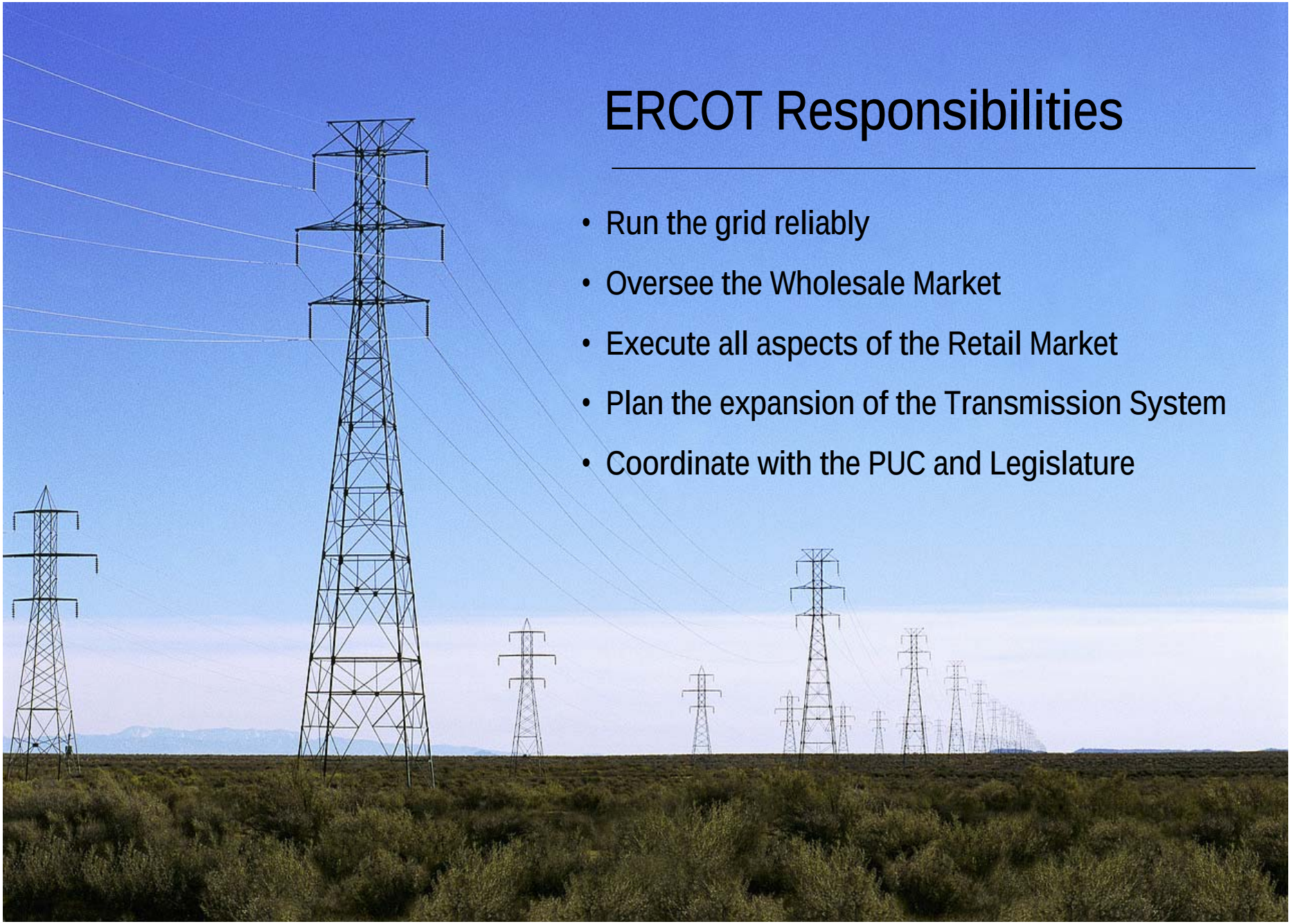
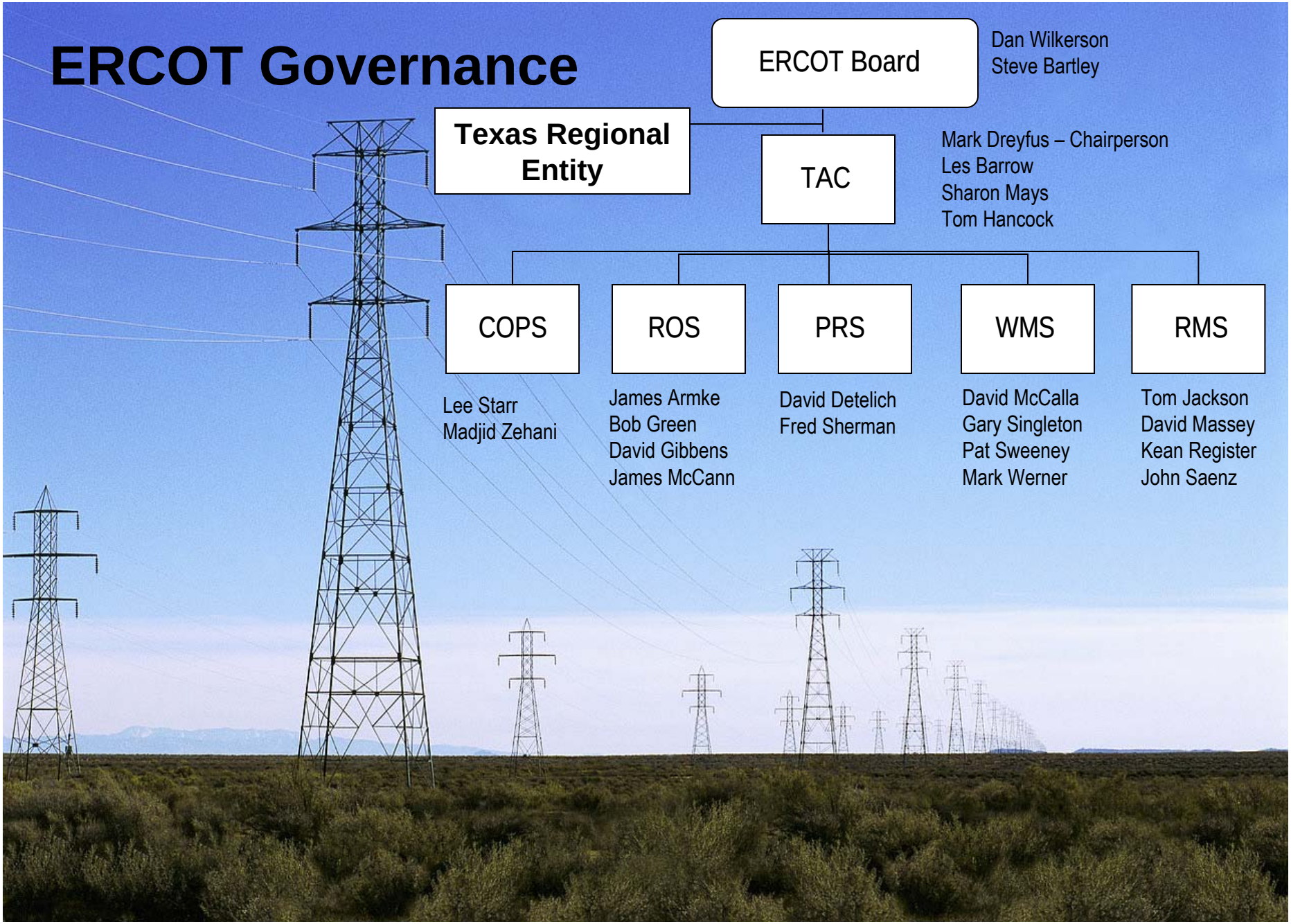
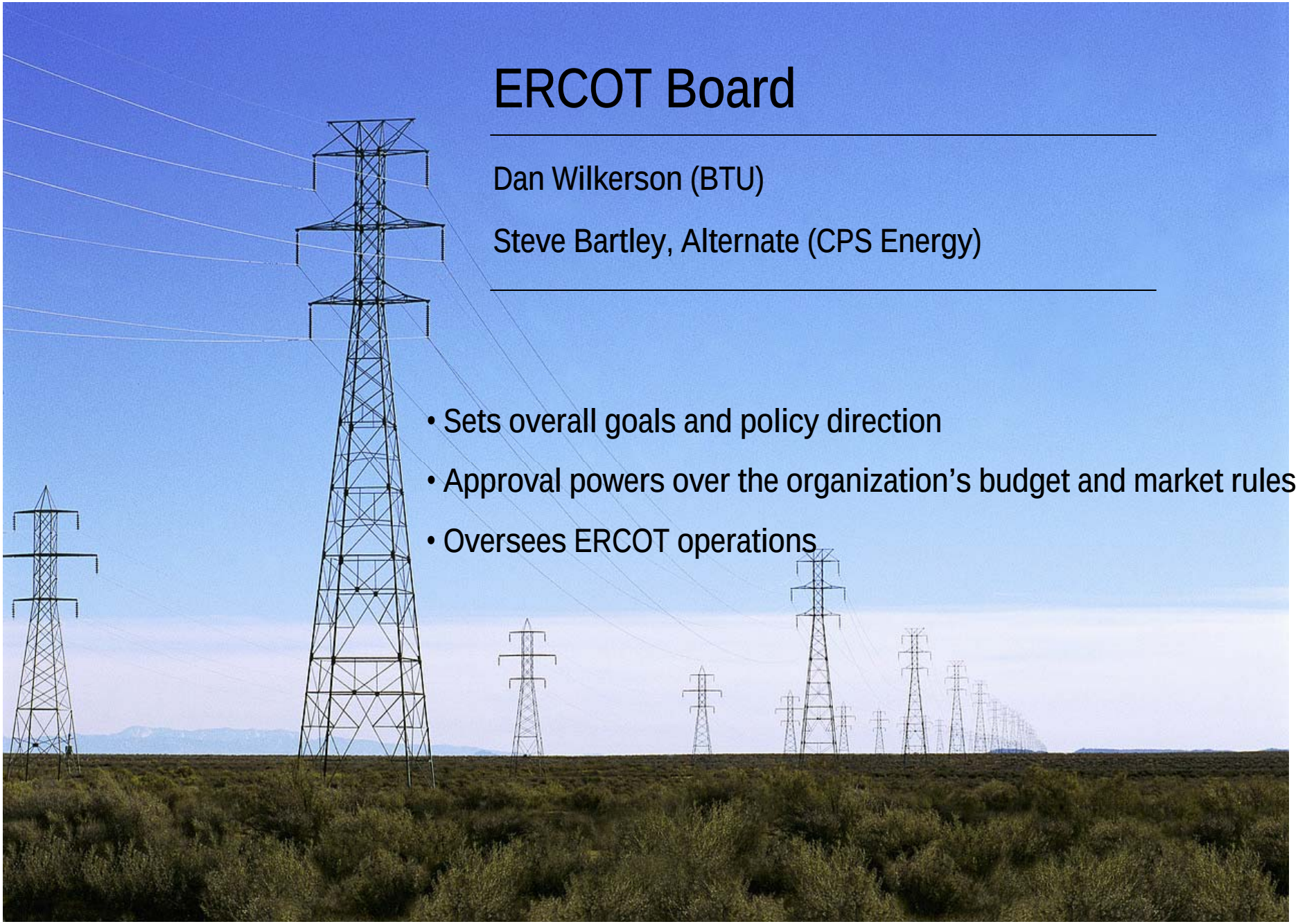


ERCOT Responsibilities

- Run the grid reliably
- Oversee the Wholesale Market
- Execute all aspects of the Retail Market
- Plan the expansion of the Transmission System
- Coordinate with the PUC and Legislature

ERCOT Governance



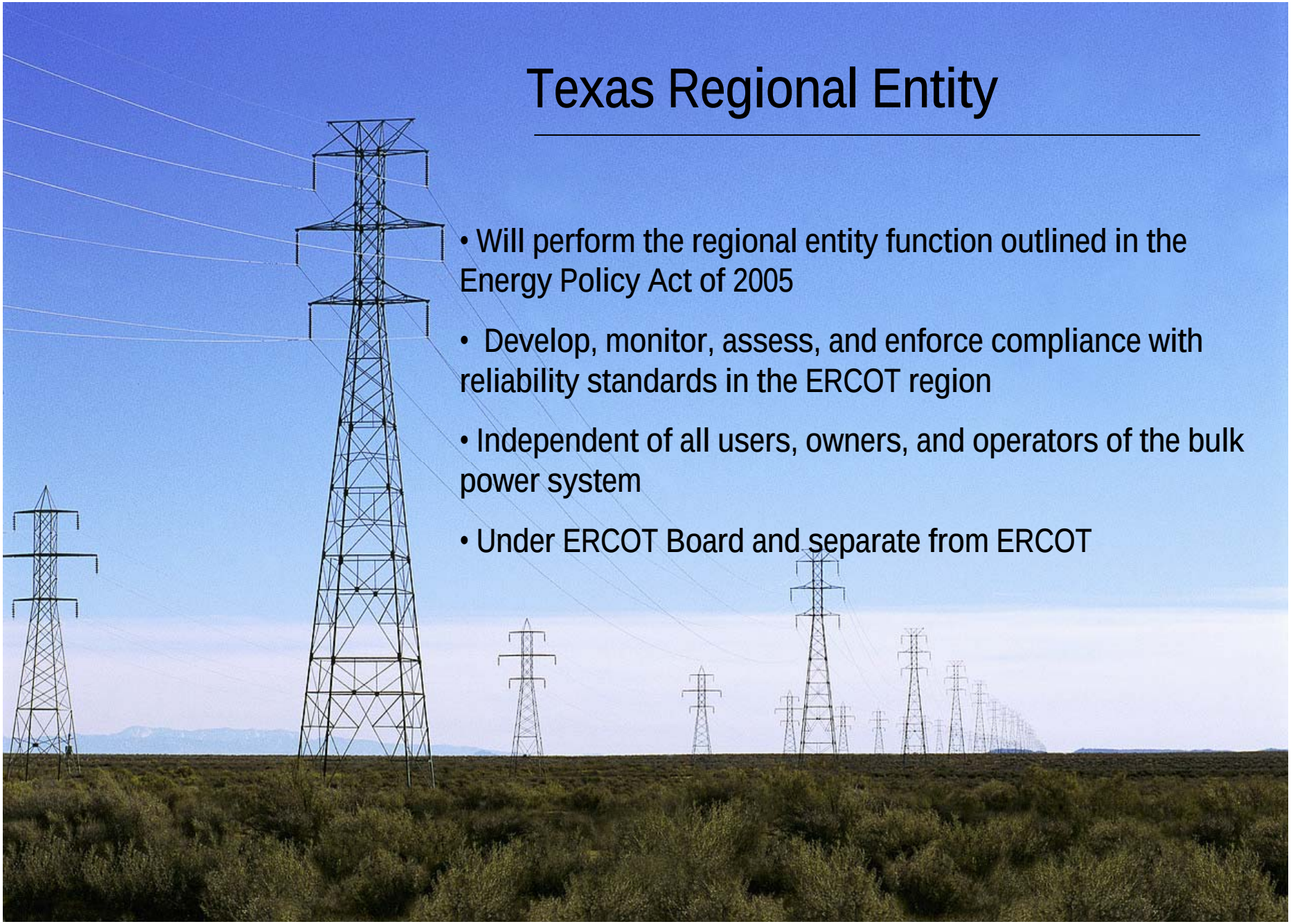


ERCOT Board

Dan Wilkerson (BTU)

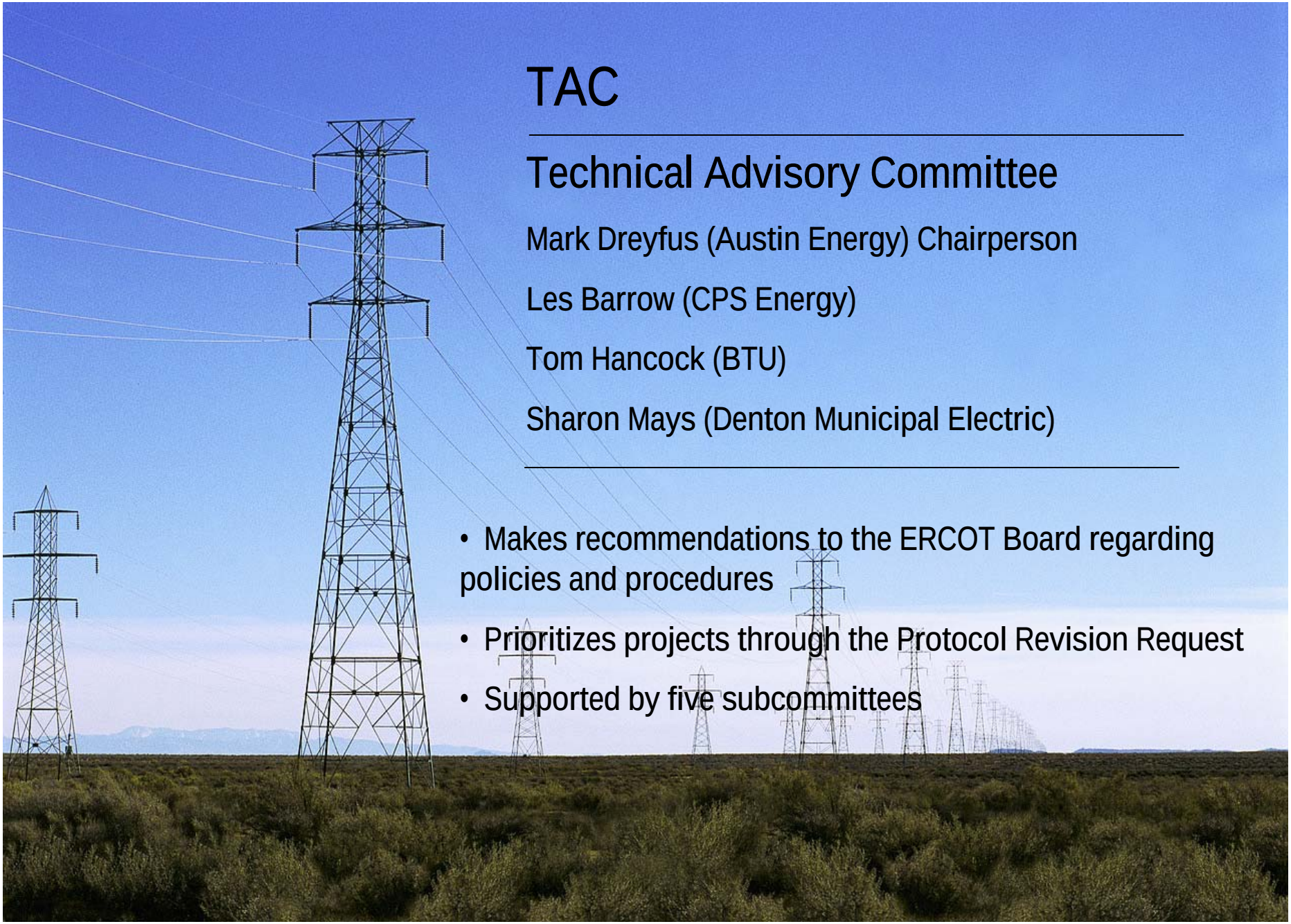
Steve Bartley, Alternate (CPS Energy)

- Sets overall goals and policy direction
- Approval powers over the organization’s budget and market rules
- Oversees ERCOT operations



Texas Regional Entity

- Will perform the regional entity function outlined in the Energy Policy Act of 2005
- Develop, monitor, assess, and enforce compliance with reliability standards in the ERCOT region
- Independent of all users, owners, and operators of the bulk power system
- Under ERCOT Board and separate from ERCOT



TAC

Technical Advisory Committee

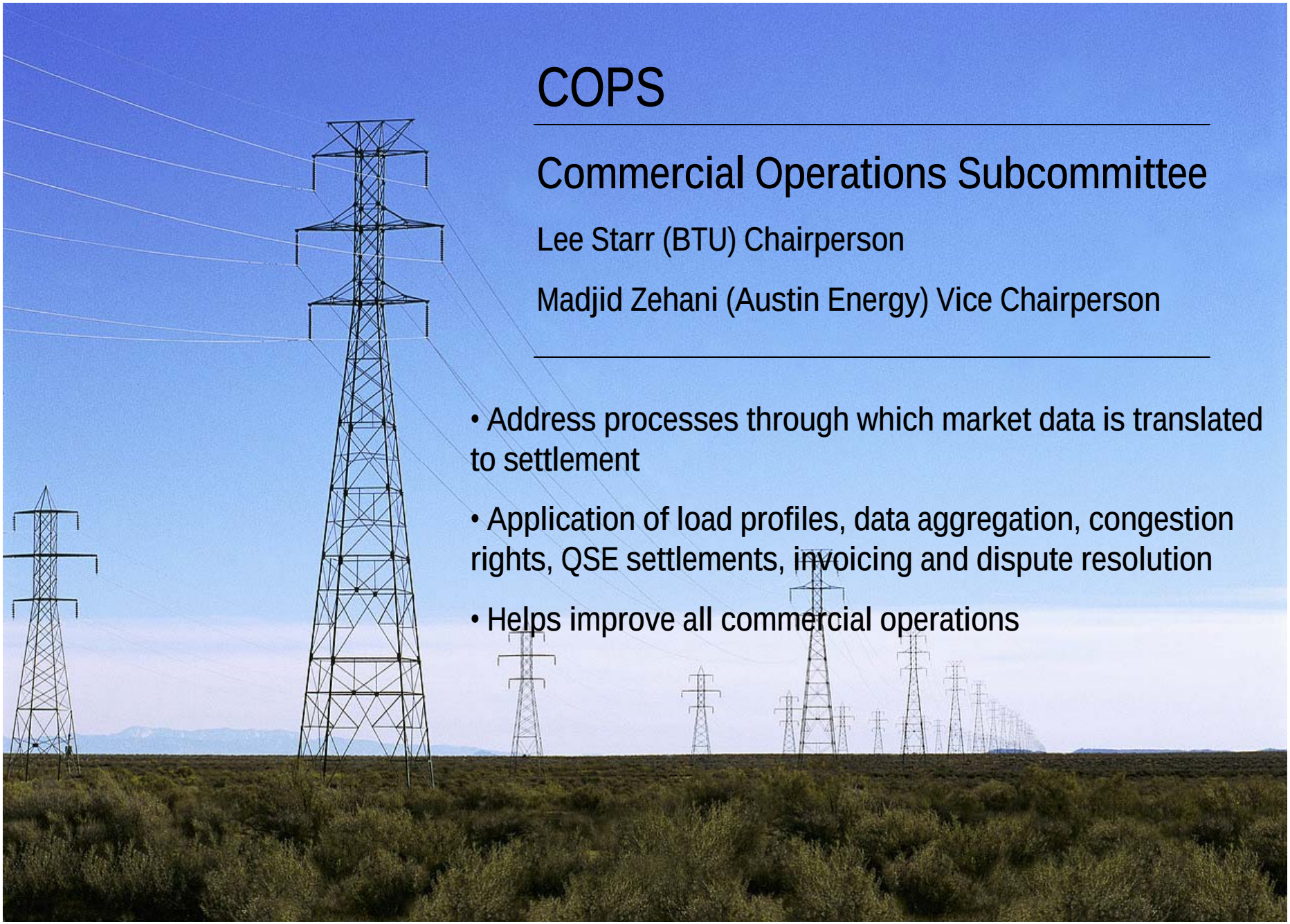
Mark Dreyfus (Austin Energy) Chairperson

Les Barrow (CPS Energy)

Tom Hancock (BTU)

Sharon Mays (Denton Municipal Electric)

- Makes recommendations to the ERCOT Board regarding policies and procedures
- Prioritizes projects through the Protocol Revision Request
- Supported by five subcommittees



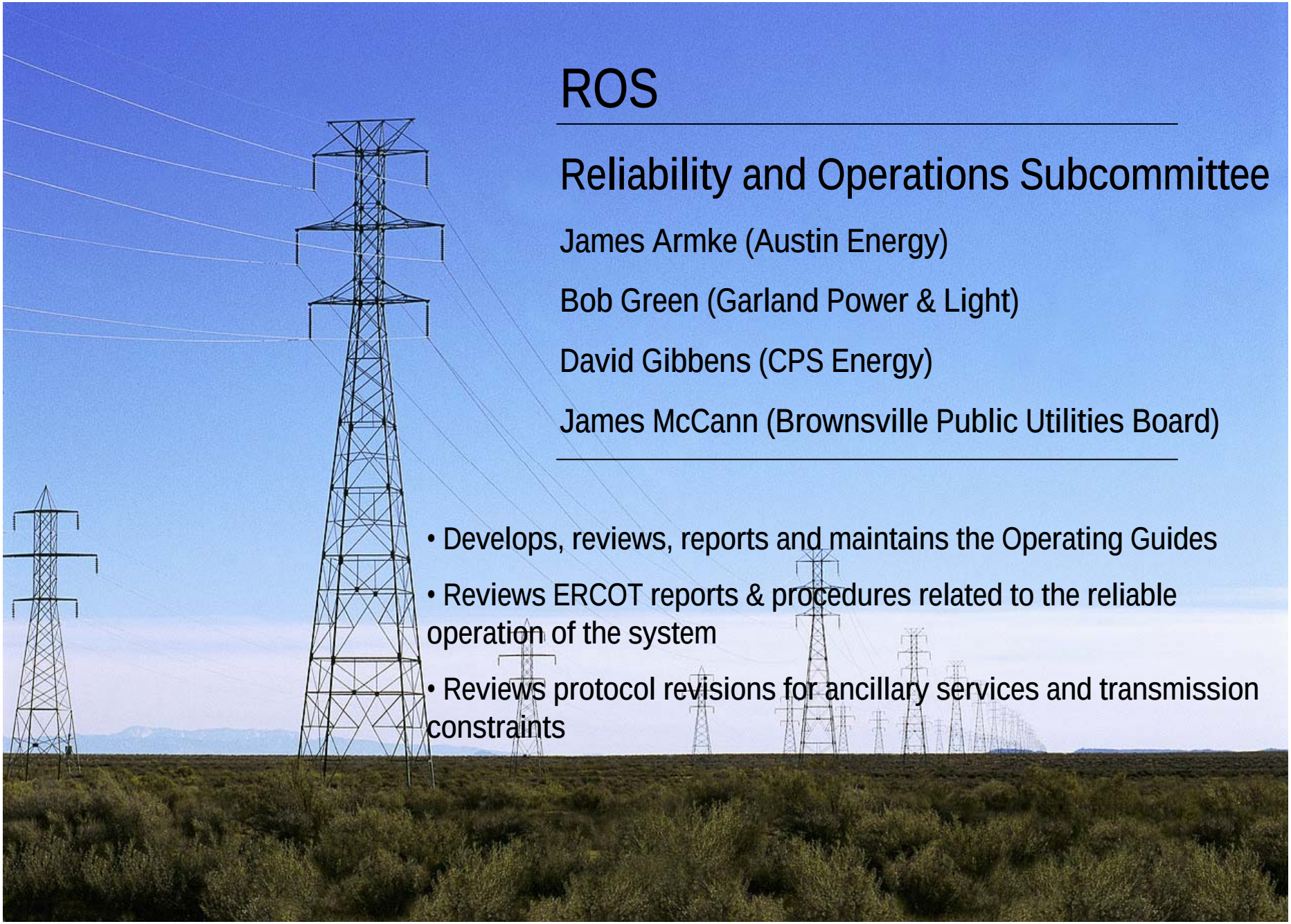
COPS

Commercial Operations Subcommittee

Lee Starr (BTU) Chairperson

Madjid Zehani (Austin Energy) Vice Chairperson

- Address processes through which market data is translated to settlement
- Application of load profiles, data aggregation, congestion rights, QSE settlements, invoicing and dispute resolution
- Helps improve all commercial operations



ROS

Reliability and Operations Subcommittee

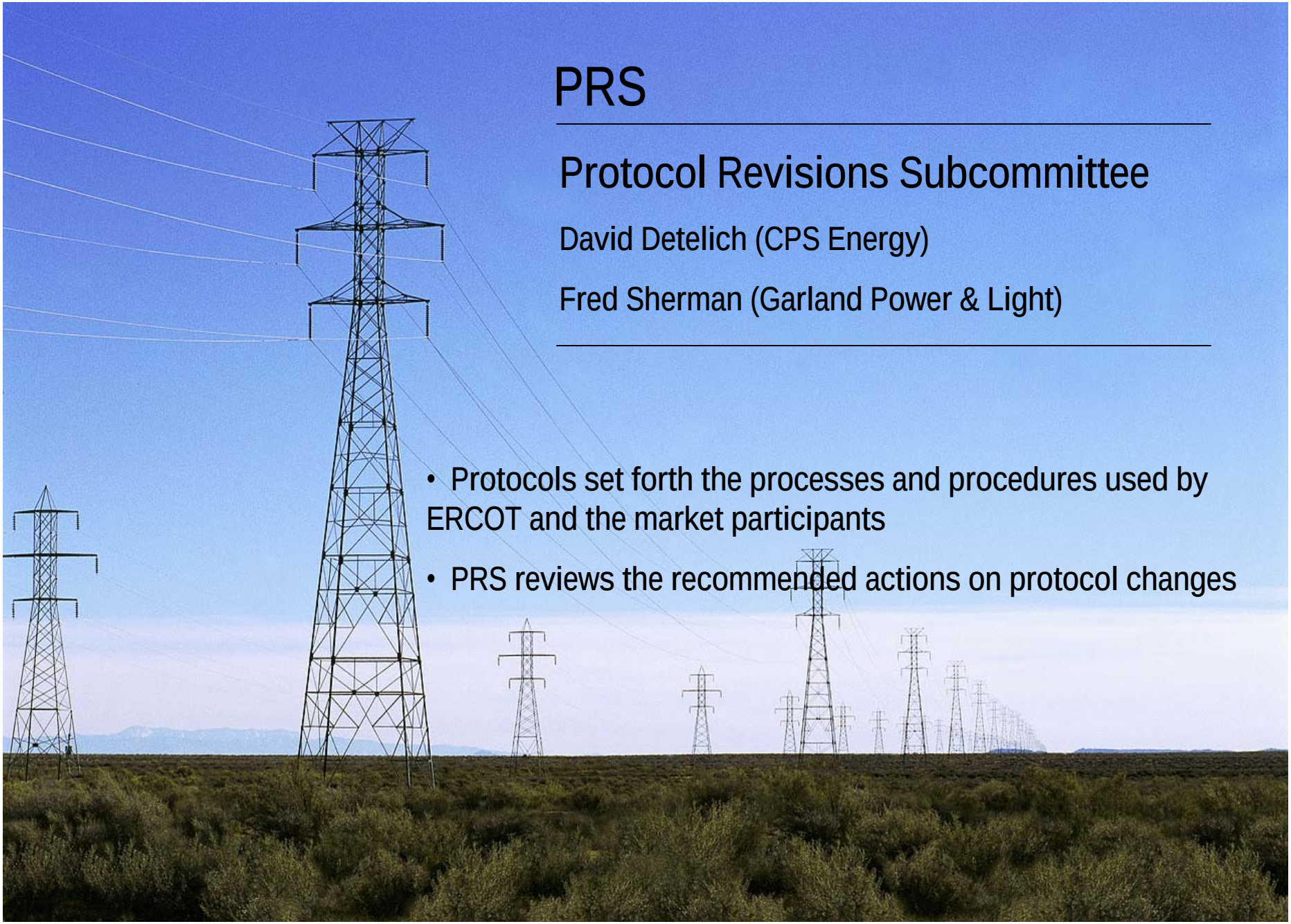
James Armke (Austin Energy)

Bob Green (Garland Power & Light)

David Gibbens (CPS Energy)

James McCann (Brownsville Public Utilities Board)

- Develops, reviews, reports and maintains the Operating Guides
- Reviews ERCOT reports & procedures related to the reliable operation of the system
- Reviews protocol revisions for ancillary services and transmission constraints



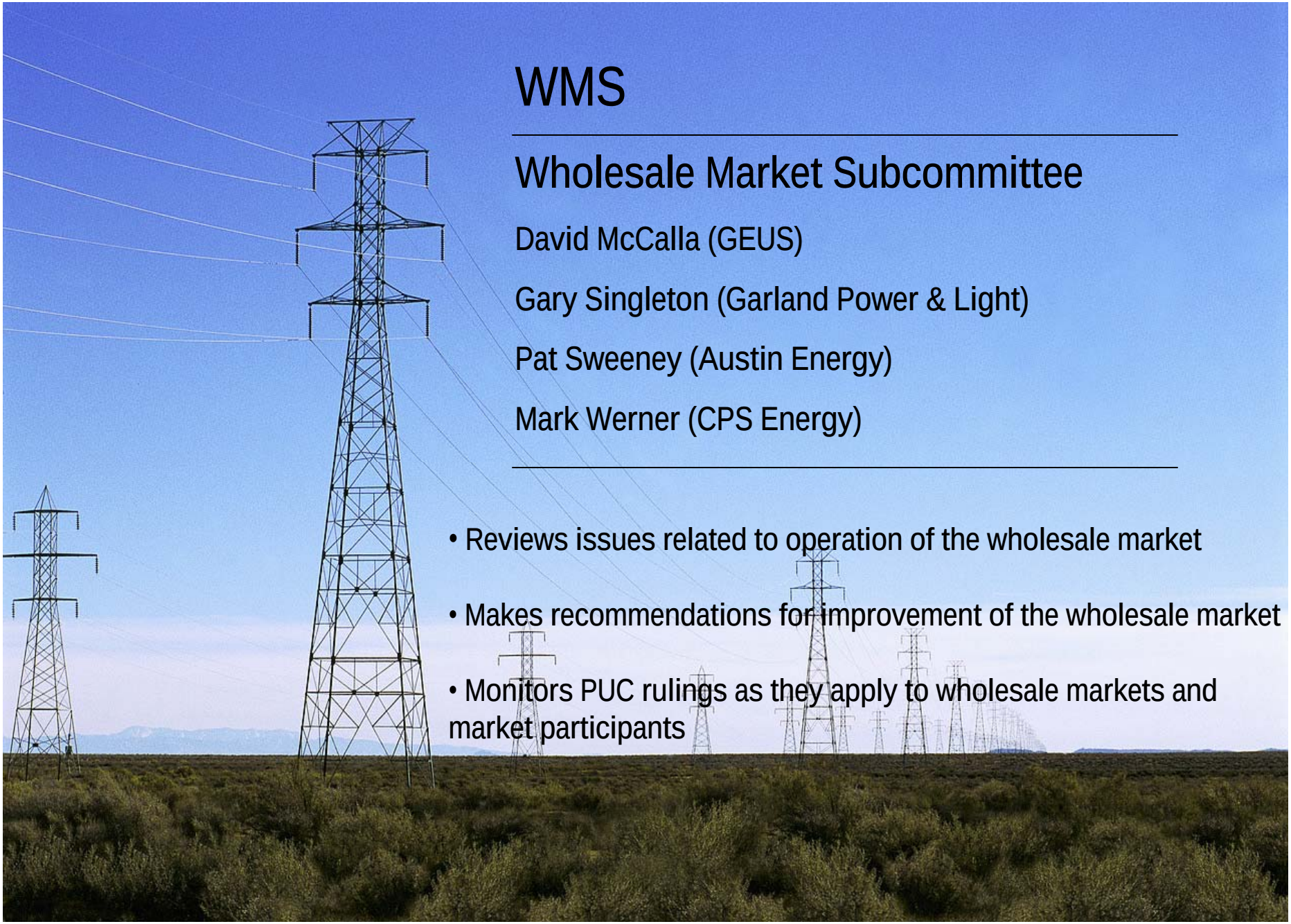
PRS

Protocol Revisions Subcommittee

David Detelich (CPS Energy)

Fred Sherman (Garland Power & Light)

- Protocols set forth the processes and procedures used by ERCOT and the market participants
- PRS reviews the recommended actions on protocol changes



WMS

Wholesale Market Subcommittee

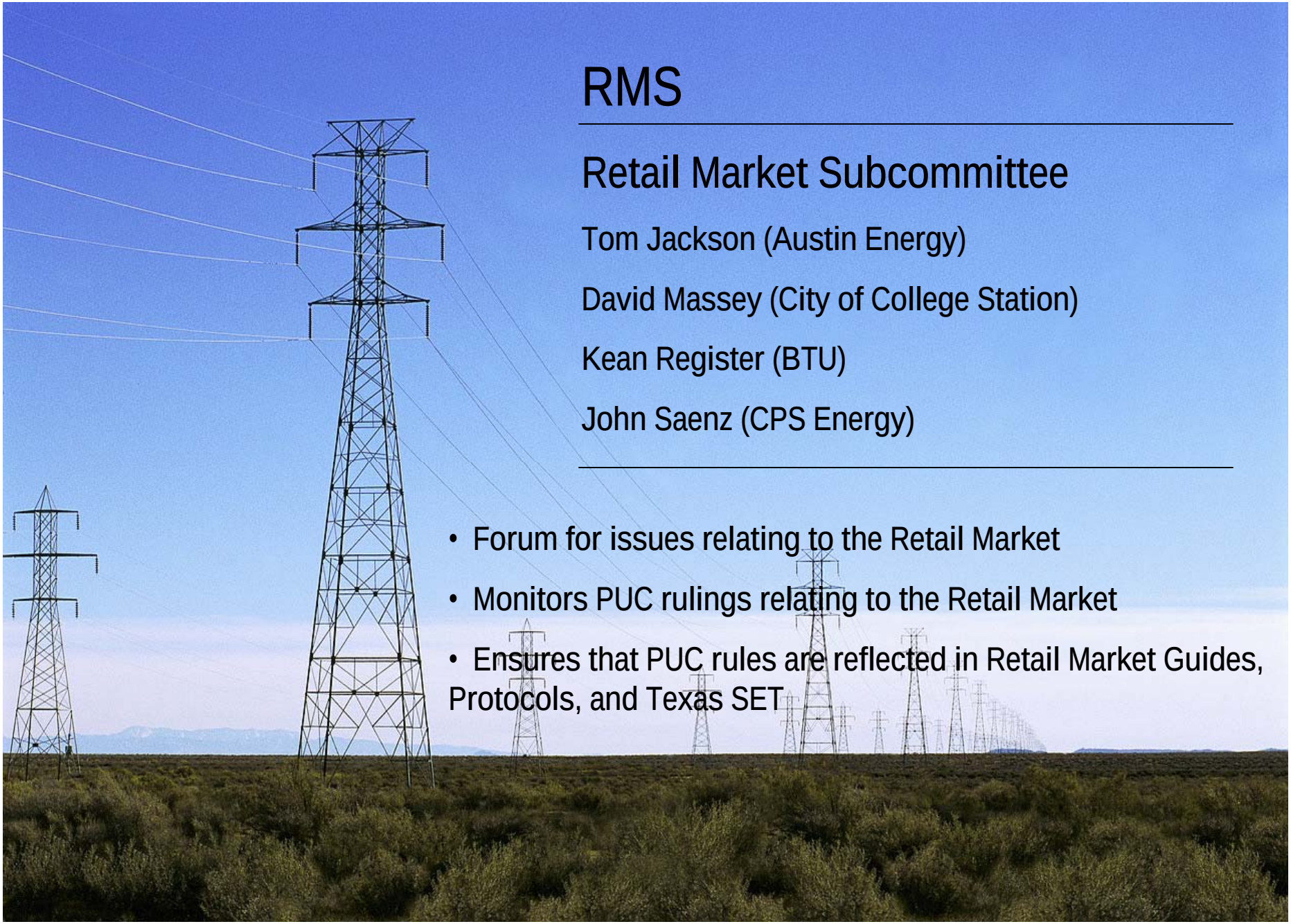
David McCalla (GEUS)

Gary Singleton (Garland Power & Light)

Pat Sweeney (Austin Energy)

Mark Werner (CPS Energy)

- Reviews issues related to operation of the wholesale market
- Makes recommendations for improvement of the wholesale market
- Monitors PUC rulings as they apply to wholesale markets and market participants



RMS

Retail Market Subcommittee

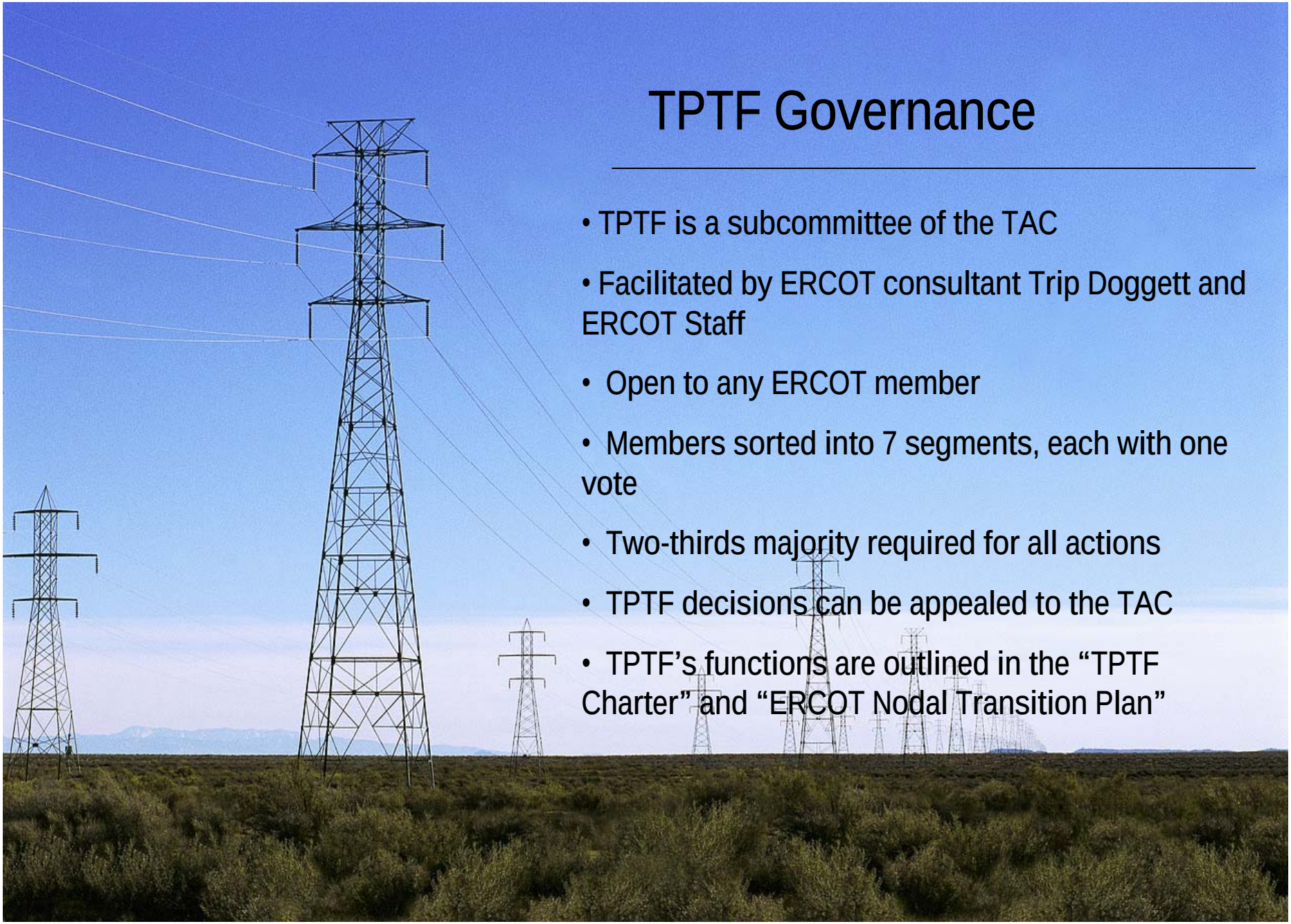
Tom Jackson (Austin Energy)

David Massey (City of College Station)

Kean Register (BTU)

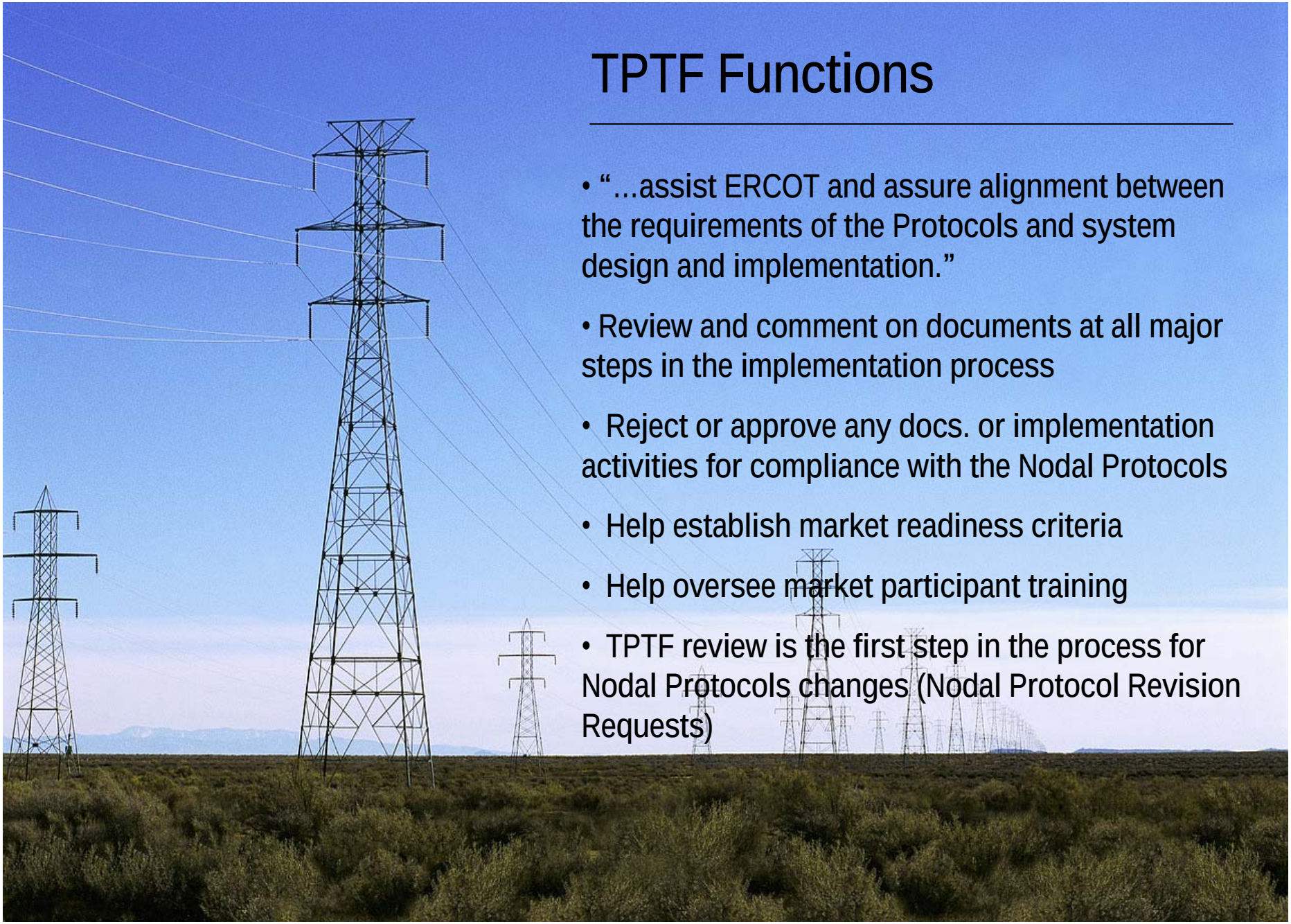
John Saenz (CPS Energy)

- Forum for issues relating to the Retail Market
- Monitors PUC rulings relating to the Retail Market
- Ensures that PUC rules are reflected in Retail Market Guides, Protocols, and Texas SET



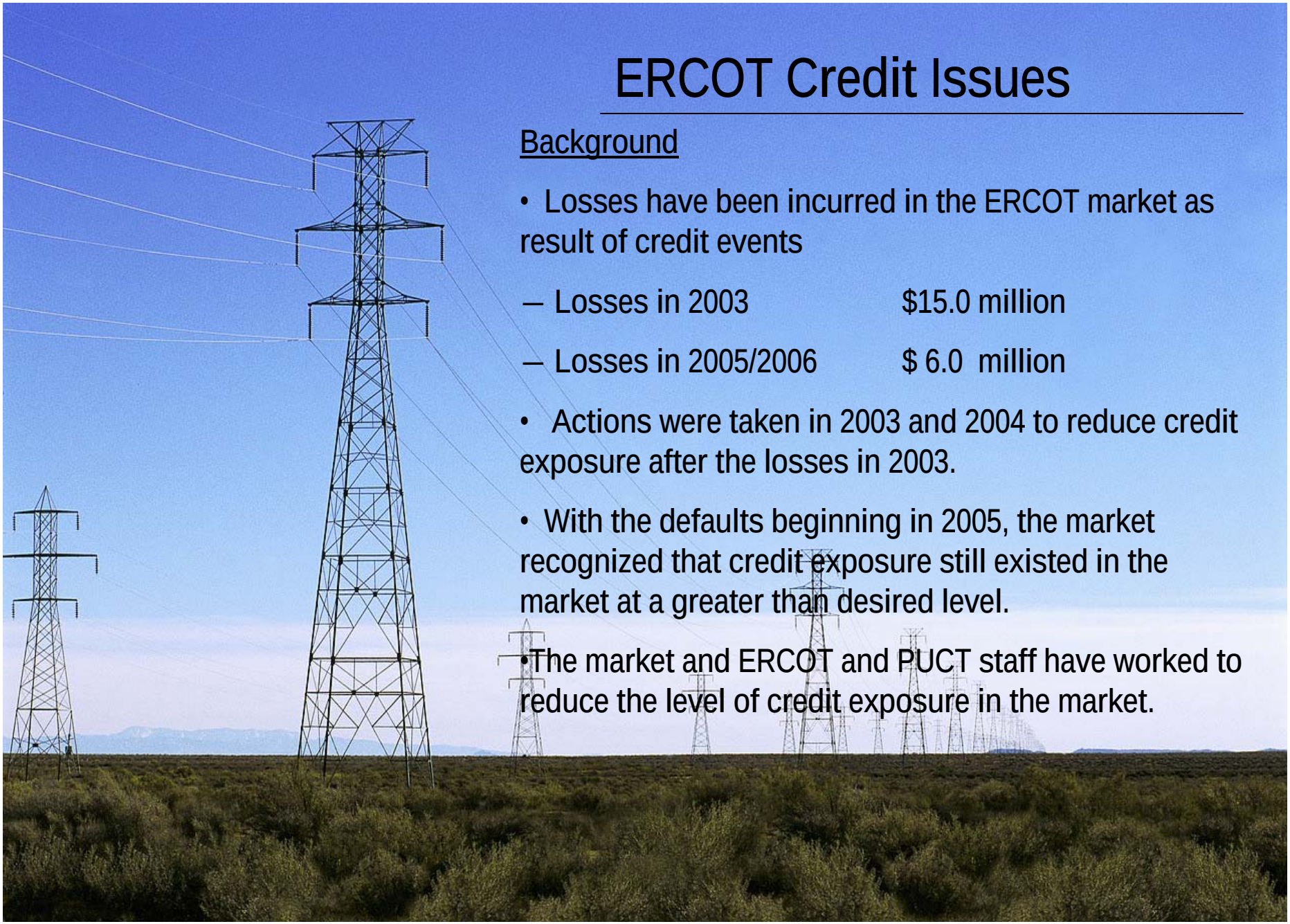
TPTF Governance

- TPTF is a subcommittee of the TAC
- Facilitated by ERCOT consultant Trip Doggett and ERCOT Staff
- Open to any ERCOT member
- Members sorted into 7 segments, each with one vote
- Two-thirds majority required for all actions
- TPTF decisions can be appealed to the TAC
- TPTF's functions are outlined in the "TPTF Charter" and "ERCOT Nodal Transition Plan"



TPTF Functions

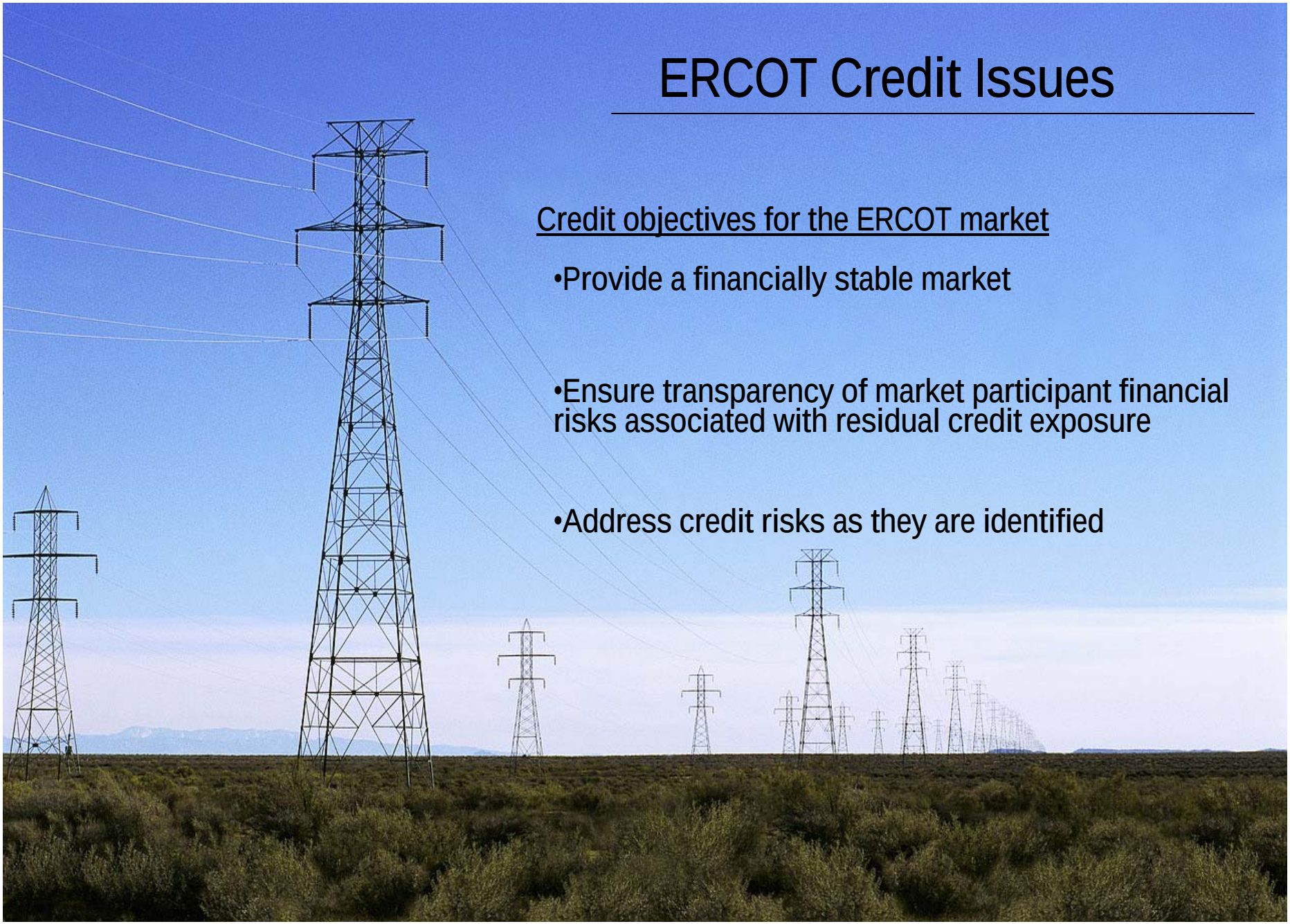
- "…assist ERCOT and assure alignment between the requirements of the Protocols and system design and implementation."
- Review and comment on documents at all major steps in the implementation process
- Reject or approve any docs. or implementation activities for compliance with the Nodal Protocols
- Help establish market readiness criteria
- Help oversee market participant training
- TPTF review is the first step in the process for Nodal Protocols changes (Nodal Protocol Revision Requests)



ERCOT Credit Issues

Background

- Losses have been incurred in the ERCOT market as result of credit events
  - Losses in 2003 $15.0 million
  - Losses in 2005/2006 $ 6.0 million
- Actions were taken in 2003 and 2004 to reduce credit exposure after the losses in 2003.
- With the defaults beginning in 2005, the market recognized that credit exposure still existed in the market at a greater than desired level.
- The market and ERCOT and PUCT staff have worked to reduce the level of credit exposure in the market.

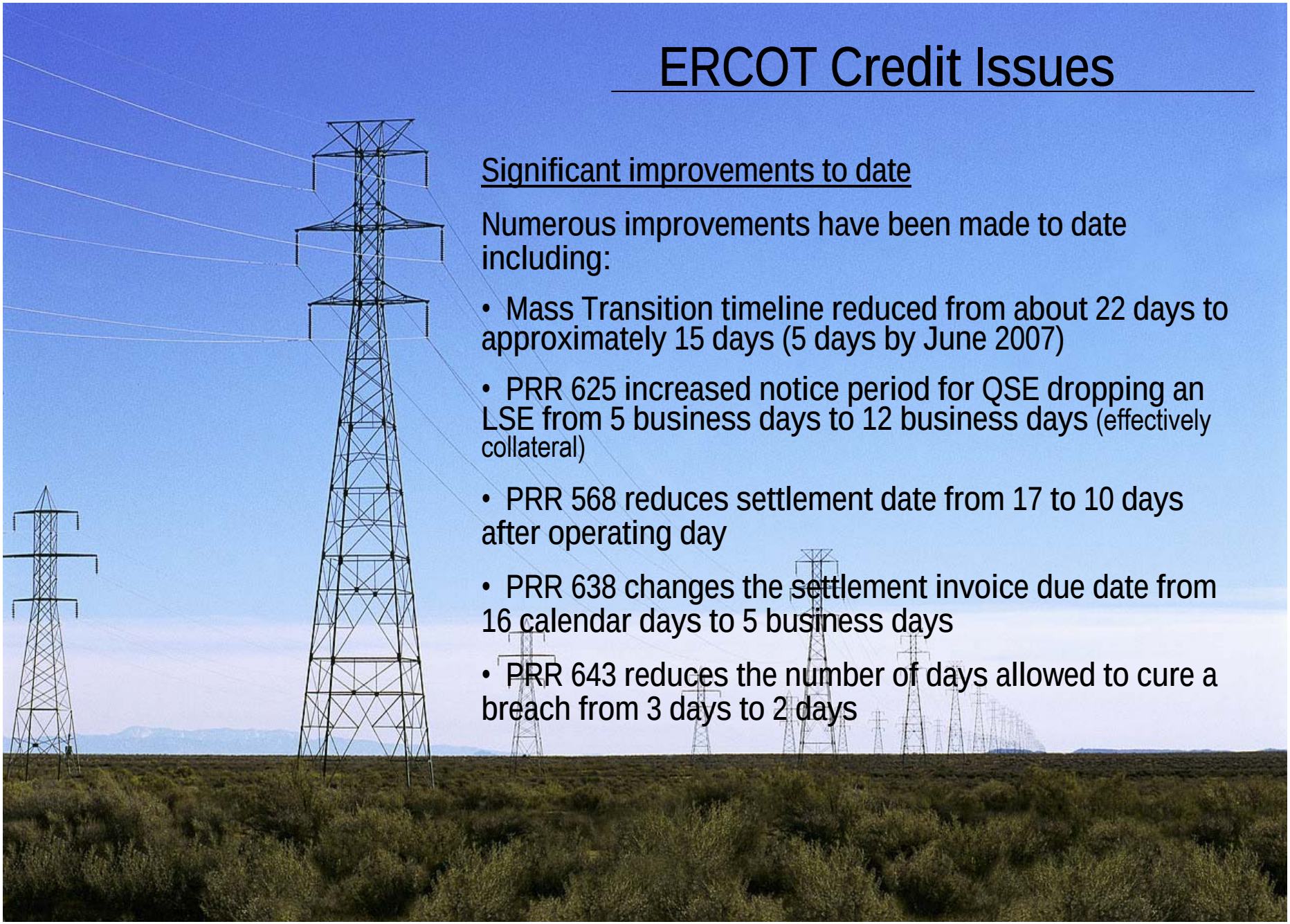


ERCOT Credit Issues

Credit objectives for the ERCOT market

- Provide a financially stable market
- Ensure transparency of market participant financial risks associated with residual credit exposure
- Address credit risks as they are identified

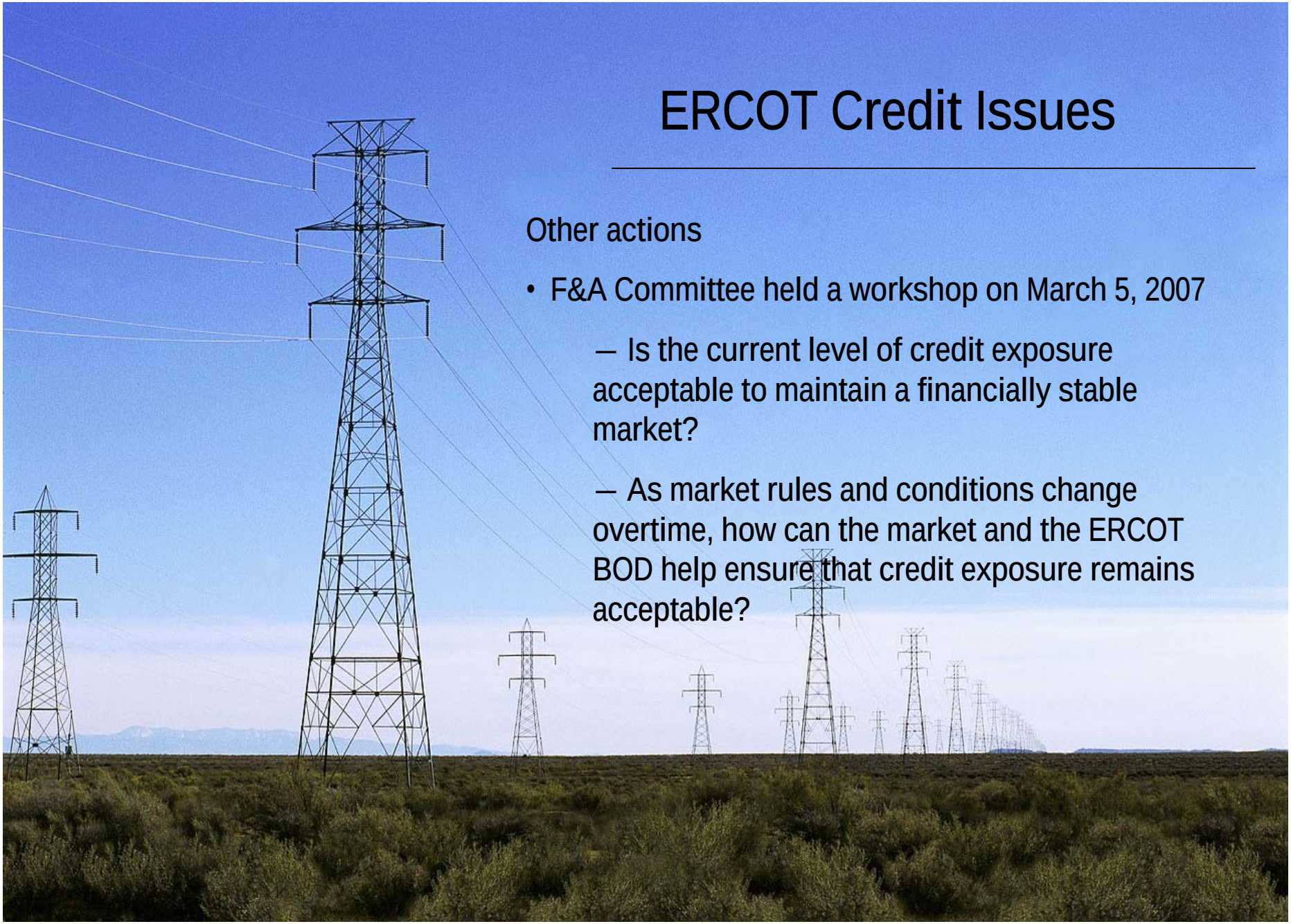
ERCOT Credit Issues



Significant improvements to date

Numerous improvements have been made to date including:

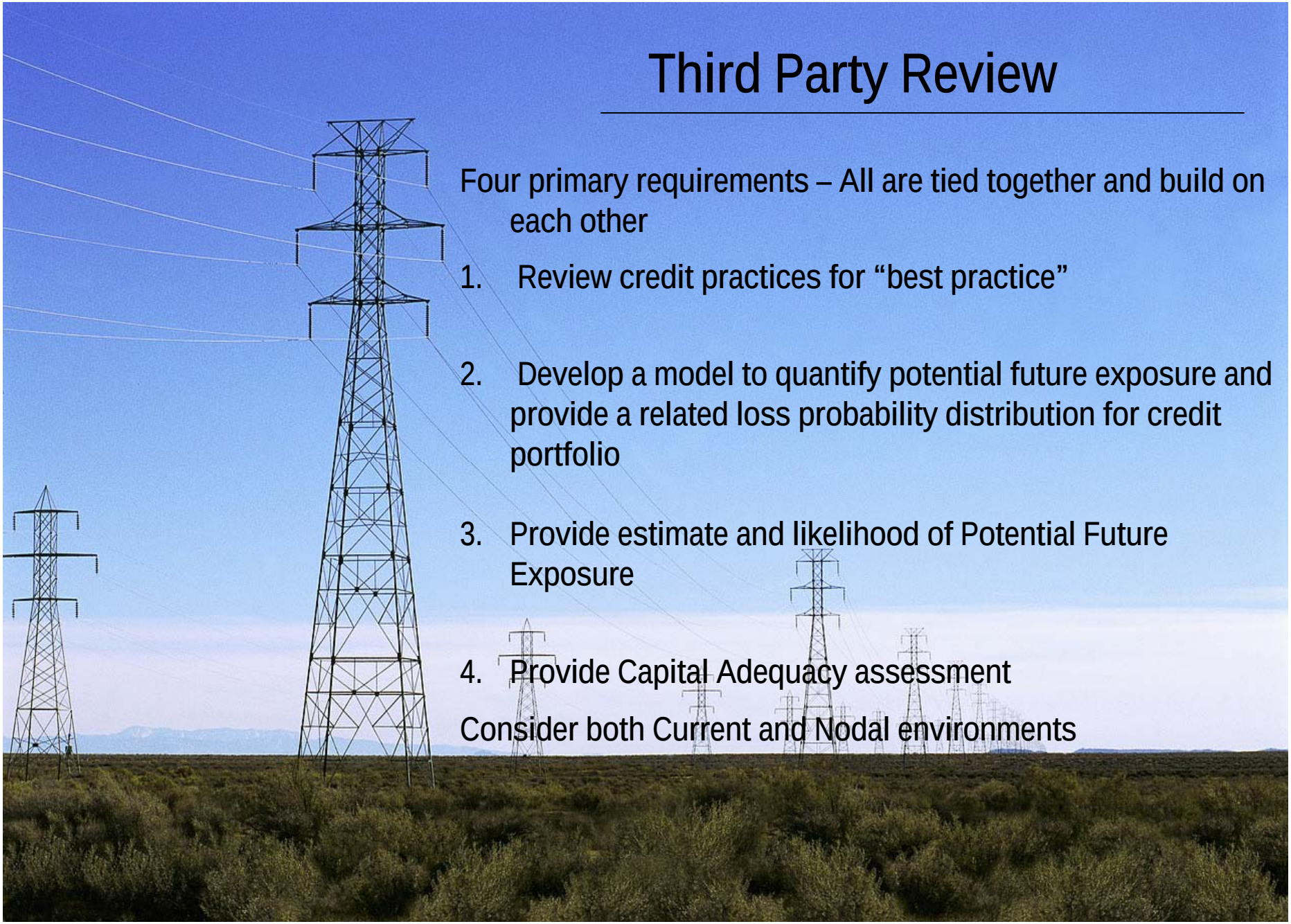
- Mass Transition timeline reduced from about 22 days to approximately 15 days (5 days by June 2007)
- PRR 625 increased notice period for QSE dropping an LSE from 5 business days to 12 business days (effectively collateral)
- PRR 568 reduces settlement date from 17 to 10 days after operating day
- PRR 638 changes the settlement invoice due date from 16 calendar days to 5 business days
- PRR 643 reduces the number of days allowed to cure a breach from 3 days to 2 days



ERCOT Credit Issues

Other actions

- F&A Committee held a workshop on March 5, 2007
  - Is the current level of credit exposure acceptable to maintain a financially stable market?
  - As market rules and conditions change overtime, how can the market and the ERCOT BOD help ensure that credit exposure remains acceptable?



Third Party Review

Four primary requirements – All are tied together and build on each other

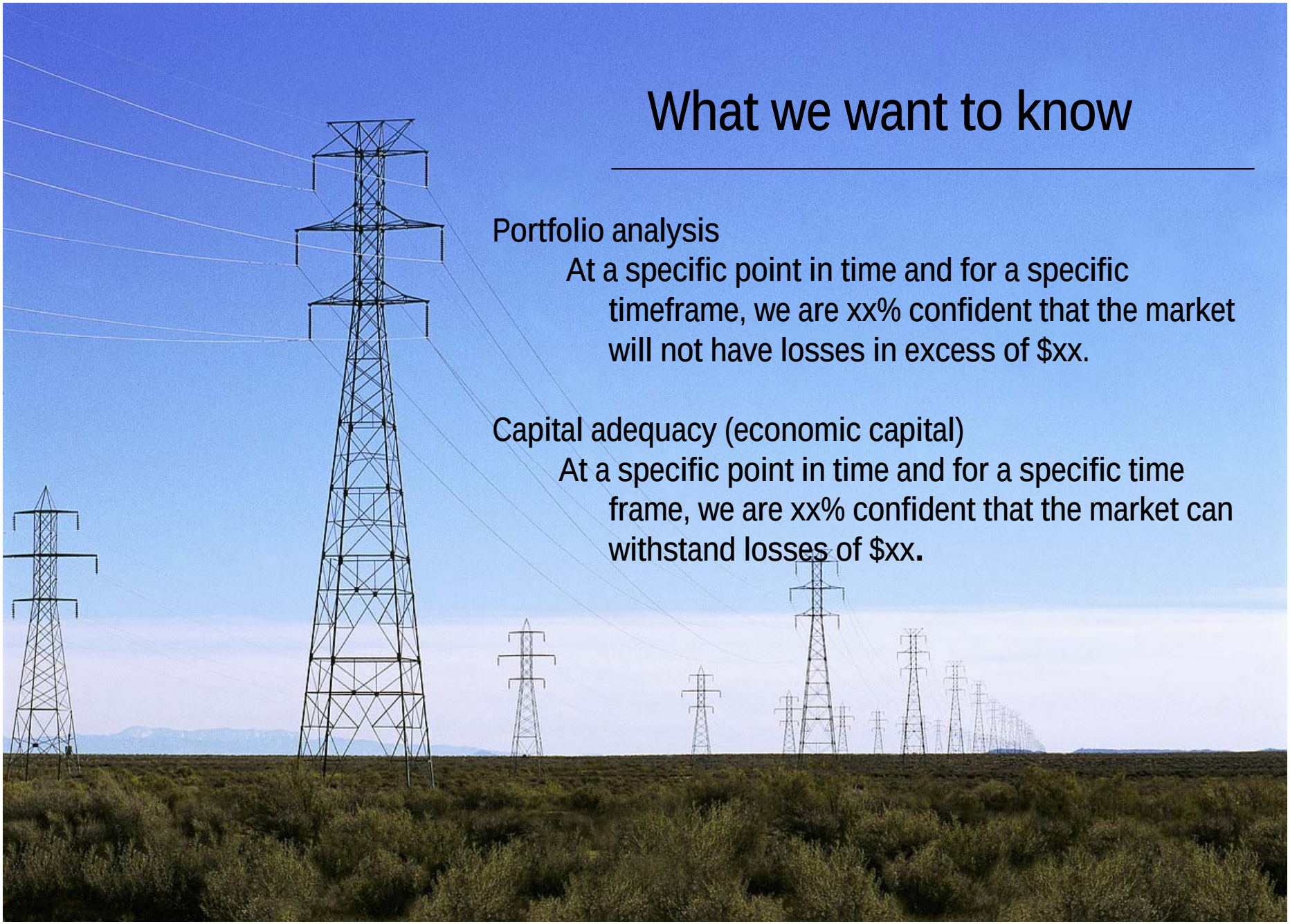
1. Review credit practices for “best practice”

2. Develop a model to quantify potential future exposure and provide a related loss probability distribution for credit portfolio

3. Provide estimate and likelihood of Potential Future Exposure

4. Provide Capital Adequacy assessment

Consider both Current and Nodal environments



What we want to know

Portfolio analysis

At a specific point in time and for a specific timeframe, we are xx% confident that the market will not have losses in excess of $xx.

Capital adequacy (economic capital)

At a specific point in time and for a specific time frame, we are xx% confident that the market can withstand losses of $xx.