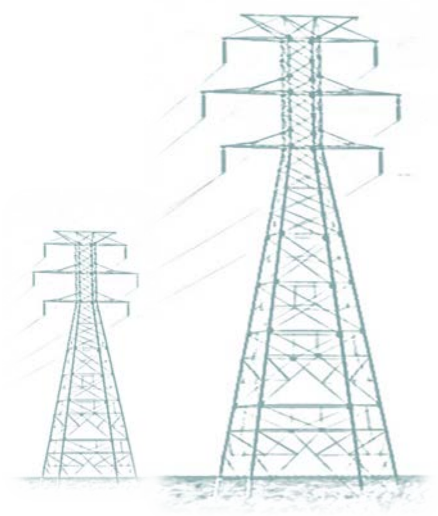
http://droughtmonitor.unl.edu

Released Thursday, January 3, 2013
Richard Heim, National Climatic Data Center, NOAA

Sunset Advisory Commission Update

- **ERCOT participated in Sunset Commission's re-review of Public Utility Commission**
- **Met with Sunset Staff regarding their recommendations on ERCOT oversight and updated them on issues of interest from last legislative session**
- **Sunset Staff report published in November 2012**
- **Sunset Commission**
  - Heard public testimony on December 19, 2012
  - Voted on recommendations on January 9, 2013

STORAGE ARRAY OUTAGE FROM 12/03/2012



- Failover of production to alternate site completed
  - Production systems by 12/04/2012
  - Reports and extracts by 12/19/2012
- Replacement storage array activated
  - Installed and configured
  - Populated with data (31 production databases)
- Taylor Data Center restored to full backup and failover capability on 01/04/2013
- Hitachi in depth root cause report to be published after decommission and return of the failed array which is targeted for February 2013
- Release 6, delayed from December 2012, rescheduled to deploy with Release 1 (February 11-14, 2013)

Top Market in the United States & Canada

ERCOT consistently ranks as the top market in the United States and Canada

- **Texas residential and commercial/industrial electric markets ranked #1 in competitive markets in North America for the past six years in the Annual Baseline Assessment of Choice in Canada and the United States (Distributed Energy Financial Group, 2012).**
  - Texas was the only market that ranked "excellent" for both residential and commercial markets in 2012.
- **$34 billion market based on 334,000 GWh annual energy**
  - Approximately 240 counterparties active in the market, providing depth and liquidity
  - More than 1,000 active entities that generate, move, buy, sell or use wholesale electricity

> "In Texas we refuse to rest on our laurels and have every intention of remaining number one by continuing to add features in our nation's leading electricity market. We keep finding ways to increase customer value in the marketplace through smart grid innovations and ongoing improvements in the shopping experience, just to name a few."
>
> Chairman Donna L. Nelson, Public Utility Commission of Texas (ABACCUS, 2012)