

2009 Texas Regional Entity Preliminary Budget Overview

Board of Directors
May 20, 2008

2009 Texas RE Budget Development Schedule

- ✓ **April 15 – Review Preliminary Draft of 2009 Budget at F&A Committee**
- ✓ **May 9 – Draft #1 of Business Plan & Budget (BP&B) due to NERC**
- ✓ **May 19 – Special F&A Committee meeting to review BP&B**
- **May 20 – F&A Committee & Board Discussion of Draft #1 of BP&B**
- **May 30 – Draft #2 of BP&B due to NERC**
- **June 17 – Final Budget Approval Required by Texas RE Board**
- **July 9 – Final Texas RE Board-Approved BP&B due to NERC**

Texas RE Overarching Budget Goals - Summary

- **2009 will be the 2nd full year of operations for Texas RE.**
- **The budget process ensured that all of the functions were appropriately budgeted to:**
 - Discharge all of the NERC Delegation Agreement requirements.
 - Continue monitoring & reporting on protocol compliance and non-compliance.
 - Ensure Texas RE continues to improve its processes by utilizing technology to enhance its operations.
 - Guarantee Texas RE has appropriate cash on hand.

2009 Budget Assumptions

- **Texas RE will remain functionally separate from ERCOT ISO.**
- **Establishment of a 60 day cash reserve, per NERC guidance.**
- **Increase in Legal and Regulatory (investigations, enforcement actions, settlements, communications, regulatory oversight, and review & comment on procedural modifications).**
- **Invest in technology improvements and process automation (data and document management systems, website maintenance, and standards tracking).**

2009 Budget Assumptions (continued)

- **Non-statutory requirements will not increase.**
 - Allocation to the Non-Statutory function is less than 15% of the total budget.
 - Few metrics in Nodal Protocols – requirements could change.
- **Increase in labor costs**
 - Additional and more complex audits are due to the increasing number of registered entities and relationships.
 - More FERC-approved reliability standards.
 - Increased emphasis on situational awareness and cyber-security.
- **Surplus funds from '07 & '08 to offset 2009 funding requirements.**
- **Texas RE Staff will move out of Met Center.**

Texas RE – Budget Drivers

- **60 days cash reserves ~ \$855K**
- **Increased labor costs ~ \$899K**
- **Increased space & facility needs ~ \$400K**
- **Increase in meeting expense (system operations training and two compliance workshops) ~ Net \$30K**

Combined FTEs by Function

Total FTE's by Program Area	Budget 2008	Projection 2008	Budget 2009	Change from Projection
Combined Statutory & Non-Statutory FTEs				
Operational Programs				
Reliability Standards	2.0	1.7	1.7	0.0
Compliance and Organization Registration and Certification	6.4	12.4	13.7	1.3
Reliability Readiness Audit and Improvement	0.4	0.3	0.5	0.2
Training and Education	0.4	0.4	0.6	0.2
Reliability Assessment and Performance Analysis	5.3	1.4	2.2	0.8
Situational Awareness and Infrastructure Security	0.4	0.6	1.5	0.9
Protocol Compliance	3.2	3.1	2.9	-0.2
Total FTEs Operational Programs	18.0	19.9	23.1	3.2
Administrative Programs				
General & Administrative*	7.0	5.4	7.9	2.5
Information Technology	0.0	0.0	0.0	0.0
Legal and Regulatory	0.0	0.0	0.0	0.0
Human Resources	0.0	0.0	0.0	0.0
Accounting	0.0	0.0	0.0	0.0
Total FTEs Administrative Programs	7.0	5.4	7.9	2.5
Total FTEs	25.0	25.3	31.0	5.7

* Personnel are included in G&A to be consistent with the expense budget. The expense budget was consolidated to maintain employee salary confidentiality. In several instances the dollars within the plan could be directly tied to one individual employee.

Statutory FTEs by Function

Total FTE's by Program Area	Budget 2008	Projection 2008	Budget 2009	Change from Projection
STATUTORY				
Operational Programs				
Reliability Standards	2.0	1.7	1.7	0.0
Compliance and Organization Registration and Certification	6.4	12.4	13.7	1.3
Reliability Readiness Audit and Improvement	0.4	0.3	0.5	0.2
Training and Education	0.4	0.4	0.6	0.2
Reliability Assessment and Performance Analysis	5.3	1.4	2.2	0.8
Situational Awareness and Infrastructure Security	0.4	0.6	1.5	0.9
Total FTEs Operational Programs	14.8	16.8	20.2	3.4
Administrative Programs				
General & Administrative*	4.5	4.0	6.7	2.7
Information Technology	0.0	0.0	0.0	0.0
Legal and Regulatory	0.0	0.0	0.0	0.0
Human Resources	0.0	0.0	0.0	0.0
Accounting	0.0	0.0	0.0	0.0
Total FTEs Administrative Programs	4.5	4.0	6.7	2.7
Total FTEs	19.3	20.8	26.9	6.1

* Personnel are included in G&A to be consistent with the expense budget. The expense budget was consolidated to maintain employee salary confidentiality. In several instances the dollars within the plan could be directly tied to one individual employee.

Non-Statutory FTEs by Function

Total FTE's by Program Area	Budget 2008	Projection 2008	Budget 2009	Change from Projection
NON-STATUTORY				
Operational Programs				
Protocol	3.2	3.1	2.9	-0.2
Total FTEs Operational Programs	3.2	3.1	2.9	-0.2
Administrative Programs				
General & Administrative	2.5	1.4	1.2	-0.2
Total FTEs Administrative Programs	2.5	1.4	1.2	-0.2
Total FTEs	5.7	4.5	4.1	-0.4

6 Additional Headcount for Texas RE

- **1 FTE – CIP Engineer/Analyst – Position required to support situation awareness and infrastructure security (2008 requirement)**
 - Texas RE expected to provide outreach and support to entities required to comply with CIP Standards.
 - Participate in NERC & FERC CIP-related initiatives.
 - Assist NERC in preparing the Critical Infrastructure Plan.

- **2 FTEs for Compliance Function**
 - There is a gap between the number of required hours to complete work and the number of hours available from existing staff (audits, compliance violation investigations, reliability analyses, and performance assessments).

- **1 FTE – Sr. Content Specialist (IT) – this position will assist the IT manager with maintenance on the new tools being implemented**
 - Web site maintenance & content management.
 - Data Management System & portal administration.

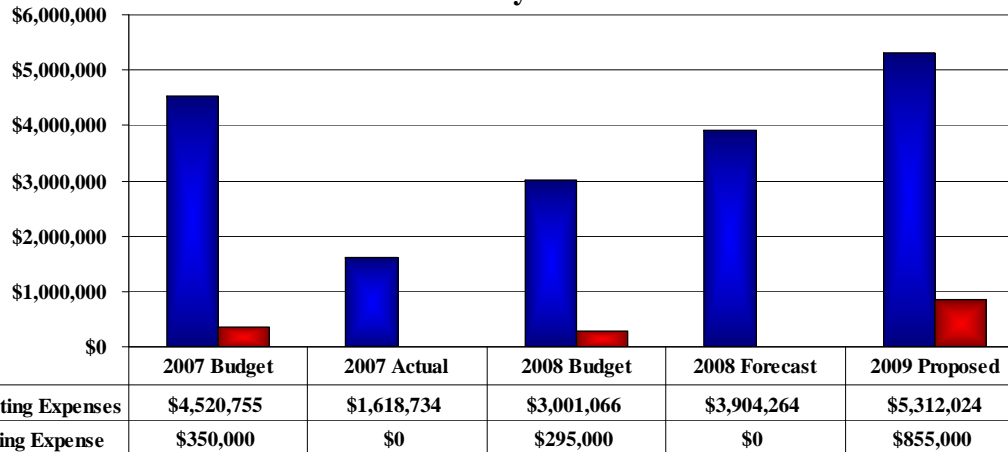
6 Additional Headcount for Texas RE (cont'd)

- **1 FTE – Legal Counsel – this position will assist the Director of Legal Affairs to manage the legal function**
 - Position is intended to reduce the need for the significant additional outside legal expense for appeals of confirmed violations and penalties anticipated for 2009 (other legal and regulatory work is not anticipated to decrease) .
 - The additional attorney will be hired only if and when reduction of outside legal will more than offset the cost .
 - Current (1st Q) actual outside counsel expense trends to \$250,000 annually – prior to any appeals of confirmed violations and penalties.

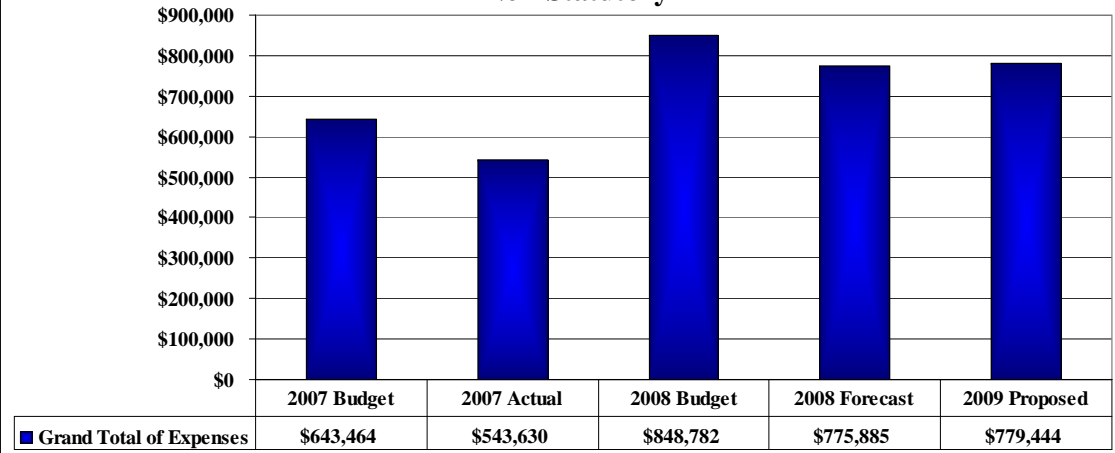
- **1 FTE – Performance Assessment and Reliability Analysis Engineer**
 - Help implement NERC's Situational Awareness Tool.
 - Extract and review system data to assess performance and compliance with NERC Reliability Standards.
 - Receive system information from ERCOT ISO and other Registered Entities related to system events and emergency conditions for analysis and reporting.

2009 Budget – Statutory & Non-Statutory Budget

Texas RE Financial Trends
Statutory

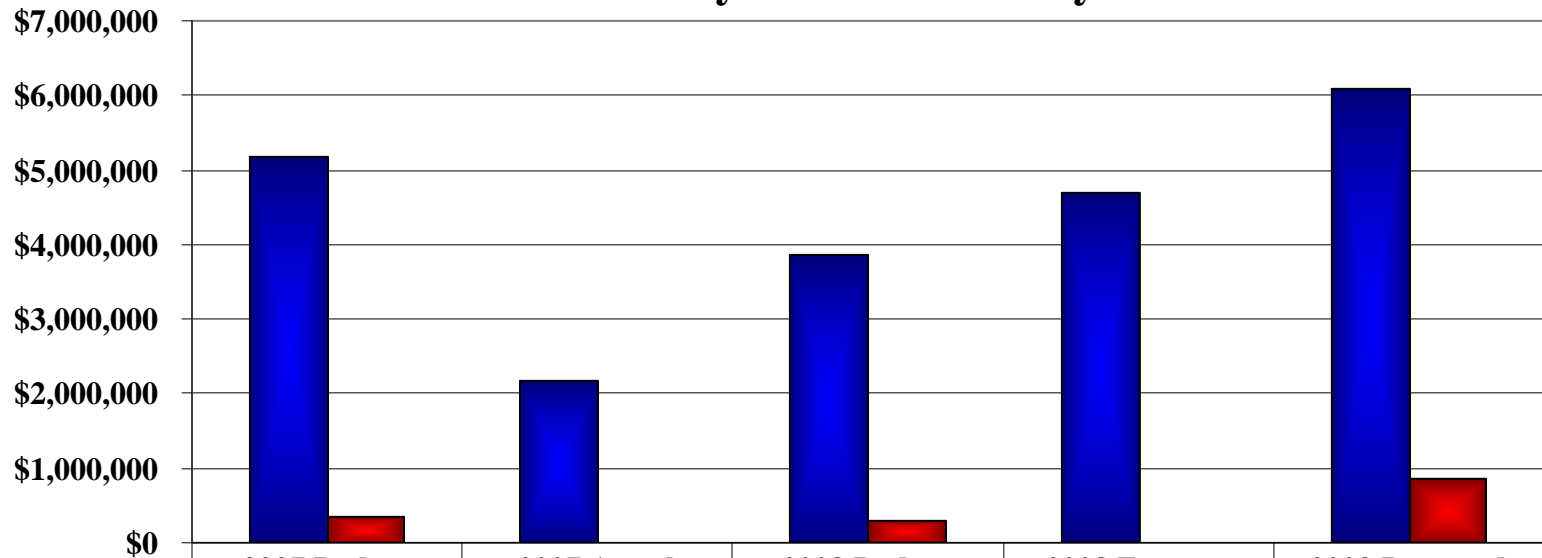


Texas RE Financial Trends
Non-Statutory



2009 Budget – Statutory & Non-Statutory

**Texas RE Financial Trends
Combined Statutory & Non-Statutory**



	2007 Budget	2007 Actual	2008 Budget	2008 Forecast	2009 Proposed
■ Total Operating Expenses	\$5,164,219	\$2,162,364	\$3,849,848	\$4,680,149	\$6,091,468
■ Non-Operating Expense	\$350,000	\$0	\$295,000	\$0	\$855,000

Texas RE – Estimated Funding Requirements

- The estimated funding requirement for the Statutory budget is:

2009 Budget	\$6,167,024
LESS Estimated Surplus Funds	<u>(1,800,323)</u>
Net Funding for 2009	\$4,366,701
Net Funding per MWH	\$0.0137

