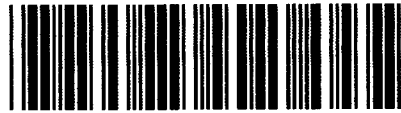


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Addendum StartPage: 0



**ANNUAL REPORT
OF
AFFILIATE ACTIVITIES**

Project No. 36867

**YEAR ENDED
DECEMBER 31, 2009**

June 1, 2010

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Annual Report of Affiliate Activities
For the Calendar Year ended December 31, 2009
Sharyland Utilities, L.P.
(Project Number 36867)

I. Organization Chart

See attached organization chart.

II. Organization Ownership and Scope of Business

A. Common Officers/Directors:

1. Hunter L. Hunt
Sharyland Utilities, L.P. – *President*
Sharyland Distribution & Transmission Services, L.L.C. – *Manager and President*
Hunt Transmission Services, L.L.C. – *Manager and President*
HLH Acquisitions, Inc. – *Director and President*

2. W. Kirk Baker
Sharyland Utilities, L.P. – *Senior Vice President*
Sharyland Distribution & Transmission Services, L.L.C. – *Manager, Senior Vice President, Secretary and Treasurer*
Hunt Transmission Services, L.L.C. – *Manager, Senior Vice President, Secretary and Treasurer*
HLH Acquisitions, Inc. – *Director, Vice President, Secretary and Treasurer*

3. Mark Caskey
Sharyland Utilities, L.P. – *Vice President -Operations*
Sharyland Distribution & Transmission Services, L.L.C. – *Vice President – Operations*

4. Ralph Goodlet
Sharyland Utilities, L.P. – *Vice President*
Sharyland Distribution & Transmission Services, L.L.C. – *Vice President*
Hunt Transmission Services, L.L.C. – *Vice President*

5. Jeff Klopf
Sharyland Utilities, L.P. – *Vice President*
Sharyland Distribution & Transmission Services, L.L.C. – *Vice President*
Hunt Transmission Services, L.L.C. – *Vice President*

- B. Sharyland Utilities, L.P. ("SU") is a 10% member of Sharyland Distribution & Transmission Services, L.L.C. ("SDTS"). There have been no other changes in successive ownership between the utility and the affiliates.

C & D. Description of Business Activity/Types of Services provided

Sharyland Utilities, L.P. and Sharyland Distribution & Transmission Services, L.L.C. – On December 31, 2009, SU contributed its electrical transmission and distribution facilities to SDTS and entered into a Master System Lease Agreement pursuant to which SU will lease and have the exclusive right to use and operate such transmission and distribution facilities.

Hunt Transmission Services, L.L.C. ("HTS") - Non-regulated consultant, project development and an investment company that provides SU with legal, regulatory, accounting, treasury and purchasing support services. SU also provides consulting services to HTS with respect to development of transmission facilities and regulatory strategies.

MeterSmart, L.P. – Non-regulated meter services and energy monitoring services provider that provides installation and meter reading services for Sharyland Utilities. This arrangement was terminated in August 2008, but certain fees owed to MeterSmart for services rendered in 2008 were paid in 2009.

HLH Acquisitions, Inc. – Non-regulated entity that makes investments in the form of equity or debt to various entities, including SU. On December 31, 2009, SU repaid all of its outstanding debt owed to HLH Acquisitions, Inc.

Sharyland L.P. – Non-regulated company that engages in farming activities that provides warehouse management services to SU.

E. Basis for Billing

Hunt Transmission Services, L.L.C. – "General Services and Consulting Agreement" – services that HTS provides to SU are billed based on an at cost basis with no profit margin.

Sharyland Utilities, L.P. – "General Services and Consulting Agreement" - services that SU provides to HTS and SDTS are billed based on an at cost basis with no profit margin.

Sharyland Distribution & Transmission Services, L.L.C. – "Master System Lease Agreement" and "Contribution Agreement" – Consistent with the Commission's order in Docket No. 35287, on December 31, 2009, SU

contributed its electrical transmission and distribution facilities to SDTS and entered into a Master System Lease Agreement pursuant to which SU leases and has the exclusive right to use and operate such transmission and distribution facilities. SU pays a periodic lease payment to SDTS for the lease of the transmission and distribution facilities in accordance with the methodology set forth in Article III of the Master System Lease Agreement.

MeterSmart, L.P. – "Metering Services Agreement" - cost of meter reading services is based on similar services charged by others in the area. This arrangement was terminated in August 2008, but certain fees owed to MeterSmart for services rendered in 2008 were paid in 2009. In addition, SU was reimbursed by MeterSmart for property taxes paid on meters owned by MeterSmart.

HLH Acquisitions, Inc. – "Loan Agreement and Promissory Note" - interest accrued on the promissory note payable to HLH Acquisitions, Inc. by SU. The promissory note was transferred from Hunt Equities, Inc. to HLH Acquisitions, Inc. on December 31, 2004. SU repaid the outstanding loan under the Promissory Note on December 31, 2009.

Sharyland L.P. – "Professional Services Agreement" - service payment for providing onsite warehouse management services.

III. See attached forms by affiliate.

IV. Contracts and Service Agreements:

General Services and Consulting Agreement dated February 8, 2006, between Hunt Generation, Investment and Transmission Services, L.P. and SU was assigned to, and assumed by, Hunt Transmission Services, L.L.C. effective as of January 1, 2007. This agreement was amended on January 1, 2009 to reflect new rates.

Loan Agreement and Promissory Note, dated December 31, 1999, between Hunt Equities, Inc. and SU, as amended. On December 31, 2004, the Loan Agreement and Promissory Note was assigned and transferred to HLH Acquisitions, Inc. On December 31, 2009, SU repaid the outstanding loan amount under the promissory note, and this agreement was terminated.

Professional Services Agreement, dated April 14, 2008, between Sharyland, L.P. and SU.

General Services Consulting Agreement, dated January 1, 2009, between SDTS and SU. A copy of the agreement has been filed with this report.

General Services Consulting Agreement, dated January 1, 2009, between HTS and SU. A copy of the agreement has been filed with this report.

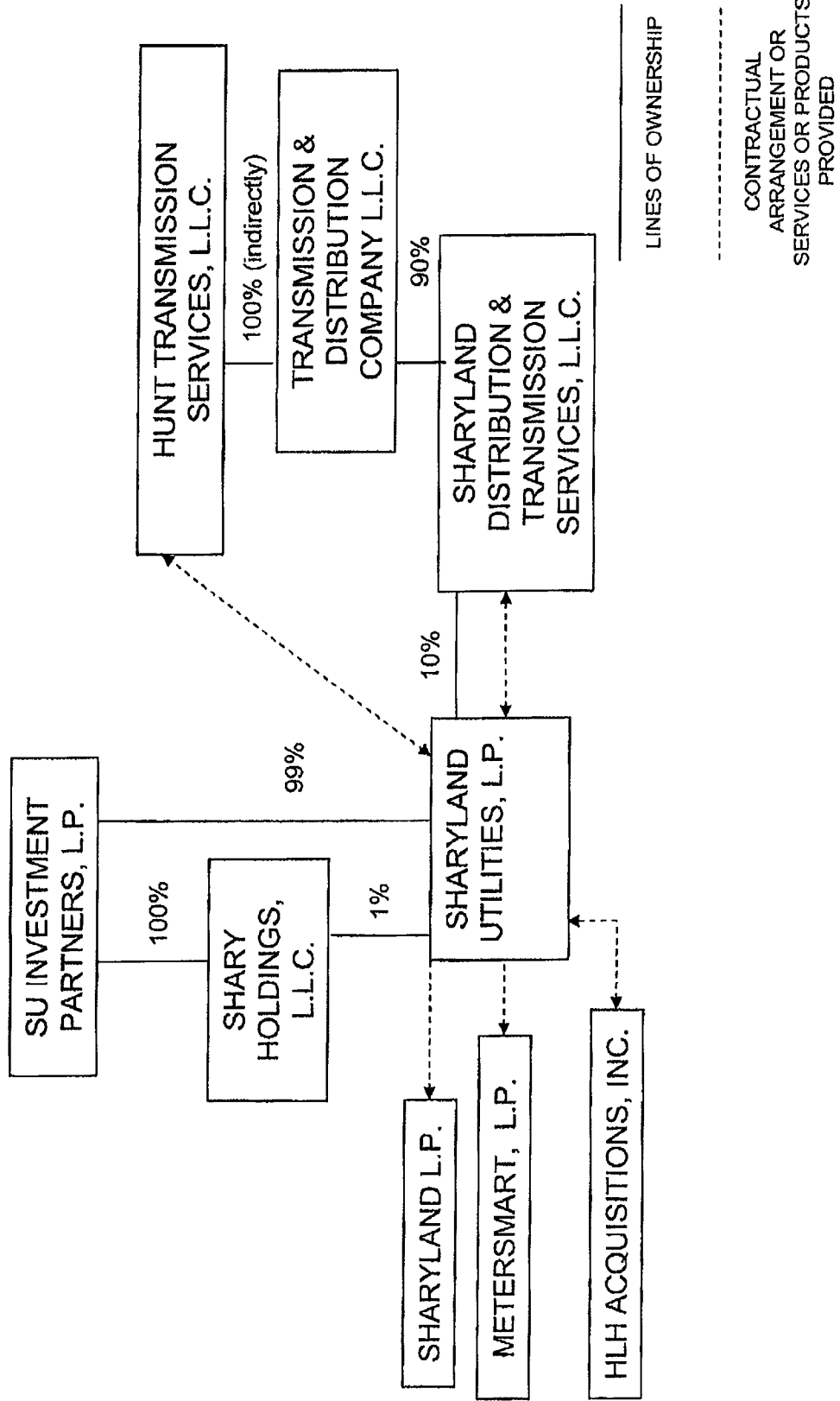
Master System Lease Agreement, dated December 31, 2009, between SDTS and SU. A copy of the agreement has been filed with this report.

Contribution Agreement, dated December 31, 2009, between SU and SDTS. A copy of the agreement has been filed with this report.

SU enters into standard easement agreements related to the construction of distribution and transmission facilities with affiliates from time to time in the normal course of business

- V. Migration of Employees – No employees of SU have migrated.
- VI. Informal Complaint Resolution – No complaints have been filed with respect to SU.
- VII. Deviations from Code of Conduct – No deviations from the Code of Conduct for SU occurred during the reporting period.
- VIII. Compliance Plan Updates – No changes have been made to the most current approved compliance plan for SU.
- IX. Audits of Affiliate Transactions
Sharyland Utilities, L.P. - Statements of Affiliate Transaction Basis and Allocation December 31, 2009 and 2008, by external auditors (available upon request)

Organization Chart for Utility and Non-Regulated Affiliates At December 31, 2009



CHARGES BY THE UTILITY TO AN AFFILIATE

Name of Affiliate Company: Hunt Transmission Services

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
923	Outside Services Employed	9,015	9,015
	Reimbursement of amounts paid to third parties on behalf of Hunt Transmission Svcs	211,129	211,129
Totals across accounts for this affiliate:		220,144	220,144

CHARGES BY AN AFFILIATE TO THE UTILITY

Name of Affiliate Company: Hunt Transmission Services

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
107	Construction Work in Progress	54,765	54,765
923	Outside Services Employed	265,240	265,240
920	G&A Expense-Salaries-Relocation	21,248	21,248
	Reimbursement of amounts paid to third parties on behalf of Sharyland Utilities, L.P.	256,527	256,527
Totals across accounts for this affiliate:		597,780	597,780

CHARGES BY THE UTILITY TO AN AFFILIATE

Name of Affiliate Company: Metersmart, LP

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
	Reimbursement of amounts paid to third parties on behalf of Metersmart LP	2,634	2,634
Totals across accounts for this affiliate:		2,634	2,634

CHARGES BY AN AFFILIATE TO THE UTILITY

Name of Affiliate Company: Metersmart, LP

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
902	Meter Reading Expense	11,757	11,757
Totals across accounts for this affiliate:		11,757	11,757

CHARGES BY THE UTILITY TO AN AFFILIATEName of Affiliate Company: HLH Acquisitions

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
233	Principal Draw on Debt with Assoc. Co.	2,000,000	2,000,000
Totals across accounts for this affiliate:		2,000,000	2,000,000

CHARGES BY AN AFFILIATE TO THE UTILITYName of Affiliate Company: HLH Acquisitions

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
430	Interest on Debt to Assoc. Co.	3,730,421	3,730,421
233	Principal Repymt on Debt to Assoc. Co.	30,296,907	30,296,907
Totals across accounts for this affiliate:		34,027,328	34,027,328

CHARGES BY THE UTILITY TO AN AFFILIATE

Name of Affiliate Company: Sharyland, LP (HooDoo Land and Cattle Company)

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
Totals across accounts for this affiliate:		-	-

CHARGES BY AN AFFILIATE TO THE UTILITY

Name of Affiliate Company: Sharyland, LP (HooDoo Land and Cattle Company)

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
588	Distribution Expense	60,372	60,372
Totals across accounts for this affiliate:		60,372	60,372

CHARGES BY THE UTILITY TO AN AFFILIATE

Name of Affiliate Company: Shary Holdings, LLC

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
218	Contributions from Partners	169,893	169,893
Totals across accounts for this affiliate:		169,893	169,893

CHARGES BY AN AFFILIATE TO THE UTILITY

Name of Affiliate Company: Shary Holdings, LLC

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
Totals across accounts for this affiliate:		-	-

CHARGES BY THE UTILITY TO AN AFFILIATE

Name of Affiliate Company: SU Investment Partners LLC

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
218	Contributions from Partners	16,819,444	16,819,444
Totals across accounts for this affiliate:		16,819,444	16,819,444

CHARGES BY AN AFFILIATE TO THE UTILITY

Name of Affiliate Company: SU Investment Partners LLC

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
Totals across accounts for this affiliate:		-	-

CHARGES BY THE UTILITY TO AN AFFILIATEName of Affiliate Company: Sharyland Distribution & Transmission Svcs

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
353.93	Transmission Station Equipment	369,920	369,920
Totals across accounts for this affiliate:		369,920	369,920

CHARGES BY AN AFFILIATE TO THE UTILITYName of Affiliate Company: Sharyland Distribution & Transmission Svcs

FERC Account or Type of Service		Total Company	Total Texas
#	Acct. Name or Type of Service	(Dollars transacted)	(Dollars transacted)
588	Distribution Expense	60,372	60,372
Totals across accounts for this affiliate:		60,372	60,372

GENERAL SERVICES CONSULTING AGREEMENT

BETWEEN

SHARYLAND DISTRIBUTION & TRANSMISSION SERVICES, L.P.

AND

HUNT TRANSMISSION SERVICES, L.L.C.

THIS GENERAL SERVICES CONSULTING AGREEMENT (this "Agreement") is entered into as of the 1st day of January, 2009 (the "Effective Date"), between Sharyland Distribution & Transmission Services, L.P., a Texas limited partnership ("Company"), and Hunt Transmission Services, L.L.C., a Delaware limited liability company ("Consultant"). Company and Consultant may be referred to herein individually as a "Party" and collectively as the "Parties". In consideration of the covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Company and Consultant agree as follows:

1. **SCOPE OF WORK.** Consultant shall perform for Company and any of its subsidiaries, as so requested by Company, the consulting services and other general services as more specifically described in Exhibit A hereto (the "Services"). Consultant may use its affiliates and other subcontractors to perform the Services. Consultant shall perform all such Services as an independent contractor and nothing stated or implied herein shall be construed to make Consultant or any of its agents or invitees (individually and collectively, "Personnel") an employee, partner or agent of Company. This Agreement does not create a relationship of employment, partnership, corporation, agency or joint venture between the Parties or any of their affiliates. The Parties recognize that Consultant may perform work for clients other than Company during the term of this Agreement.
2. **COMPENSATION.** Company shall compensate Consultant for the Services performed by Consultant under this Agreement in accordance with the terms set forth in Exhibit B hereto.
3. **TERM.** This Agreement shall be effective as of the Effective Date and shall continue in effect until termination by either Party, with or without cause, upon at least thirty (30) days' prior written notice to the other Party; provided, however, that the Parties recognize that certain obligations (including, without limitation, obligations to keep certain information confidential in accordance with Section 6) are continuing in nature and shall survive for a period of two (2) years after the termination of this Agreement.
4. **INFORMATION BELONGING TO COMPANY.** All information developed by Consultant on behalf of Company or any affiliate under or by virtue of this Agreement shall be Company's property for its use in whatever way Company may determine, and all material reflecting such information shall be turned over to Company upon Company's request.
5. **INFORMATION BELONGING TO OTHER PARTIES.** Consultant shall not in any way use, for the benefit of Company or otherwise, any trade secret belonging to a third party without specific and proper authorization from the owner of the trade secret. ("Trade secret" as used herein can include scientific, technical, engineering, financial, economic and any other business and competitive information in virtually any form.)

6. CONFIDENTIALITY. The Parties acknowledge that in connection with the rendering of the Services hereunder, each Party will have access to certain information, which is proprietary and confidential to the other Party. In that connection, each Party agrees that (i) all information communicated to it by the other Party, whether before or after the Effective Date, (ii) all information to which it has access in connection with the subject matter hereof, whether before or after the Effective Date, and (iii) this Agreement and its terms and conditions (collectively, "Confidential Information"), will be deemed to have been received in confidence and will be used only for purposes of this Agreement. Each Party agrees to use the same means as it uses to protect its own confidential information, but in no event less than reasonable means, to prevent the disclosure of such Confidential Information. No such Confidential Information will be disclosed by the receiving Party without the prior written consent of the other Party. However, each Party may disclose this Agreement and the other Party's Confidential Information to those of the receiving Party's employees, officers, directors, consultants, advisors and agents (collectively, "Representatives") who have a need to have access to such information for the purposes of this Agreement. The receiving Party shall remain responsible for such Representatives' compliance with this confidential information obligation.

7. INDEMNITY. (a) Consultant shall defend, indemnify and hold Company and its affiliates and its and their equityholders, directors, officers, employees, servants and agents harmless from and against any and all damages, losses, claims, liabilities, demands, charges, suits, penalties, fines, costs and expenses including, but not limited to, any and all attorneys' fees or other legal costs and expenses of whatsoever nature or kind and any and all costs and expenses incurred in the enforcement of this indemnity (collectively, "Liabilities") on account of personal injury to, illness, disease or death of any person, or damages to, loss (or loss of use) of any property to the extent that such Liabilities arise out of the negligence, gross negligence, strict liability, willful or wanton misconduct of Consultant or its Personnel. Consultant shall not be liable to Company for a delay in providing the Services, or for inability to perform the Services, in both cases, due to any causes beyond Consultant's control.

(b) Company shall defend, indemnify and hold Consultant and its affiliates and its and their equityholders, directors, officers, employees, servants and agents harmless from and against any and all Liabilities on account of personal injury to, illness, disease or death of any person, or damages to, loss (or loss of use) of any property to the extent that such Liabilities arise out of the negligence, gross negligence, strict liability, willful or wanton misconduct of Company or its Personnel.

(c) Neither Party shall be liable to the other whether in contract, in tort, strict liability, or otherwise, for any special, indirect, incidental, or consequential damages resulting from the performance or nonperformance of its obligations under this Agreement, or from the termination of this Agreement.

8. ETHICS. Consultant accepts the responsibility of proper conduct at all times with complete honesty and integrity and in a manner which will not create any compromising situations with respect to Company or any affiliate thereof. Without limiting the foregoing, Consultant agrees, insofar as it concerns the performance of the Services, not to take any action that would place Company or any affiliate thereof in violation of the U.S. Foreign Corrupt Practices Act of 1977, anti-boycott laws and regulations, or the U.S. Economic Espionage Act of 1996.

9. GOVERNING LAW. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Texas, exclusive of the conflicts of law principles thereof, and Consultant and Company agree that the state and/or federal courts in Dallas County, Texas are proper venue and shall have exclusive jurisdiction over any actions respecting this Agreement and the Parties, and the Parties accordingly hereby consent to the jurisdiction of such courts for such purposes.

10. TAXES. Consultant shall be solely responsible for the payment wherever payable of any state or federal income taxes or other taxes or contributions based on the compensation paid to Consultant, or paid by Consultant to its personnel, and shall complete and deliver to Company any applicable tax forms requested by Company such as U.S. IRS Form W-9 showing taxpayer identification number. Company may withhold from such compensation any amounts as may be required or allowed by applicable law.

11. NO WAIVER OF BREACH. No failure by either Party to enforce any obligation under this Agreement shall prejudice that Party's right thereafter to enforce that or any other obligation unless specifically otherwise stated in writing.

12. NON-ASSIGNABILITY. This Agreement shall inure to the benefit of, and be binding upon, the respective permitted successors and assigns of the Parties. Each Party shall have the right to assign its rights and obligations under this Agreement provided that such Party gives the other Party written notice thereof and provided further that the assignee is an affiliate of such Party.

13. NOTICES. Notices shall be in writing, in the English language, given in person or by prepaid mail, express delivery, or facsimile transmission, and effective when received in person or at the address/facsimile number of the receiving Party shown below. Notice given by mail shall be deemed received 24 hours after being mailed (postage prepaid) to the address of the receiving Party shown below.

To Company: Sharyland Distribution & Transmission Services, L.P.
1900 North Akard Street
Dallas, Texas 75201
Phone: (214) 978-8918
Fax: (214) 855-6965
Attn: W. Kirk Baker

To Consultant: Hunt Transmission Services, L.L.C.
1900 North Akard Street
Dallas, Texas 75201
Phone: (214) 978-8474
Fax: (214) 978-8810
Attn: Franklin Byrd

14. ENTIRE AGREEMENT. This Agreement (including all attached Exhibits) represents the complete understanding between Company and Consultant and supersedes all prior negotiations, representations or agreements, either written or oral, and any amendment hereto must be in writing and signed by both Parties. The invalidity of any particular provision of this Agreement shall not affect the validity of any other provision and no ambiguity shall be construed against either Party on the grounds that such Party caused or should have prevented it.

15. HEADINGS. The underlined headings used throughout this Agreement are for administrative convenience only and shall be completely disregarded for the purposes of construing and enforcing this Agreement.

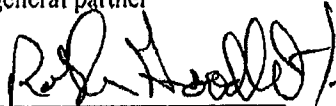
16. COUNTERPARTS. This Agreement may be executed in identical counterparts, which shall be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the Effective Date.

COMPANY


**Sharyland Distribution &
Transmission Services, L.P.**

By: Sharyland Utilities, L.P.,
its general partner

By: 
Name: Ralph Goodlet
Title: Vice President

CONSULTANT

Hunt Transmission Services, L.L.C.

By: 
Name: Franklin Byrd
Title: Vice President - Finance
and Administration

RTS

RTS

EXHIBIT A

SERVICES TO BE PERFORMED

Consultant shall provide specific services as requested from time to time by Company, for the purpose of assisting Company in carrying out Company's management responsibilities. Company's management responsibilities which require Consultant's services include, but are not limited to, the following:

1. Development, implementation and administration of Company's and its subsidiaries' business and regulatory strategies;
2. Preparation and presentation of internal reports, analysis, studies and correspondence related to the establishment, start-up, and ongoing operations of Company and its subsidiaries;
3. Negotiation, implementation and administration of arrangements on behalf of Company and its subsidiaries with respect to professional service providers, including attorneys, engineers, financial firms, consultants and other professional service providers;
4. Evaluation, analysis, negotiation, implementation and administration of arrangements on behalf of Company and its subsidiaries with respect to technical service vendors and contractors;
5. Evaluation, analysis, negotiation, implementation and administration of Company's and its subsidiaries' power supply arrangements, including procurement of generating resources, ancillary services and transmission arrangements;
6. Regulatory and legal compliance; and
7. Other responsibilities as required in the course of Company's and its subsidiaries' business from time to time.

TERMS OF COMPENSATION

CONSULTANT HOURLY RATES

General Counsel and Other Professional	\$325.00
Officers	\$250.00
Directors	\$200.00
Manager	\$175.00
Senior Technical	\$150.00
Technical	\$125.00
Staff Support	\$75.00
Clerical Support	\$50.00
Administrative Support	\$35.00

REIMBURSEMENT OF EXPENSES

Consultant shall additionally be reimbursed by Company for all out-of-pocket expenses incurred in connection with the delivery of the Services under this Agreement.

PAYMENT TERMS

An accounting of the Services performed by Consultant will be submitted to Company on or before the 9th business day of each month for all such Services rendered during the previous month pursuant to this Agreement. Company shall within ten (10) days after the receipt of such accounting render to Consultant payment of the amount due. If Company fails to make timely payment in accordance with these provisions, interest shall accrue on any unpaid balance, and compound at one percent (1%) per month, unless prohibited by law, in which case such interest shall accrue at the maximum rate allowed by law. If so desired by Company and assuming it remains feasible, any payment required under this Agreement may be made by an intercompany transfer.

GENERAL SERVICES CONSULTING AGREEMENT

BETWEEN

SHARYLAND DISTRIBUTION & TRANSMISSION SERVICES, L.P.

AND

SHARYLAND UTILITIES, L.P.

THIS GENERAL SERVICES CONSULTING AGREEMENT (this "Agreement") is entered into as of the 1st day of January, 2009 (the "Effective Date"), between Sharyland Distribution & Transmission Services, L.P., a Delaware limited partnership ("Company"), and Sharyland Utilities, L.P., a Texas limited partnership ("Consultant"). Company and Consultant may be referred to herein individually as a "Party" and collectively as the "Parties". In consideration of the covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Company and Consultant agree as follows:

1. **SCOPE OF WORK.** Consultant shall perform for Company and any of its subsidiaries, as so requested by Company, the consulting services and other general services as more specifically described in Exhibit A hereto (the "Services"). Consultant may use its affiliates and other subcontractors to perform the Services. Consultant shall perform all such Services as an independent contractor and nothing stated or implied herein shall be construed to make Consultant or any of its agents or invitees (individually and collectively, "Personnel") an employee, partner or agent of Company. This Agreement does not create a relationship of employment, partnership, corporation, agency or joint venture between the Parties or any of their affiliates. The Parties recognize that Consultant may perform work for clients other than Company during the term of this Agreement.
2. **COMPENSATION.** Company shall compensate Consultant for the Services performed by Consultant under this Agreement in accordance with the terms set forth in Exhibit B hereto.
3. **TERM.** This Agreement shall be effective as of the Effective Date and shall continue in effect until termination by either Party, with or without cause, upon at least thirty (30) days' prior written notice to the other Party; provided, however, that the Parties recognize that certain obligations (including, without limitation, obligations to keep certain information confidential in accordance with Section 6) are continuing in nature and shall survive for a period of two (2) years after the termination of this Agreement.
4. **INFORMATION BELONGING TO COMPANY.** All information developed by Consultant on behalf of Company or any affiliate under or by virtue of this Agreement shall be Company's property for its use in whatever way Company may determine, and all material reflecting such information shall be turned over to Company upon Company's request.
5. **INFORMATION BELONGING TO OTHER PARTIES.** Consultant shall not in any way use, for the benefit of Company or otherwise, any trade secret belonging to a third party without specific and proper authorization from the owner of the trade secret. ("Trade secret" as used herein can include scientific, technical, engineering, financial, economic and any other business and competitive information in virtually any form.)

6. CONFIDENTIALITY. The Parties acknowledge that in connection with the rendering of the Services hereunder, each Party will have access to certain information, which is proprietary and confidential to the other Party. In that connection, each Party agrees that (i) all information communicated to it by the other Party, whether before or after the Effective Date, (ii) all information to which it has access in connection with the subject matter hereof, whether before or after the Effective Date, and (iii) this Agreement and its terms and conditions (collectively, "Confidential Information"), will be deemed to have been received in confidence and will be used only for purposes of this Agreement. Each Party agrees to use the same means as it uses to protect its own confidential information, but in no event less than reasonable means, to prevent the disclosure of such Confidential Information. No such Confidential Information will be disclosed by the receiving Party without the prior written consent of the other Party. However, each Party may disclose this Agreement and the other Party's Confidential Information to those of the receiving Party's employees, officers, directors, consultants, advisors and agents (collectively, "Representatives") who have a need to have access to such information for the purposes of this Agreement. The receiving Party shall remain responsible for such Representatives' compliance with this confidential information obligation.

7. INDEMNITY. (a) Consultant shall defend, indemnify and hold Company and its affiliates and its and their equityholders, directors, officers, employees, servants and agents harmless from and against any and all damages, losses, claims, liabilities, demands, charges, suits, penalties, fines, costs and expenses including, but not limited to, any and all attorneys' fees or other legal costs and expenses of whatsoever nature or kind and any and all costs and expenses incurred in the enforcement of this indemnity (collectively, "Liabilities") on account of personal injury to, illness, disease or death of any person, or damages to, loss (or loss of use) of any property to the extent that such Liabilities arise out of the negligence, gross negligence, strict liability, willful or wanton misconduct of Consultant or its Personnel. Consultant shall not be liable to Company for a delay in providing the Services, or for inability to perform the Services, in both cases, due to any causes beyond Consultant's control.

(b) Company shall defend, indemnify and hold Consultant and its affiliates and its and their equityholders, directors, officers, employees, servants and agents harmless from and against any and all Liabilities on account of personal injury to, illness, disease or death of any person, or damages to, loss (or loss of use) of any property to the extent that such Liabilities arise out of the negligence, gross negligence, strict liability, willful or wanton misconduct of Company or its Personnel.

(c) Neither Party shall be liable to the other whether in contract, in tort, strict liability, or otherwise, for any special, indirect, incidental, or consequential damages resulting from the performance or nonperformance of its obligations under this Agreement, or from the termination of this Agreement.

8. ETHICS. Consultant accepts the responsibility of proper conduct at all times with complete honesty and integrity and in a manner which will not create any compromising situations with respect to Company or any affiliate thereof. Without limiting the foregoing, Consultant agrees, insofar as it concerns the performance of the Services, not to take any action that would place Company or any affiliate thereof in violation of the U.S. Foreign Corrupt Practices Act of 1977, anti-boycott laws and regulations, or the U.S. Economic Espionage Act of 1996.

9. GOVERNING LAW. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Texas, exclusive of the conflicts of law principles thereof, and Consultant and Company agree that the state and/or federal courts in Dallas County, Texas are proper venue and shall have exclusive jurisdiction over any actions respecting this Agreement and the Parties, and the Parties accordingly hereby consent to the jurisdiction of such courts for such purposes.

10. TAXES. Consultant shall be solely responsible for the payment wherever payable of any state or federal income taxes or other taxes or contributions based on the compensation paid to Consultant, or paid by Consultant to its personnel, and shall complete and deliver to Company any applicable tax forms requested by Company such as U.S. IRS Form W-9 showing taxpayer identification number. Company may withhold from such compensation any amounts as may be required or allowed by applicable law.

11. NO WAIVER OF BREACH. No failure by either Party to enforce any obligation under this Agreement shall prejudice that Party's right thereafter to enforce that or any other obligation unless specifically otherwise stated in writing.

12. NON-ASSIGNABILITY. This Agreement shall inure to the benefit of, and be binding upon, the respective permitted successors and assigns of the Parties. Each Party shall have the right to assign its rights and obligations under this Agreement provided that such Party gives the other Party written notice thereof and provided further that the assignee is an affiliate of such Party.

13. NOTICES. Notices shall be in writing, in the English language, given in person or by prepaid mail, express delivery, or facsimile transmission, and effective when received in person or at the address/facsimile number of the receiving Party shown below. Notice given by mail shall be deemed received 24 hours after being mailed (postage prepaid) to the address of the receiving Party shown below.

To Company: Sharyland Distribution & Transmission Services, L.P.
1900 North Akard Street
Dallas, Texas 75201
Phone: (214) 978-8918
Fax: (214) 855-6965
Attn: W. Kirk Baker

To Consultant: Sharyland Utilities, L.P.
1900 North Akard Street
Dallas, Texas 75201
Phone: (214) 978-8243
Fax: (214) 978-8810
Attn: Mark Caskey

14. ENTIRE AGREEMENT. This Agreement (including all attached Exhibits) represents the complete understanding between Company and Consultant and supersedes all prior negotiations, representations or agreements, either written or oral, and any amendment hereto must be in writing and signed by both Parties. The invalidity of any particular provision of this Agreement shall not affect the validity of any other provision and no ambiguity shall be construed against either Party on the grounds that such Party caused or should have prevented it.

15. HEADINGS. The underlined headings used throughout this Agreement are for administrative convenience only and shall be completely disregarded for the purposes of construing and enforcing this Agreement.

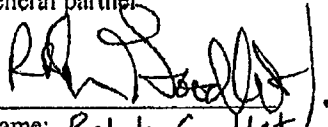
16. COUNTERPARTS. This Agreement may be executed in identical counterparts, which shall be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the Effective Date.

COMPANY

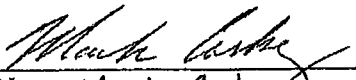
Sharyland Distribution &
Transmission Services, L.P.

By: Sharyland Utilities, L.P.,
its general partner

By: 
Name: Ralph Goodlet
Title: Vice President

CONSULTANT

Sharyland Utilities, L.P.

By: 
Name: Mark Caskey
Title: Vice President of Operations

PTS

PTS

EXHIBIT A

SERVICES TO BE PERFORMED

Consultant shall provide specific services as requested from time to time by Company, for the purpose of assisting Company in carrying out Company's management responsibilities. Company's management responsibilities which require Consultant's services include, but are not limited to, the following:

1. Development, implementation and administration of Company's and its subsidiaries' business and regulatory strategies;
2. Preparation and presentation of internal reports, analysis, studies and correspondence related to the establishment, start-up, and ongoing operations of Company and its subsidiaries;
3. Negotiation, implementation and administration of arrangements on behalf of Company and its subsidiaries with respect to professional service providers, including attorneys, engineers, financial firms, consultants and other professional service providers;
4. Evaluation, analysis, negotiation, implementation and administration of arrangements on behalf of Company and its subsidiaries with respect to technical service vendors and contractors;
5. Evaluation, analysis, negotiation, implementation and administration of Company's and its subsidiaries development and construction of transmission facilities and other transmission arrangements;
6. Evaluation, analysis, negotiation, implementation and administration of Company's and its subsidiaries' procurement of equipment and other assets related to the development and construction of transmission facilities and other transmission arrangements;
7. Regulatory and legal compliance; and
8. Other responsibilities as required in the course of Company's and its subsidiaries' business from time to time.

TERMS OF COMPENSATION

CONSULTANT HOURLY RATES

General Counsel and Other Professional	\$225.00
Officers and Directors	\$170.00
Manager	\$115.00
Senior Technical	\$100.00
Technical	\$75.00
Staff Support	\$65.00
Administrative Support	\$40.00

REIMBURSEMENT OF EXPENSES

Consultant shall additionally be reimbursed by Company for all out-of-pocket expenses incurred in connection with the delivery of the Services under this Agreement.

PAYMENT TERMS

An accounting of the Services performed by Consultant will be submitted to Company on or before the 9th business day of each month for all such Services rendered during the previous month pursuant to this Agreement. Company shall within ten (10) days after the receipt of such accounting render to Consultant payment of the amount due. If Company fails to make timely payment in accordance with these provisions, interest shall accrue on any unpaid balance, and compound at one percent (1%) per month, unless prohibited by law, in which case such interest shall accrue at the maximum rate allowed by law. If so desired by Company and assuming it remains feasible, any payment required under this Agreement may be made by an intercompany transfer.

MASTER SYSTEM LEASE AGREEMENT

between

SHARYLAND DISTRIBUTION & TRANSMISSION SERVICES, L.L.C.

and

SHARYLAND UTILITIES, L.P.

December 31, 2009

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MASTER SYSTEM LEASE AGREEMENT

This MASTER SYSTEM LEASE AGREEMENT (this "*Agreement*") is entered into as of December 31, 2009 (the "*Effective Date*"), between Sharyland Distribution & Transmission Services, L.L.C. (together with its transferees, successors and assigns, "*Lessor*"), and Sharyland Utilities, L.P. (together with its transferees, successors and assigns, "*Lessee*"), and in connection herewith, Lessor and Lessee agree, covenant and contract as set forth in this Agreement. Lessor and Lessee are sometimes referred to in this Agreement as a "*Party*" or collectively as the "*Parties*".

ARTICLE I LEASE

1.1. *Lease of System.* For good and valuable consideration, the receipt of which is hereby acknowledged, upon the terms and conditions set forth in this Agreement, Lessor hereby grants to Lessee the exclusive right to use and operate the integrated electrical transmission and distribution facilities connected to the Electric Reliability Council of Texas ("*ERCOT*") electric grid owned by Lessor and located within the area depicted on Exhibit A and the systems and other property necessary to operate such transmission and distribution facilities, together with the exclusive right to occupy and use all of Lessor's interest (whether by fee ownership, easement, lease, sublease, franchise or license) (other than to the extent expressly reserved to Lessor herein) in the premises upon which such facilities are situated (collectively, the "*System*"). Subject to necessary regulatory approvals, this Agreement is intended by Lessor and Lessee to be a master lease of the System, as it exists as of the Effective Date, and as it may be altered or expanded by Improvements and/or New Projects (each term as defined in Article X of this Agreement) in which Lessor has an interest. The Parties shall act in good faith to amend or supplement this Agreement from time to time to reflect any such Improvements to the System and/or New Projects added to the System, and to amend Exhibit A from time to time to include any and all additions, deletions, retirements, improvements or alterations to the System. The System shall include each of the following components which are owned by Lessor and located within the area depicted on Exhibit A:

- (a) towers and poles affixed to the land, and all necessary and proper foundations, footings, crossarms and other appliances and fixtures for use in connection with said towers, poles and lines;
- (b) overhead, underground and underwater electrical distribution, transmission and communications lines, together with related ductwork and insulators;
- (c) distribution transformers mounted on towers or poles and/or anchored to concrete pads;
- (d) electric substation and switching facilities, including all associated transformers, circuit breakers, resistors, capacitors, buses, interconnection and switching facilities, control and protection equipment which monitors the System, and the building housing the foregoing items;
- (e) all facilities associated with any high-voltage direct current interconnections ("*HVDC Ties*"), including alternating current ("*AC*") / direct current ("*DC*") converter stations;

(f) electric meters affixed to buildings or residences or otherwise required to operate the System; and

(g) all other systems or property owned by Lessor, as identified in the uniform system of accounts for major electric utilities, 18 C.F.R. Part 101, as adopted and amended from time to time by the Federal Energy Regulatory Commission ("FERC").

1.2. Exclusive Rights. Throughout the Term of this Agreement, Lessee shall have the exclusive right (i) to operate and use the System for the transmission and distribution of electricity in accordance with applicable rules and regulations of all regulatory agencies having regulatory jurisdiction over the System, including without limitation, the Public Utility Commission of Texas ("PUC"), as well as applicable rules and regulations of ERCOT and the Texas Regional Entity ("TRE") and other Regulatory Authorities (as hereinafter defined), and (ii) to utilize the System (and the associated easements, rights of way and similar rights) for other opportunities and uses (provided that such other uses do not interfere with the transmission and delivery of electricity). Throughout the Term of this Agreement, Lessor shall have access to the System at all reasonable times for purposes of inspection and for the purposes of improving, expanding or modernizing the System in accordance with Article X. Except in the case of emergency, prior to Lessor's access of the System, Lessor will provide written notification to Lessee's operations personnel.

1.3. Absolute Net Lease. This Agreement is intended by the Parties to be an absolute net lease (and, except as otherwise specified herein, the expenses associated with the lease, servicing, insuring, maintenance, repair and operation of the System shall be for the account of the Lessee, unless expressly stated that such expenses are for the account of Lessor or some other person or entity). Other than as expressly provided herein, (a) Lessee's obligation to make all payments of Rent (as hereinafter defined) as and when the same shall become due and payable in accordance with the terms of this Agreement shall be absolute, irrevocable and unconditional and shall not be affected by any circumstance or subject to any abatement or diminution by set-off, deduction, counterclaim, recoupment, agreement, defense, suspension, deferment, interruption or otherwise, and (b) until such time as all Rent required to be paid has been paid, Lessee shall have no right to terminate this Agreement or to be released, relieved or discharged from its obligation to make, and shall not suspend or discontinue, any payment of Rent for any reason whatsoever.

1.4. Waiver by Lessee. Lessee hereby waives, to the extent permitted by Applicable Law (as hereinafter defined), any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to modify, terminate, cancel, quit or surrender this Agreement except in accordance with the express terms hereof.

1.5. Quiet Enjoyment. Lessee shall be entitled to the peaceful and quiet enjoyment of the System, subject to the terms of this Agreement, so long as Lessee is not in default of this Agreement beyond applicable notice and cure periods.

ARTICLE II TERM OF LEASE

2.1. *Term.* Subject to the provisions of Section 2.2 of this Agreement, this Agreement shall be effective on the Effective Date and shall continue through December 31 of the twentieth (20th) full calendar year following the Effective Date (the "Term" of this Agreement). Each calendar year during the Term of this Agreement shall constitute a "Lease Year". Additionally, if the Effective Date of this Agreement is not January 1, then the first Lease Year shall include the partial calendar year in which the Effective Date occurs. Each calendar quarter during each Lease Year shall constitute a "Lease Quarter". Additionally, if the Effective Date of this Agreement is not January 1, then the first Lease Quarter of the first Lease Year shall include the partial calendar year in which the Effective Date occurs.

2.2. *Approvals upon Expiration or Termination.* Notwithstanding any provisions to the contrary herein, Lessee shall not surrender, resign, transfer, assign or otherwise cease to be the operator of the System at any time, including upon the termination of this Agreement or at the expiration of the Term, without first acquiring any necessary regulatory approvals from the PUCT or other Regulatory Authorities regarding such surrender, resignation, transfer, assignment or cessation of such operatorship; provided that, in the event of expiration or termination, the Parties shall use commercially reasonable efforts to obtain all necessary regulatory approvals of the transfer of such operatorship as soon as reasonably practicable. During such extended period of operatorship Lessee shall continue to operate the System and shall continue to pay Rent at a rate calculated using the methodology set forth in Article III; provided, however, that if regulatory approval is not obtained within twelve (12) months of initiation of the approval process and such delay is not due to any actions or omissions of the Lessee, then the amounts payable as Rent will be eighty percent (80%) of such amount.

2.3. *Purchase Option upon Expiration or Termination.* Upon the expiration of the Term or termination of this Agreement, Lessor shall have the option to purchase from Lessee any equipment or other property, tangible or intangible, owned by Lessee and principally used in connection with and necessary for the operation of the System, subject to any required regulatory approvals. The purchase price for such equipment shall be the greater of (i) the net book value thereof plus 10% and (ii) the fair market value thereof as determined by mutual agreement of Lessor and Lessee. If the Parties fail to agree on the amount of the purchase price, the purchase price shall be determined by arbitration pursuant to Section 13.7. In the event Lessor purchases such equipment, Lessee shall have the right to continue to use such equipment for no cost during the period of any extended operations by Lessee under Section 2.2.

ARTICLE III RENT

3.1. *Rent.* Lessee will pay to Lessor in lawful money of the United States of America which shall be legal tender for the payment of public and private debts, at Lessor's address set forth in Section 13.8 hereof or at such other place or to such other Person, as Lessor from time to time may designate in a Notice, all Rent contemplated hereby during the Term on the basis hereinafter set forth. If there is a dispute as to the amount of Rent to be paid by Lessee, either party may submit the dispute to arbitration pursuant to Section 13.7. However, Lessee shall be

required to pay, as and when Rent is due and payable hereunder, the amount of Rent calculated by Lessor to be due and payable until such time as the dispute is resolved by agreement between the parties or by arbitration pursuant to Section 13.7.

(a) **Base Rent:** During Lease Years one through fifteen of the Term, Lessee shall pay to Lessor base rent ("*Base Rent*") in the amount of five million two hundred thousand dollars (\$5,200,000) per Lease Year, which shall be payable in arrears in quarterly installments of one million three hundred thousand dollars (\$1,300,000) on or before the twenty-eighth (28th) day of the last month in each Lease Quarter. If the Effective Date of this Agreement is not January 1, then Base Rent for the partial calendar year in which the Effective Date occurs shall be a prorated portion of the annual Base Rent for Lease Year one, based on the actual number of days in such partial calendar year that are included in the Term of this Agreement, and such prorated amount of Base Rent for such partial calendar year shall be payable with the Base Rent for the first Lease Quarter of Lease Year one. With regard to Lease Years sixteen through twenty, the annual Base Rent to be payable by Lessee to Lessor in quarterly installments as herein provided shall be an amount to be agreed upon by the Parties, each Party agreeing to act in good faith and in a commercially reasonable manner; and in the event the Parties have not agreed on the annual Base Rent payable for Lease Years sixteen through twenty at least one hundred eighty (180) days prior to the commencement of the sixteenth Lease Year, then either Party may submit such matter to arbitration pursuant to Section 13.7 of this Agreement.

(b) **Percentage Rent:** In addition to the Base Rent set forth above, and as part of the total Rent to be paid by Lessee to Lessor, Lessee covenants and agrees to pay to Lessor, as percentage rent ("*Percentage Rent*");

(i) With regard to each of Lease Years one through six of the Term, an amount equal to thirty-seven percent (37%) of the Gross Revenues of the System (as defined below) during each such Lease Year in excess of the amount set forth in Schedule 3.1(b) for such Lease Year; and

(ii) With regard to each of Lease Years seven through eleven of the Term, an amount equal to thirty percent (30%) of the Gross Revenues of the System during each such Lease Year in excess of the amount set forth in Schedule 3.1(b) for such Lease Year;

(iii) With regard to Lease Years twelve through fifteen of the Term, an amount equal to twenty-five percent (25%) of the Gross Revenues of the System during each such Lease Year in excess of the amount set forth in Schedule 3.1(b) for such Lease Year; and

(iv) With regard to Lease Years sixteen through twenty, an amount to be agreed upon by the Parties, each Party agreeing to act in good faith and in a commercially reasonable manner; and in the event the Parties have not agreed on the Percentage Rent payable for Lease Years sixteen through twenty at least one hundred eighty (180) days prior to the commencement of the sixteenth Lease Year, then either party may submit such matter to arbitration pursuant to Section 13.7 of this Agreement.

(c) **Percentage Rent Breakpoints:** As used in this Agreement, the "*Annual Percentage Rent Breakpoint*" shall mean and refer to the dollar amount of annual Gross Revenues that must be exceeded in a particular Lease Year, as set forth in or determined by the provisions of Subsections (b)(i) through (iv) above, as applicable, before Percentage Rent will be payable by Lessee to Lessor for such Lease Year. With respect to the Annual Percentage Rent Breakpoint for each Lease Year: (1) the "*First Lease Quarter Percentage Rent Breakpoint*" shall be 25% of the Annual Percentage Rent Breakpoint for such Lease Year; (2) the "*Second Lease Quarter Percentage Rent Breakpoint*" shall be 50% of the Annual Percentage Rent Breakpoint for such Lease Year; and (3) the "*Third Lease Quarter Percentage Rent Breakpoint*" shall be 75% of the Annual Percentage Rent Breakpoint for such Lease Year. The Annual Percentage Rent Breakpoint, the First Lease Quarter Percentage Rent Breakpoint, the Second Lease Quarter Percentage Rent Breakpoint, and the Third Lease Quarter Percentage Rent Breakpoint are sometimes referred to individually as a "*Percentage Rent Breakpoint*", and are collectively referred to as the "*Percentage Rent Breakpoints*".

(d) **Gross Revenues:** As used in this Agreement, the "*Gross Revenues*" of the System shall mean and include all fees, charges and other revenues generated by or otherwise received by or payable to Lessee in connection with or which are the result of the operation of the System, as set forth in Account Nos. 440, 442.02, 442.08, 444.08, 451.01, 451.02, 451.05, 451.1, 451.13, 451.15, 456.05, 456.07, and 456.08 of the FERC Uniform System of Accounts for electric utilities or such other accounts as may be applicable from time to time in which Lessee records its revenues from operation of the System.

(e) **Payment of Percentage Rent:** Percentage Rent shall be paid by Lessee to Lessor not later than the date forty-five (45) days after the end of each Lease Quarter as herein provided. Lessee shall record Gross Revenues in order to provide an audit trail for the Gross Revenues. Lessee shall deliver a written statement to Lessor, accompanied by an "*Officer's Certificate*" (signed by an authorized officer of Lessee and certifying to the accuracy and completeness of the statement of Gross Revenues), within forty-five (45) days after the end of each Lease Quarter, stating (1) the Gross Revenues for that Lease Quarter, (2) the cumulative total through the end of that Lease Quarter of Gross Revenues for such Lease Year, (3) the Percentage Rent Breakpoint (the First Lease Quarter Percentage Rent Breakpoint, the Second Lease Quarter Percentage Rent Breakpoint, the Third Lease Quarter Percentage Rent Breakpoint or the Annual Percentage Rent Breakpoint for such Lease Year, as applicable), utilized by Lessee and applicable to Lessee's calculation of Percentage Rent through the end of that Lease Quarter, and (4) the cumulative total of any Percentage Rent then due and the cumulative total of any Percentage Rent previously paid with respect to any prior Lease Quarter(s) within such Lease Year. If such Officer's Certificate indicates that any Percentage Rent is due for such Lease Quarter (or such Lease Year, as applicable), based upon the cumulative total of Gross Revenues through the end of such Lease Quarter and the applicable Percentage Rent Breakpoint reflected in such statement, then Lessee shall pay and deliver any Percentage Rent then due with the statement and Officer's Certificate for such Lease Quarter (or such Lease Year, as applicable). With respect to the final Percentage Rent calculation for any Lease Year, Lessee shall receive a credit for any Percentage Rent previously paid with respect to such Lease Year. If the Percentage Rent payments previously made by Lessee to Lessor for the first three Lease Quarters of a Lease Year, on a cumulative basis, exceed the annual amount of Percentage Rent payable by Lessee to Lessor for such Lease Year, then Lessee shall receive a credit for such excess amount against the next Percentage Rent

payment(s) becoming due and payable by Lessee to Lessor under this Agreement. All statements deliverable by Lessee to Lessor under this Lease shall be delivered to the place where rent is then payable, or to such other place or places as Lessor may from time to time direct by written notice to Lessee.

3.2. Rent and Term Adjustments for Capital Expenditures. In the event that Lessor funds Improvements or New Projects (each as defined in Article X), Base Rent shall be increased, Percentage Rent shall be adjusted and Term may be adjusted (and such increases and adjustments shall be set forth in Schedule 3.2), as agreed by Lessee and Lessor in good faith, in accordance with the following principles:

(a) Base Rent.

(i) Base Rent for any period shall in all events be at least equal to the aggregate amount of scheduled principal and interest due and payable by Lessor for such period with respect to the indebtedness incurred by Lessor in connection with its acquisition of the System on the Effective Date and all additional indebtedness incurred by Lessor in connection with its funding of Improvements and New Projects;

(ii) Base Rent shall be increased, or in the case of a New Project, calculated, solely to reflect the costs of and a return on the Improvement or New Project that is the subject of the Rent Adjustment at issue and shall not be determined so as to reflect any difference between the initially anticipated and the actual return of or on the System as determined on the Effective Date or any such difference with respect to any prior Improvement or New Project.

(b) Percentage Rents -- Improvements.

(i) Lessor shall demonstrate the anticipated pre-tax rate of return on its investment as determined as of the Effective Date with respect to the System as acquired on such date. Such pre-tax rate of return shall be determined based on the likely dollar amounts initially expected to result therefrom and the time at which such amounts are expected to be received, including amounts expected to be received as rent and the anticipated residual value of the System. A comparable rate of return for similar investments made on or prior to the in-service date of the Improvement at issue shall be demonstrated by Lessor, adjusted to take into account then applicable interest rates (and the appropriate spread with respect thereto), the remaining life of the Improvement and the System and any changes to the creditworthiness of Lessee since the Effective Date;

(ii) Lessor and Lessee shall determine the likely increase in revenues attributable to the Improvement for each Lease Year at issue and then determine the likely annual Percentage Rent, expressed in dollars, with respect to such increase in revenues as would result in Lessor earning the pre-tax rate of return thereon determined in paragraph (b)(1) above;

(iii) The amount in dollars determined in paragraph (b)(ii) shall be added to the dollar amounts determined in paragraph (b)(i) (and the dollar amounts for any Improvement effected prior to the Improvement at issue); such total shall be expressed as

a percentage of Gross Revenues anticipated to be earned from the System and all Improvements to date; provided that the dollar amounts previously determined with respect to the System as of the Effective Date and each prior Improvement as of its respective in-service date shall not be adjusted to reflect revenues that differ from those that were the basis for establishing the applicable Percentage Rents on the dates such Percentage Rents were established, it being the intention of Lessor and Lessee that the establishing of Percentage Rents together with the Base Rent with respect to Improvements constitute fair market rental value for the System and not constitute a means of adjusting Rents in a manner which is indicative of a sharing of, or maintaining, income or profits between Lessor and Lessee.

(c) **Percentage Rents -- New Projects.** New Projects shall be documented pursuant to a separate Lease Supplement. Lessor shall undertake a demonstration comparable to that required in paragraph (b)(i) above in order to establish an appropriate pre-tax rate of return and Percentage Rent. However, the Base Rent and Percentage Rent payable with respect to each New Project shall be determined based solely on the costs, assumptions and attributes of such New Project, independent of the System and any other New Project.

(d) **Term.** In connection with any such Improvements or New Projects, Lessee and Lessor may extend or otherwise adjust the Term of this Lease as appropriate to take into account the nature and extent of any such Improvements or New Projects, including, without limitation, amounts expended and effect of such Improvements or New Projects on the useful life of the System; provided that the Parties acknowledge that any such adjustment to the Term shall be made in a manner consistent with the Parties intent hereunder that this Lease constitute a true lease for US federal, state and local income tax purposes.

(e) **Regulatory Adjustments.** Notwithstanding anything in this Section 3.2 to the contrary, adjustments to rates of return on equity for public utility companies generally in the State of Texas may be taken into account in determining an appropriate pre-tax rate of return for Lessor with respect to Improvements and New Projects.

(f) **Procedure.** In connection with the foregoing, Lessor and Lessee shall use good faith efforts to agree, within 60 days after Lessee has proposed and documented the costs and estimated revenues of an Improvement or New Project, to amendments to the Base Rent and Percentage Rent determined in a manner that reflects the principles of this Section 3.2. If, by the end of such 60 day period, Lessee and Lessor cannot in good faith agree to such amendments, the determination of Base Rent and Percentage Rent shall be submitted to arbitration in accordance with Section 13.7.

3.3. *Confirmation of Percentage Rent.*

(a) Lessee shall utilize, or cause to be utilized, an accounting system for the System in accordance with the FERC Uniform System of Accounts for electric utilities, that will accurately record all data necessary to compute Percentage Rent, and Lessee shall retain, for at least five (5) years after the expiration of each Lease Year, reasonably adequate records conforming to such accounting system showing all data necessary to conduct Lessor's Audit (as defined below) and to compute Percentage Rent for the applicable Lease Years.

(b) Lessor shall have the right from time to time to cause its accountants or representative to conduct an inspection, examination and/or audit (a "*Lessor's Audit*") of all of Lessee's records, including supporting data and sales and excise tax returns, reasonably required to complete such Lessor's Audit and to verify Percentage Rent, subject to any prohibitions or limitations on disclosure of any such data under applicable laws, regulations and governmental requirements. If any Lessor's Audit discloses a deficiency in the payment of Percentage Rent, and either Lessee agrees with the result of Lessor's Audit or the matter is otherwise determined or compromised, Lessee shall forthwith pay to Lessor the amount of the deficiency, as finally agreed or determined, together with interest at the Overdue Rate from the date when said payment should have been made to the date of payment thereof; provided, however, that as to any Lessor's Audit that is commenced more than one (1) year after the end of any Lease Year, the deficiency, if any, with respect to such Percentage Rent shall bear interest at the Overdue Rate only from the date such determination of deficiency is made unless such deficiency is the result of gross negligence or willful misconduct on the part of Lessee, in which case interest at the Overdue Rate will accrue from the date such payment should have been made to the date of payment thereof. In addition to the amounts described above in this Section 3.2(b), if any Lessor's Audit discloses a deficiency in the payment of Percentage Rent which, as finally agreed or determined, exceeds 3% of the amount paid, Lessee shall pay the costs of Lessor's Audit. In no event shall Lessor undertake a Lessor's Audit more than five (5) years after the last day of the Lease Year for which such audit is requested.

(c) Any proprietary information obtained by Lessor pursuant to the provisions of this Section 3.2 shall be treated as confidential, except that such information may be used, subject to appropriate confidentiality safeguards, in any litigation or arbitration between the parties and except further that Lessor may disclose such information to lenders and investors, including prospective lenders or investors and to any other persons to whom disclosure is necessary or appropriate to comply with applicable laws, regulations and governmental requirements.

(d) The obligations of Lessee and Lessor contained in this Section 3.2 shall survive the expiration or earlier termination of this Lease. Any dispute as to the existence or amount of any deficiency in the payment of Percentage Rent as disclosed by Lessor's Audit shall, if not otherwise settled by the Parties, be submitted to arbitration pursuant to the provisions of Section 13.7.

3.4. *Additional Rent.* In addition to the Base Rent and Percentage Rent, Lessee also will pay and discharge as and when due and payable all other amounts, liabilities, obligations and impositions that Lessee assumes or agrees to pay under this Lease, including without limitation, the expenses described in Section 1.3 and any reimbursement for such amounts and other damages to Lessor in the event that Lessor pays such expenses or performs such obligations on behalf of Lessee (collectively, "*Additional Rent*").

3.5. *No Set Off.* Rent shall be paid to Lessor without set off, deduction or counterclaim; provided, however, that Lessee shall have the right to assert any claim or counterclaim in a separate action brought by Lessee under this Lease or to assert any mandatory counterclaim in any action brought by Lessor under this Lease.

3.6. *Late Payment Penalty.* If Lessee fails to make any payment of Rent to Lessor within five (5) days after it is due, interest shall accrue on the overdue amount, from the date overdue until the date paid, at a rate (the "*Overdue Rate*") equal to ten percent (10%) per annum or the maximum rate allowed by law, whichever is lesser.

ARTICLE IV LESSEE'S REPRESENTATIONS, WARRANTIES AND COVENANTS

Lessee hereby represents, warrants and covenants to Lessor that:

4.1. *Maintenance, Operation and Repair of the System.*

(a) Lessee, at its own cost and expense, shall maintain (including both scheduled and unscheduled maintenance), operate, repair and make all modifications (other than Improvements, as such term is defined in Article X) to the System and any components thereof (whether owned by Lessor or Lessee), including directing all operations of and supplying all personnel necessary for the operation of the System, in each case, as reasonable and prudent and consistent with Good Utility Practice and as required by Applicable Law. "*Good Utility Practice*" as used in this Agreement shall be as defined from time to time by PUCT and, as of the date hereof, means any of the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods, and acts that, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety, and expedition. Good utility practice is not intended to be limited to the optimum practice, method, or act, to the exclusion of all others, but rather is intended to include acceptable practices, methods, and acts generally accepted in the region. Lessee shall carry out all obligations under this Agreement as reasonable and prudent and consistent with Good Utility Practice and in accordance with manufacturers' warranty requirements (during any applicable warranty period) and the Lessee's established operating procedures and maintenance, rebuild and repair programs so as to keep the System in good working order, ordinary wear and tear excepted, and in such condition as shall comply in all material respects with all Applicable Laws. Lessee will operate the System in a reliable and safe manner in compliance with all applicable requirements and regulations of Regulatory Authorities. Lessee will not operate the System or any component thereof in any manner excluded from coverage by any insurance in effect as required by the terms hereof.

(b) If inspections of the System by Lessor show that the System does not meet industry standards or Good Utility Practice for maintenance and repair and/or fails to meet the requirements of any Applicable Law, Lessee shall promptly, but in any event within thirty (30) days after such initial notification, (i) develop a plan for Lessor's review by which the System can be modified to comply with the standards, and (ii) complete any and all such modifications consistent with all applicable reliability and safety standards established by regulations, orders or requirements of Regulatory Authorities.

4.2. *Licenses and Permits.* Lessee shall obtain and maintain any and all licenses, permits and other governmental and third-party consents and approvals required by Applicable Law in order to carry out its obligations under this Agreement.

4.3. Taxes and Municipal Franchise Fees. Lessee shall timely pay all taxes, assessments or other governmental charges that shall or may during the Term be imposed on, or arise in connection with, the System and any improvements made to the System (including all Improvements and/or New Projects as described and provided for in Section 10.1 of this Agreement); provided that Lessee shall not be obligated to pay any net income taxes imposed upon Lessor. Upon the written request by Lessor, Lessee shall provide Lessor with evidence of the payment of any such other taxes, the failure of which to be paid would cause the imposition of a Lien upon the System or any component thereof or interest therein. Lessee shall assume full responsibility for preparing and furnishing to Lessor for execution all filings with any governmental authority of or in the state and/or locality in which the System is located in respect of any and all taxes; except that, where required or permitted by Applicable Law, Lessee shall make such filings on behalf of Lessor in the name of Lessor or in Lessee's own name. In each case in which Lessee furnishes a tax return or any other form to be executed by Lessor for filing with or delivery to any taxing authority, Lessee shall certify to Lessor that such document is in the proper form, is required to be filed under Applicable Law and does not impose any tax or other liability on Lessor or any of its affiliates which is not indemnified by Lessee. Lessee shall be permitted to contest, in its own name when permitted by law but otherwise on behalf of Lessor, in good faith and upon consultation with Lessor, any taxes it is obligated to pay hereunder.

4.4. Requirements of Governmental Agencies and Regulatory Authorities. Lessee, at its expense, shall comply with all laws, ordinances, statutes, orders and regulations of any federal, state, or local government, regulatory or administrative authority, any agency or commission thereof, or any court or tribunal ("*Applicable Laws*"), including without limitation all requirements of the PUCT, ERCOT, TRE and any governmental agency applicable to the System ("*Regulatory Authorities*"). Lessee shall have the right, in its reasonable discretion and at its cost and expense, to contest by appropriate legal proceedings, the validity or applicability to the System of any Applicable Law made or issued by any federal, state, county, local or other governmental agency or entity. Any such contest or proceeding shall be controlled and directed by Lessee. Notwithstanding the foregoing, Lessee shall provide Lessor written notice of the commencement and, at reasonable intervals after commencement, the progress of any such legal proceedings.

4.5. Liens. Lessee shall keep the System free and clear of all Liens (as hereinafter defined) other than liens granted by the Lessor to any lender or trustee for any lender which finances the Lessor's interest in the System ("*Lessor Liens*"); provided, however, that if Lessee wishes to contest any such Lien (other than a Lessor Lien), Lessee shall, promptly, and in any event within thirty (30) days after it receives notice of the filing of such Lien, remove or bond over such lien from the System pursuant to Applicable Law. If Lessee fails to promptly remove or bond over any such Lien, Lessor may, after providing notice to Lessee, take reasonable action to satisfy, defend, settle or otherwise remove the Lien at Lessee's expense.

4.6. Hazardous Materials.

(a) Lessee shall operate and maintain the System and conduct all of its other activities in respect thereof in compliance in all material respects with any Applicable Laws relating to air, water, land and the generation, storage, use, handling, transportation, treatment or disposal of

Hazardous Material (as hereinafter defined). Lessee shall promptly notify Lessor of any such violation and, to the extent Lessee becomes aware of any environmental, health, safety or security matter that requires a corrective action, Lessee shall, in consultation with Lessor, undertake and complete such corrective action. Lessee shall have the obligation to report any such violations to the appropriate Regulatory Authorities in accordance with Applicable Law and, if practicable, shall give notice thereof to Lessor prior to making such report.

(b) As used herein, "*Hazardous Material*" means (A) any substance which is listed, defined, designated or classified under any Applicable Law as a (i) hazardous material, substance, constituent or waste, (ii) toxic material, substance, constituent or waste, (iii) radioactive material, substance, constituent or waste, (iv) dangerous material, substance, constituent or waste, (v) pollutant, (vi) contaminant, or (vii) special waste; (B) any material, substance, constituent or waste regulated under any Applicable Laws; or (C) petroleum, petroleum products, radioactive matters, polychlorinated biphenyl, pesticides, asbestos or asbestos-containing materials.

(c) Without limiting the generality of the foregoing, Lessee shall not (i) place or locate any underground tanks on the property underlying the System, (ii) generate, manufacture, transport, produce, use, treat, store, release, dispose of or otherwise deposit Hazardous Materials in or on the System, the property underlying the System or any portion thereof other than as permitted by Applicable Laws that govern the same or are applicable thereto, (iii) permit any other substances, materials or conditions in, on or emanating from the System, the property underlying the System or any portion thereof which may support a claim or cause of action under any Applicable Law or (iv) undertake any action that would reasonably be expected to cause an unauthorized release of Hazardous Materials at the property underlying the System.

(d) Lessee shall periodically, at intervals determined in its reasonable discretion in accordance with Good Utility Practice or as required by Applicable Law, at Lessee's sole expense, conduct inspections of all components of the System and the System property to ensure compliance with Applicable Laws and with this Section 4.6, and shall promptly notify Lessor of the results of any such inspections. Lessor may, at Lessor's expense, conduct its own testing at times determined in its reasonable discretion, and after reasonable consultation with Lessee, to ensure Lessee's compliance with Applicable Laws and with this Section 4.6, provided, however, that Lessor agrees to indemnify Lessee, in accordance with Section 12.2, from and against any and all Claims arising from such testing.

4.7. *Indebtedness.* Lessee shall not incur Indebtedness, if after giving effect to such incurrence, the outstanding amount of such Indebtedness then due and owing is in excess of One Million Dollars (\$1,000,000.00). "Indebtedness" with respect to any Person means, at any time, without duplication (a) such Person's liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable preferred stock; (b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property); (c)(i) all liabilities appearing on Lessee's balance sheet prepared in accordance with U.S. generally accepted accounting principles ("*GAAP*") in respect of capital leases and (ii) all liabilities which would appear on its balance sheet prepared in accordance with GAAP in respect of Synthetic

Leases assuming such Synthetic Leases were accounted for as capital leases; (d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities); (e) all of such Person's liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money); (f) the aggregate Swap Termination Value of all Swap Contracts of such Person; and (g) any guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof. Indebtedness of a Person shall include all obligations of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP. A "Synthetic Lease" means, at any time, any lease (including a lease that may be terminated by the lessee at any time) of any property by a Person (i) that is accounted for as an operating lease under GAAP and (ii) in respect of which the lessee retains or obtains ownership of the property so leased for U.S. federal income tax purposes, other than any lease under which such Person is the lessor. "Swap Termination Value" means, in respect of one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (x) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (y) for any date determined prior to the date referenced in clause (x), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts. "Swap Contract" means (aa) any and all interest rate swap transactions, basis swap transactions, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward foreign exchange transactions, cap transactions, floor transactions, currency options, spot contracts or any other similar transactions of any of the foregoing (including, without limitation, any options to enter into any of the foregoing), and (bb) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc. or any International Foreign Exchange Master Agreement.

4.8. Records. Lessee shall maintain proper books of record and account in conformity with GAAP and all applicable Regulatory Authorities and each other governmental agency or authority having legal or regulatory jurisdiction over Lessee. Additionally, Lessee shall maintain or cause to be maintained all logs, drawings, manuals, specifications and data and inspection, modification and maintenance records and other materials required to be maintained in respect of the System by Applicable Laws or by prudent and Good Utility Practice. Lessee shall provide quarterly estimates and other information necessary to allow Lessor and its affiliates to comply with the provisions of the Sarbanes-Oxley Act of 2002 and other public company requirements as required under Applicable Laws and by Good Utility Practice or as may be necessary or desirable for an entity subject to the reporting requirements of the Securities Exchange Act of 1934.

4.9. Surrender. Upon expiration or earlier termination of this Agreement in accordance with its terms (but subject to Section 2.2 and the requirements of all Applicable Laws), and in a manner calculated to avoid any disruption of electrical service, Lessee shall

vacate and surrender possession of all components of the System (other than in respect of Severable Improvements described in Section 10.6(a)) to Lessor, or to such other person or entity as Lessor may direct. At the time of such surrender, the System shall be free and clear of Liens and other rights of third parties (other than Permitted Liens), and shall be in the same condition as on the Effective Date, ordinary wear and tear and subsequent Improvements and New Projects excepted. Lessee shall deliver or cause to be delivered to Lessor, or to such other person or entity as Lessor may direct, copies of all title documents, logs, drawings, manuals, specifications and data and inspection, modification and maintenance records, billing records, reports and other documents in respect of the System which are necessary to determine the condition of the System or for the continued maintenance, repair or general operation of the System and are in Lessee's possession at such time. In connection with the surrender of the System, Lessor shall pay to Lessee the aggregate purchase price for any Improvements purchased by Lessor in accordance with Section 2.3 and Section 10.6(b).

4.10. Cooperation; Transition Services.

(a) During the period after notice of termination and prior to the termination of the Agreement, with reasonable notice, Lessee will cooperate in all reasonable respects with the efforts of Lessor to sell or lease the System (or any component thereof) or any interest therein, including, without limitation, permitting prospective purchasers or lessees to fully inspect the System and any logs, drawings, manuals, specifications, data and maintenance records relating thereto; provided, that such cooperation shall not unreasonably interfere with the normal operation of the System or cause Lessee to incur any additional expenses other than as specifically provided herein. All information obtained in connection with such inspection shall be subject to confidentiality requirements at least as restrictive as those contained in Section 13.3.

(b) Upon expiration or termination of this Agreement, Lessee shall continue to operate the System pursuant to the terms of Section 2.2, if required thereunder. During such period Lessee shall perform all duties and retain all obligations under Article IV in all respects, as if the Agreement had not expired or been terminated.

4.11. Lessee's Authority. Lessee has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. Lessee has taken all action necessary to execute and deliver this Agreement and to perform its obligations hereunder, and no other action or proceeding on the part of Lessee is necessary to authorize this Agreement. This Agreement constitutes the legally valid and binding obligation of Lessee, enforceable against Lessee in accordance with its terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Applicable Laws affecting the enforcement of creditors' rights generally and equitable principles.

4.12. Litigation. If Lessee becomes aware of any actions, claims or other legal or administrative proceedings that are pending, threatened or anticipated with respect to, or which could materially and adversely affect, the System, Lessee shall promptly deliver notice thereof to Lessor.

4.13. Financing. Lessee acknowledges that Lessor has advised Lessee that Lessor intends to obtain financing secured by, among other things, the System and this Lease. In connection with such financing, Lessor will be required to make certain representations warranties and covenants set forth in that certain Note Purchase Agreement to be entered into by Lessor (the "Note Purchase Agreement") and dated on or about the date hereof, a copy of which has been provided to and reviewed by Lessee. Lessee hereby agrees with Lessor that, to the extent not otherwise covered by the terms of this Agreement, (i) Lessee hereby makes the same representations and warranties to Lessor as Lessor makes to the Purchasers (as defined in the Note Purchase Agreement) in Sections 5.2, 5.3, 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, 5.16, 5.17, 5.18, 5.19, 5.20 and 5.21 of the Note Purchase Agreement, to the extent that such representations and warranties relate to (x) Lessee, whether in its capacity as Lessee or otherwise, including, without limitation, Lessee's status or operations as a public utility, or (y) Lessee's ownership of the System on or before the date hereof, and (ii) Lessee hereby covenants and agrees with Lessor that, during the term of the Note Purchase Agreement, Lessee will comply with the covenants set forth in Sections 9.8 (to the extent that Lessee is a party to any Material Project Documents, as defined in the Note Purchase Agreement), 10.5, 10.11, 10.12, 10.13, 10.17 and 10.18 of the Note Purchase Agreement.

4.14. Further Cooperation and Assurance for Financing. Lessee shall provide to Lessor such acknowledgments, financial statements (certified by a financial officer of Lessee, if requested), certificates, permits, licenses and other instruments or documents as Lessor may reasonably request from time to time in connection with, or to enable Lessor to comply with (x) the terms and conditions of any financing obtained by Lessor and secured by the System and this Agreement or (y) Applicable Laws, including, without limitation, the Sarbanes-Oxley Act of 2002 and the reporting requirements of the Securities Exchange Act of 1934.

ARTICLE V LESSOR'S REPRESENTATIONS, WARRANTIES AND COVENANTS

Lessor hereby represents, warrants and covenants as follow:

5.1. Lessor's Authority. Lessor has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. Lessor has taken all action necessary to execute and deliver this Agreement and to perform its obligations hereunder, and no other action or proceeding on the part of Lessor is necessary to authorize this Agreement. This Agreement constitutes the legally valid and binding obligation of Lessor, enforceable against Lessor in accordance with its terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Applicable Laws affecting the enforcement of creditors' rights generally and equitable principles.

5.2. Liens and Tenants. Lessor represents that Lessor has good and valid title to the System, there are no unrecorded liens, encumbrances, leases, mortgages, deeds of trust (except as disclosed to Lessee in writing or as arise by operation of law), or other exceptions (collectively, "Liens") arising as a result of any acts or omissions to act of Lessor by, through or under Lessor to Lessor's right, title or interest in the System other than any such of the foregoing that does not materially impair the Lessee's use of the System, and, to Lessor's knowledge, there exist no rights or interests of any third party relating to the System that are not contemplated herein.

Except as may be disclosed in the applicable real property records in the State of Texas, or as disclosed by Lessor in writing to Lessee, Lessor represents that there are no mortgages, deeds of trust, or similar liens or security interests encumbering all or any portion of the System. Lessor shall fully cooperate and assist Lessee, at no out-of-pocket expense to Lessor, in obtaining a subordination and non-disturbance agreement from each party that holds a Lien that might reasonably be expected to interfere in any material respect with Lessee's rights under this Agreement. Notwithstanding the foregoing, Lessor and its affiliates shall have the right to incur Liens encumbering the System or any component thereof solely for the benefit of Lessor in connection with any existing or future financing or refinancing pursuant to which the System (or any component thereof) is pledged as collateral and Lessee agrees to enter into such acknowledgments and agreements in respect thereof with the lenders, or a trustee or agent for the lenders as the Lessor may reasonably request.

5.3. Condition of Assets. Lessor has not taken any action or failed to take any action that would cause the System not to be in good operating condition and repair, ordinary wear and tear excepted, or adequate for the uses to which it is being put.

5.4. Requirements of Governmental Agencies. Lessor shall assist and fully cooperate with Lessee, in complying with or obtaining any material land use permits and approvals, building permits, environmental impact reviews or any other approvals reasonably required for the maintenance or operation of the System, including execution of applications for such approvals, and including participating in any appeals or regulatory proceedings respecting the System at Lessee's cost and expense, if requested by Lessee.

5.5. Hazardous Materials. Lessor shall conduct its activities in respect of the System in compliance in all material respects with applicable Environmental Laws.

5.6. Litigation. If Lessor becomes aware of any actions, claims or other legal or administrative proceedings that are pending, threatened or anticipated with respect to, or which could materially and adversely affect, the System, Lessor shall promptly deliver notice thereof to Lessee.

5.7. Limitation. EXCEPT AS EXPRESSLY REPRESENTED OTHERWISE IN THIS ARTICLE V, LESSOR (A) MAKES NO AND EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) TITLE TO THE SYSTEM OR ANY PORTION THEREOF, (II) ANY ESTIMATES OF THE VALUE OF THE SYSTEM OR FUTURE REVENUES THAT MIGHT BE GENERATED BY THE SYSTEM, (III) THE MAINTENANCE, REPAIR, CONDITION, QUALITY, SUITABILITY, DESIGN OR MARKETABILITY OF THE SYSTEM, (IV) INFRINGEMENT OF ANY INTELLECTUAL PROPERTY RIGHT OR (V) ANY OTHER MATERIALS OR INFORMATION THAT MAY HAVE BEEN MADE AVAILABLE OR COMMUNICATED TO LESSEE OR ITS AFFILIATES, OR ITS OR THEIR EMPLOYEES, AGENTS, CONSULTANTS, REPRESENTATIVES OR ADVISORS IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY DISCUSSION OR PRESENTATION RELATING THERETO, AND (B) FURTHER DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR CONFORMITY TO

MODELS OR SAMPLES OF MATERIALS OF ANY PORTION OF THE SYSTEM, IT BEING EXPRESSLY UNDERSTOOD AND AGREED BY THE PARTIES HERETO THAT THE SYSTEM IS BEING LEASED "AS IS, WHERE IS," WITH ALL FAULTS AND DEFECTS, AND THAT LESSEE HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS LESSEE DEEMS APPROPRIATE.

ARTICLE VI LOSS AND DAMAGE; INSURANCE

6.1. *Loss and Damage to the System.* In the event of any damage or loss to any component of the System, Lessee shall promptly repair or replace such component to the standards required by Section 4.1. The cost of repairing or replacing such damage or loss, whether actually covered in whole or in part by insurance, shall be the responsibility of Lessee. Lessee shall be solely responsible for all costs of repairing or replacing any damaged property and equipment that is not part of the System, whether covered by Lessee's insurance under Section 6.2 or otherwise. Lessee shall be entitled to retain any insurance proceeds in excess of the amount necessary to repair or replace the System. Nothing in this provision shall preclude Lessee from seeking recovery of such costs in a rate proceeding at the PUCT.

6.2. *Insurance.* Lessee will maintain, with financially sound and reputable insurers, insurance with respect to its properties and business against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated, but in no event less than the insurance set forth in this Section 6.2 and Exhibit B.

(a) Lessee shall procure at its own expense and maintain in full force and effect at all times throughout the term of this insurance policies with insurance companies rated A-, 9 or higher by A.M. Best or acceptable to Lessor if not so rated, and authorized to do business in the State of Texas.

(b) Lessor may at any time amend the requirements and approved insurance companies described in this Section 6.2 or Exhibit B due to (i) new information not previously known by Lessor prior to the date of this Agreement or (ii) changed circumstances after date of this Agreement, which in the reasonable judgment of Lessor either renders a required coverage to be materially inadequate or materially reduces the financial ability of the approved insurance companies to pay claims.

(c) On the date of this Agreement and on any anniversary thereafter, if so requested by Lessor, Lessee shall furnish Lessor with approved certification of all required insurance. Such certification shall be executed by each insurer or by an authorized representative of each insurer where it is not practical for such insurer to execute the certificate itself. Such certification shall identify underwriters, the type of insurance, the insurance limits, and the policy term, and shall specifically list the special provisions enumerated for such insurance required by this Section 6.2. Upon request, Lessee will promptly furnish Lessor with copies of all insurance certificates, binders, and cover notes or other evidence of such insurance relating to the System.

(d) Concurrently with the furnishing of the certification referred to in Section 6.2(c) and on an annual basis thereafter, Lessee shall furnish Lessor with a certificate, signed by an officer of Lessee, stating that all premiums then due have been paid and that the insurance then carried or to be renewed is in accordance with the terms of this Section 6.2. and Exhibit B.

(e) In the event Lessee fails to take out or maintain the full insurance coverage required by this Section 6.2 and Exhibit B, Lessor, upon thirty (30) days' prior notice (unless the aforementioned insurance would lapse within such period, in which event notice should be given as soon as reasonably possible) to Lessee of any such failure, may (but shall not be obligated to) take out the required policies of insurance and pay the premiums on the same. All amounts so advanced thereof by Lessor shall become an additional obligation of Lessee to Lessor, and Lessee shall forthwith pay such amounts to Lessor.

(f) No provision of this Section 6.2 or Exhibit B or any other provision of this Agreement, shall impose on Lessor any duty or obligation to verify the existence or adequacy of the insurance coverage maintained by Lessee, nor shall Lessor be responsible for any representations or warranties made by or on behalf of Lessee to any insurance company or underwriter.

ARTICLE VII REPORTING

Each Party shall as promptly as reasonably practicable furnish or cause to be furnished to the other Party, upon request from such Party, such information as may be required to enable such Party to file any reports required to be filed with any governmental or Regulatory Authority due to such Party's ownership interest in or operation and control of the System, as applicable.

ARTICLE VIII ASSIGNMENT

This Agreement shall not be assignable by either Party, nor shall the System or any part thereof be subleased by Lessee, except with the prior written consent of the other Party and the prior approval of any Regulatory Authority whose approval is required for the effectiveness of such assignment or sublease. For purposes of this Article VIII, an "assignment" by Lessee shall mean and include, in addition to any direct transfer by Lessee to a third party of all or any part of Lessee's rights, estate or interests under this Agreement, any direct or indirect, voluntary or involuntary transfer of or encumbrance on all or any part of Lessee's rights, estate or interests under this Agreement by operation of law and/or by direct or collateral transfer of all or any part of the legal or beneficial ownership interest in Lessee by merger, consolidation or otherwise. Notwithstanding the foregoing, Lessor shall have the right, without Lessee's consent but subject to obtaining regulatory approval as described in the foregoing sentence, (a) to assign, pledge or grant a security interest in any or all of its interest in the Agreement to a lender or lenders, or a trustee acting on behalf of such lenders, in connection with a financing or refinancing in which such interest is pledged as collateral, and Lessee agrees to enter into such acknowledgments and agreements in respect thereof as the Lessor may reasonably request and (b) to assign its interest in this Agreement to a successor owner of the System.

**ARTICLE IX
DEFAULT**

9.1. *Lessee Default.* Subject to Section 9.3, Lessee shall be in default in the event of any of the following:

(a) Except as provided in Section 9.1(g), Lessee's failure to make any payment of Rent when due;

(b) Lessee (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing;

(c) a court or a Regulatory Authority or other governmental agency of competent jurisdiction enters an order appointing, without consent by Lessee, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of Lessee or any such petition shall be filed against Lessee and such petition shall not be dismissed within 90 days;

(d) Any representation or warranty made by Lessee herein shall prove to have been inaccurate in any material respect at the time made;

(e) a final judgment or judgments for the payment of money aggregating in excess of \$1,000,000 are rendered against Lessee and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay;

(f) Lessee shall have breached or failed to comply in any material respect with any other covenant or agreement contained herein; or

(g) Notwithstanding Section 9.1(a), Lessee's failure to pay Rent when due shall not constitute a default if (i) such failure is due to unforeseeable circumstances arising as a result of events beyond the control of the Lessee, including the incurrence of costs and expenditures that are materially in excess of budgeted costs and expenditures or an unforeseen material decline in electricity usage and (ii) such failure is cured within ninety (90) days after the date such rent was due through Lessee's payment of the entire amount of such unpaid Rent, plus interest thereon at a rate equal to six percent (6%) per annum or the maximum rate allowed by law, whichever is lesser, from the date such Rent was originally due until the date of payment.

9.2. Lessor Default. Subject to Section 9.3, Lessor shall be in default in the event any representation or warranty made by Lessor herein shall prove to have been inaccurate in any material respect at the time made, or in the event Lessor breaches or fails to comply in any material respect with any covenant or agreement contained herein.

9.3. Right to Cure. If a Party (the "Defaulting Party") defaults pursuant to Section 9.1 or 9.2, as applicable (an "Event of Default"), such Defaulting Party shall not be in default of the terms of this Agreement if (other than in the event of a default described in Sections 9.1(a), 9.1(b) and/or 9.1(c) above), (a) in the case of the failure to pay when due any amounts payable under this Agreement (a "Monetary Default") the Defaulting Party pays the past due amount within thirty (30) days of receiving written notice of the Event of Default (a "Notice of Default") from the other Party (the "Non-Defaulting Party"), and (b) in the case of an Event of Default other than a Monetary Default (a "Non-Monetary Default"), the Event of Default is cured within forty-five (45) days of receiving the Notice of Default; provided, that if the nature of the Non-Monetary Default requires, in the exercise of commercially reasonable diligence, more than forty-five (45) days to cure then the Defaulting Party shall not be in default as long as it commences performance of the cure within forty-five (45) days and thereafter completes such cure with commercially reasonable diligence.

9.4. Remedies.

(a) Should an Event of Default remain uncured by the Defaulting Party, the Non-Defaulting Party shall have and shall be entitled to exercise the remedies provided in this Section 9.4 and any and all other remedies available to it at law or in equity, all of which remedies shall be cumulative; provided, that the exercise of any remedies hereunder shall be subject to PUCT and other required regulatory approvals to the extent applicable.

(b) In no way limiting the provisions of Section 9.4(a), in the case of an Event of Default of Lessee, Lessor shall have the right to (i) terminate the Agreement upon notice to Lessee, and recover from Lessee all damages to which Lessor is entitled under Applicable Laws, (ii) terminate Lessee's right to use and operate the System while keeping this Agreement in effect, and recover from Lessee all damages to which Lessor is entitled under Applicable Laws, and (iii) take reasonable action to cure Lessee's default at Lessee's expense; provided, that in the event of a violation of Applicable Laws by Lessee, an emergency or government or regulatory action in respect of which Lessor, in its reasonable discretion, determines immediate action is necessary, Lessor shall have the right to step in and take such action on behalf of Lessee at Lessee's cost and expense immediately upon giving notice to Lessee, notwithstanding any applicable cure period.

(c) Any amounts recovered by Lessor from Lessee in the event of a default shall, to the maximum extent permissible under Applicable Laws, be deemed to be in respect of past or future Rent owing under this Agreement.

**ARTICLE X
CAPITAL EXPENDITURES**

10.1. Capital Expenditures for Improvements to the System. Lessee from time to time and at least annually during the Term of this Agreement shall consider the necessity and desirability of improvements to and expansions of the existing System, including any improvements to and expansions of New Projects funded by Lessor that become part of the System pursuant to Section 10.3 ("Improvements"). Promptly following the Effective Date, Lessee shall determine the approximate amounts of capital expenditures that Lessee expects will be needed for purposes of making Improvements to the System over the initial three (3) years of the Term (the "CapEx Budget"). On or before the commencement of each calendar year after the Effective Date, Lessee shall review and revise the CapEx Budget on a rolling three-year basis, taking into account any changed circumstances that (i) make it no longer feasible to incur one or more of the costs reflected on the prevailing CapEx Budget, (ii) make it necessary to amend the nature or amounts reflected for a particular Improvement or (iii) dictate that additional Improvements be added. Lessee agrees to revise the CapEx Budget to include any Improvements (i) required by Regulatory Authorities or (ii) reasonably necessary to satisfy Lessee's obligation as a regulated utility to serve its customers or to maintain the safety or reliability of the System. The Parties also shall agree on the additional incremental Rent to be attributable to such budgeted Improvements that will be payable pursuant to Section 3.2 as part of determining the CapEx Budget.

10.2. Other Capital Expenditures. Upon request from Lessee from time to time during the Term of this Agreement, the Parties shall meet to consider acquisition or construction of electrical transmission or distribution facilities within the State of Texas that are separate from Improvements to the then existing System ("New Projects"). Lessor shall consider in good faith any such New Projects which are proposed in writing by Lessee, and Lessor shall have the right to determine the extent to which and method by which it will fund any such New Projects (which determination may be withheld for any or no reason). The Parties also shall agree on the estimated amount of incremental Rent to be attributable to such New Project that will be payable pursuant to Section 3.2 as part of the consideration and approval of any New Project.

10.3. Capital Expenditures Funded by Lessor. Lessor agrees to fund (i) any Improvements contained in the CapEx Budget (as revised from time to time) and (ii) any New Projects proposed by Lessee that Lessor agrees to fund pursuant to Section 10.2. Lessor's obligation to fund Improvements and New Projects pursuant to this Section 10.3 shall include any costs associated with such Improvements and New Projects that Lessee is not allowed to recover through its PUCT-approved rates. Any Improvements or New Projects funded by Lessor under this Section 10.3 shall be deemed to be part of the System upon completion.

10.4. Capital Expenditures Funded by Lessee. In the event Lessor declines to fund part or all of any New Projects, or fails to fund any Improvements, Lessee may at its sole discretion fund the needed capital expenditures (and Lessee shall be entitled to applicable damages, if any, as a result of funding any such Improvements); provided Lessee may only make Nonseverable Improvements which are required in order to comply with Applicable Law or which are required by any Governmental Authority. Any Improvements or New Projects funded by Lessee under this Section 10.4 shall not be considered part of the System for purposes of this Agreement.