



# Texas Regional Entity Division Update

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**Board of Directors**

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- **A functionally separate division of ERCOT which:**
  - Develops and enforces federally mandated Reliability Standards (Delegated activities)
  - Investigates compliance with and enforces violations of ERCOT Protocols (Compliance activities)
- **Managed directly by the Board – to ensure independence**
  - Chief Compliance Officer (CCO), hired by the Board to carry on the general affairs of the TRE
  - TRE has separate budget from ERCOT (with separation for Delegated and Compliance activities)
  - CCO responsible for enforcement determinations
  - CCO and TRE employees may not be retaliated against for investigating or participating in enforcement activities

- **CRITERION 1: The Regional Entity shall be governed by an independent board, a balanced stakeholder board, or a combination independent and balanced stakeholder board. (Federal Power Act § 215(e)(4)(A), 18 C.F.R. § 39.8(c)(1), Order No. 672 at ¶ 727.)**
- **No changes to Bylaws required**

- **CRITERION 2: The Regional Entity has established rules that assure its independence of the users and owners and operators of the bulk power system, while assuring fair stakeholder representation in the selection of its directors. Federal Power Act § 215(c)(2)(A) and (e)(4), 18 C.F.R. § 39.8(c)(2), Order No. 672 at ¶¶ 699, 700.)**
- **Bylaws were modified to create the TRE Division and describe its operations, independence, and management**

- **The Board, or a subcommittee thereof, shall directly manage the business and affairs of TRE**
- **TRE and its employees shall function independently of the other divisions, departments and employees of ERCOT**
- **Board shall hire a Chief Compliance Officer (“CCO”) to, under its supervision and direction, carry on the general affairs of the TRE**
- **CCO must be independent of any market participant and every member of the staff of ERCOT**
- **Board may only hire a CCO after consulting the PUCT Commissioners and Executive Director, and obtaining the approval of the PUCT Executive Director**
- **TRE employees shall be responsible for creating and monitoring a separate budget to be submitted to the Board for approval and then to NERC and FERC for approval**

- **TRE and the CCO shall be responsible for hiring, firing and compensating all TRE employees**
- **TRE employees shall be compensated from the TRE budget**
- **TRE employees may participate in insurance and other benefits extended to ERCOT employees, provided that the TRE reimburses ERCOT for the full cost of providing such benefits**
- **The TRE is authorized to employ attorneys and advisors, who shall report to the CCO and shall have ethical obligations solely to the TRE and not to ERCOT**

- **The portion of the TRE Budget which is for activities that are not related to Delegated activities, but are for Compliance activities will be approved by the PUCT in System Admin Fee**
- **TRE shall be funded separately by NERC for Delegated activities and shall:**
  - maintain separate books and records, separating income and expenditures for the Delegated activities and the ERCOT Compliance activities; and
  - pay a fair market rate for any goods and services obtained from ERCOT, or if a fair market rate is not readily determinable, at least the out-of-pocket cost incurred by ERCOT
- **CCO shall report to the Board concerning the activities and expenditures of the TRE**
- **TRE shall have its separate financial statements audited annually**

- **CRITERION 3: If the Regional Entity has members, the Regional Entity has established rules that assure that its membership is open, that it charges no more than a nominal membership fee and agrees to waive the fee for good cause shown, and that membership is not a condition for participating in the development of or voting on proposed Regional Reliability Standards. (Federal Power Act § 215(c)(2)(A) and (e)(4), 18 C.F.R. § 39.8(c)(2), Order No. 672 at ¶¶ 170-173.)**
- **Bylaws addition regarding specific ability to waive membership fee for good cause shown**



- **CRITERION 4:** The Regional Entity has established rules that assure balance in its decision-making committees and subordinate organizational structures and assure no two industry sectors can control any action and no one industry sector can veto any action. (Federal Power Act § 215(c)(2)(A) and (e)(4), 18 C.F.R. § 39.8(c)(2), Order No. 672 at ¶ 728.)
- **Expansion of Bylaws to include reference to Standards Development Committee:**
  - Comprised of members from all ERCOT Segments, to propose, receive, consider, authorize, and vote on Reliability Standards and Reliability Variances
  - All proposed ERCOT-specific Reliability Standards and Reliability Variances requests must be approved by the Board, prior to being submitted to NERC.

- **CRITERION 5: The Regional Entity has established rules that provide reasonable notice and opportunity for public comment, due process, openness, and balance of interests in exercising its duties. (Federal Power Act § 215(c)(2)(D) and (e)(4), 18 C.F.R. § 39.8(c)(2).)**
- **No changes to Bylaws required**

- **Enforcement**
- **Reliability Standards**
- **Delegated-Related Services**
- **Funding**

- **Delegation of Authority.**

- NERC delegates authority, pursuant to Section 215(e)(4) of the Federal Power Act, to Texas Regional Entity for the purpose of proposing Reliability Standards to NERC, as set forth in Section 5 of this Agreement, and enforcing Reliability Standards, as set forth in Section 6 of this Agreement, within the geographic boundaries set forth on Exhibit A [the ERCOT Region]. No further redelegation of authority or responsibility, in total or in part, under this Agreement is allowed without NERC's express consent.

- **TRE shall enforce Reliability Standards (including Regional Reliability Standards and Regional Variances) within the geographic boundaries set forth in the ERCOT Region through the compliance enforcement program.**
- **TRE agrees to comply with the NERC Rules in implementing this program.**
- **TRE shall report to NERC any self-reported violation or investigation of a violation or an alleged violation of a Reliability Standard and its eventual disposition.**
- **NERC and TRE shall cooperate in filing such periodic summary reports as the Commission shall from time to time direct on violations of Reliability Standards and summary analyses of such violations.**

- **All appeals of penalties imposed by TRE shall be filed with NERC, in accordance with the NERC Rules.**
- **TRE shall maintain the capability to conduct investigations of potential violations of Reliability Standards and to conduct such investigations in a confidential manner.**
- **TRE shall maintain a program of proactive enforcement audits including procedures for spot-checks of self-reported compliance and periodic audits of all responsible entities as defined in Exhibit D.**

- **TRE shall be entitled to propose Reliability Standards, Regional Variances, or modifications thereof to NERC, which shall be considered by NERC through an open and inclusive process for proposing and adopting Reliability Standards that affords TRE reasonable notice and opportunity to be heard; and**
- **TRE shall be entitled to develop Regional Reliability Standards and Regional Variances through TRE’s process.**

- **Delegation-Related Services.** NERC will engage TRE on its behalf to carry out certain of its activities that are in furtherance of its responsibilities as the ERO under the Act or in support of delegated functions, as specified in the NERC Rules and listed on Exhibit E.



- **TRE and NERC shall ensure that the delegated functions and related activities listed on Exhibit E have reasonable and adequate funding and resources by undertaking the following:**
  - NERC shall fund TRE activities necessary for TRE to carry out its Delegated activities under this Agreement and shall not impose any obligation or requirement regarding Delegated activities upon TRE without providing appropriate funding to carry out such mandates
  - TRE shall submit its annual budget for carrying out its Delegated and Compliance activities and related functions listed on Exhibit E, as well as all other TRE activities and funding to NERC no later than June 1 of the prior fiscal year