

Date: May 13, 2008
To: Board of Directors
From: Larry Grimm, CCO
Subject: Approval of Memorandum of Understanding (MOU)

ERCOT Board of Directors Meeting Date: May 20, 2008

Agenda Item No.: 5c

Issue:

Approval of Texas RE's Memorandum of Understanding with Electric Reliability Council of Texas, Inc. (ERCOT).

Background/History:

Texas RE and ERCOT have negotiated a Memorandum of Understanding (MOU), with effective date January 1, 2008, which is attached hereto as Exhibit A and incorporated herein for all purposes, which sets forth the parties agreements regarding the facilities, information technology, finance, human resources, procurement, and other administrative services that ERCOT provides to Texas RE and for which Texas RE has agreed to pay ERCOT a rate that both companies believe to be reasonable. If approved by the Board, Texas RE and ERCOT will begin to immediately proceed under this MOU, with an effective date of January 1, 2008 (for accounting purposes). Texas RE and ERCOT anticipate Texas RE will pay ERCOT \$610,000 for services contemplated under this agreement for 2008. For 2007, prior to reaching a documented agreement, Texas RE paid ERCOT a fee of \$230,668.76 for rent and administrative services.

In Texas RE's 2009 Business Plan and Budget (which Texas RE submits to NERC and FERC for approval) Texas RE is required to identify and describe (1) any services it receives from ERCOT employees (other than Texas RE employees), (2) any employees Texas RE shares with ERCOT, and (3) any other shared expenses, reimbursement of expenses, or other payments Texas RE pays to ERCOT. These disclosures are required to allow NERC and FERC to review and confirm Texas RE's independence from ERCOT, since ERCOT is a registered entity. Texas RE intends to include this MOU (or a summary thereof) in its 2009 Business Plan and Budget, and include a disclosure of the MOU for 2008 with its next FERC financial compliance filing relating to its 2008 Budget. Texas RE anticipates the Finance & Audit Committee will recommend the Board approve this MOU.

Key Factors Influencing Issue:

- The requirement of NERC and FERC that Texas RE justify the cost of goods, leases, or services obtained from ERCOT
-

Alternatives:

- Approve the MOU
 - Modify MOU
-

Conclusion/Recommendation:

Texas RE respectfully requests the Board approve the MOU as negotiated with ERCOT.

RESOLUTION OF THE BOARD OF DIRECTORS OF
TEXAS REGIONAL ENTITY, A DIVISION OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

, 2008

WHEREAS, the Board of Directors of Texas Regional Entity, a division of the Electric Reliability Council of Texas, Inc., a Texas non-profit corporation ("Board") has reviewed the Memorandum of Understanding negotiated by Texas Regional Entity and Electric Reliability Council of Texas, Inc. with effective date January 1, 2008, which is attached hereto as Exhibit A and incorporated herein for all purposes, and has determined that the terms agreed to by the parties are reasonable; and

WHEREAS, the Board of Directors of Texas Regional Entity, a division of the Electric Reliability Council of Texas, Inc., a Texas non-profit corporation deems it desirable and in the best interest of Texas Regional Entity to approve this Memorandum of Understanding between Texas Regional Entity and Electric Reliability Council of Texas, Inc. ;

THEREFORE be it RESOLVED, that the Board hereby approves the Memorandum of Understanding which is attached hereto as Exhibit A.

CORPORATE SECRETARY'S CERTIFICATE

I, Susan Vincent, Corporate Secretary of Texas Regional Entity, do hereby certify that, at the
, 2008 Texas Regional Entity Board of Directors Meeting, the Board of Directors of Texas Regional Entity approved the above referenced resolution. The motion passed by
_____.

IN WITNESS WHEREOF, I have hereunto set my hand this day of , 2008.

Susan Vincent
Corporate Secretary

Exhibit A



**MEMORANDUM OF UNDERSTANDING BETWEEN
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
AND TEXAS REGIONAL ENTITY**

Effective: January 1, 2008

I. Introduction

Electric Reliability Council of Texas, Inc. (ERCOT) and Texas Regional Entity (Texas RE), an independent division of ERCOT, hereby enter into this Memorandum of Understanding (MOU) to set forth the agreed terms and conditions relating to the provision of administrative support services conducted by ERCOT staff for Texas RE.

To provide beneficial context and help comprehension, the elements of the MOU are grouped into three categories:

1. Texas RE Organization and Operations
2. Significant Accounting Policies
3. Detailed Transaction Accounting

II. Texas RE Organization and Operations

A. Texas RE performs two functions:

1. Statutory functions. Oversees development of and enforces compliance with North American Electric Reliability Corporation (NERC) Reliability Standards in the ERCOT Region (under federal law – EPCRA – also referred to as “Delegated Activities”), and
2. Non-statutory functions. Monitors, assesses, investigates, and reports on compliance with the ERCOT Protocols and Operating Guides (under Texas state law – Public Utility Regulatory Act (PURA) - also referred to as “PURA Compliance”).

B. Texas RE is an independent division of ERCOT, and Texas RE staff operates independently of ERCOT staff. Significant steps have been taken to clarify and demonstrate Texas RE’s independence from ERCOT, including the following:

1. The corporate Bylaws specify the independence and governance structure of the Texas RE division.
2. Texas RE has executed an Amended and Restated Delegation Agreement with NERC, which is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC).
3. The Delegation Agreement requires Texas RE to perform Statutory functions and authorizes Texas RE to perform Non-statutory functions.



4. The Delegation Agreement requires Texas RE to prepare an annual Business Plan and Budget which is separate from the annual budget prepared by ERCOT.
 5. Texas RE staff members must sign a Texas RE Ethics Agreement, agreeing to comply with ERCOT's code of conduct and conflict of interest, and confidentiality standards, and with the NERC Rules of Procedure.
 6. Texas RE staff members are technically ERCOT employees but report to the Texas RE chief executive officer and Chief Compliance Officer (CCO), who reports administratively to the Texas RE Board of Directors. Texas RE staff members do not report to or through the ERCOT CEO or any other ERCOT officers.
 7. Texas RE staff occupies a separate secured area from ERCOT staff, which is currently located in ERCOT's Austin Met Center facility.
 8. Texas RE staff possesses discretely formatted physical security access badges and have electronic access to a separate secure computer network drive.
 9. Administrative activity of Texas RE is overseen by the Texas RE Board of Directors, which conducts all meetings separately from the ERCOT Board and committee meetings.
 10. Texas RE and ERCOT will attempt to resolve any concerns or disputes through cooperation and then via escalation within their respective organizations. Any remaining disputes or disagreements will be presented to the Board of Directors or the appropriate Board committee for resolution.
 11. Texas RE has hired an independent attorney (Director, Legal Affairs who reports to the CCO) and has retained independent outside legal counsel not associated with ERCOT.
 12. A separate filing system has been established for Texas RE invoices and accounting records.
- C. For administrative ease and in the interest of responsible cost control, ERCOT and Texas RE have agreed that Texas RE personnel will adhere to ERCOT policies, standards, and procedures (unless Texas RE has a specific applicable separate policy, standard or procedure). Both organizations have consistent codes of conduct, confidentiality, and conflicts standards.

III. Significant Accounting Policies

- A. Texas RE financial statements are prepared based on GAAP.
- B. The characteristics of Texas RE's transactions and relationship with NERC do necessitate regulatory accounting (FAS 71).
- C. The characteristics of Texas RE's transactions do not necessitate utilization of Other Comprehensive Basis of Accounting (OCBOA).



- D. Activity of Texas RE is recorded using ERCOT's standardized chart of accounts. However, the standard chart of accounts is cross referenced to the NERC System of Accounts (NSOA) (Exhibit 5: NERC System of Accounts). In addition, all Texas RE transactions are coded to one of two functional categories: Rules of Procedure (Statutory activity) or Other (Non-statutory activity).
- E. All Texas RE activity is recorded to one of a series of organizational departments deemed necessary by Texas RE. Texas RE currently has the following departments: Compliance Enforcement, Compliance Assessment, Standards Development, Finance, Information Technology, and Legal and Regulatory Affairs.
- F. Regarding delegated signature authority, Texas RE personnel generally will have signature authority consistent with provisions of ERCOT's Delegated Signature Authority Corporate Standard. More specifically, the Texas RE CCO has the same signature authority as ERCOT's CEO; Texas RE's Director, Legal Affairs will approve the CCO's time and requests for reimbursement of business expenses; and other Texas RE personnel will have signature authority based upon their employment grade.

IV. Detailed Transaction Accounting

- A. Accounting for balance sheet transactions.
 - 1. Cash.
 - a. Texas RE cash payments and cash receipts will be managed by ERCOT treasury personnel as a part of ERCOT's comprehensive cash management program.
 - b. Texas RE cash payments and cash receipts will be accounted for and tracked discretely from other ERCOT transactions.
 - 2. Accounts Receivable.
 - a. At the beginning of each calendar quarter, it is expected Texas RE will have a receivable from ERO equal to 25% of Texas RE's annual budget as approved by ERO and by FERC as a component of ERO's annual budget.
 - b. Texas RE may also have intermittent receivables relating to penalties and special assessments against registered entities.
 - 3. Fixed Assets.
 - a. Texas RE is not expected to have assets; however, on occasion it may be necessary for Texas RE to acquire or construct assets.
 - b. Computers and related hardware are assumed provided by ERCOT's Information Technology division and covered by allocation of information technology costs to Texas RE (discussed later in this MOU).



- c. Furniture, fixtures, tools, and equipment are assumed provided by ERCOT's facilities staff and the cost of usage by Texas RE personnel covered by a "Facilities Services Cost Allocation" or "Information Technology Service Cost Allocation" (discussed later in this MOU).

4. Accounts Payable and Accrued Liabilities.

- a. Texas RE vendor invoices and payments are processed by ERCOT's Accounting division.
- b. Texas RE vendor invoices are accounted for discretely as Texas RE transactions.
- c. Texas RE's account payable liability will be determined based on the discrete account coding distribution used to identify Texas RE transactions.

5. Debt.

- a. Texas RE is not expected to have debt borrowing.
- b. It is unlikely (due to the cash reserves maintained by Texas RE), but on occasion, Texas RE may require short-term borrowing for working capital and liquidity purposes. In such instances, it is assumed Texas RE will acquire needed funding from ERCOT. The transactions will be discretely accounted for and will clearly document a "due to ERCOT" liability on Texas RE financial schedules.

B. Accounting for Income Statement Transactions.

1. Revenue.

- a. Texas RE is expected to have three possible revenue sources:
 - i. Quarterly funding from the ERO, pursuant to the Delegation Agreement
 - ii. Penalty assessments
 - iii. Special assessments
- b. Texas RE is not a party to transactions relating to ERCOT's billing, collection, and processing of the ERO fee (assessed as \$0.0169 per MWh in 2007 in the ERCOT Region).

2. Salaries and Related Benefits.

- a. Texas RE personnel are employees of ERCOT and receive the same benefits as those made available to all ERCOT employees.
- b. Texas RE personnel are assigned to one of the departments established for the Texas RE division.



- c. Texas RE personnel will track time as Statutory or Non-statutory, as appropriate, to enable correct budgetary allocation under the Delegation Agreement.
 - d. Salary and employee benefit expenses will be recorded based on detailed time tracking information submitted by Texas RE employees and approved by Texas RE management.
3. Facility and Equipment Cost.
 - a. Most costs in this category will be allocated to Texas RE following the Facilities Service Cost Allocation (discussed later in this MOU).
 - b. If conference space required for planned Texas RE meetings is not available on ERCOT premises, the meetings will be arranged to be conducted at an offsite conference room facility acceptable to Texas RE personnel. The full cost of such meetings scheduled at third party operated conference facilities will be charged to Texas RE.
 - c. Conference space at ERCOT premises will be scheduled on a first come-first served basis. Texas RE will not be given preferential status when scheduling conference rooms and neither will Texas RE be at a disadvantage, relative to other employees of ERCOT, when attempting to schedule conference rooms in ERCOT facilities.
 - d. Other facility and equipment costs not covered by the Facilities Service Cost Allocation will be evaluated and accounted for on a transaction-by-transaction basis.
4. Consulting and Contractor Fees.
 - a. Texas RE will recognize contractor and consultant expenses based on purchase order and contract agreements Texas RE personnel authorize and execute.
5. Outside Legal Fees.
 - a. Texas RE will recognize outside legal expenses based on contract agreements and invoices Texas RE personnel execute and authorize.
6. External Audit.
 - a. Texas RE will be assessed the full incremental cost charged to ERCOT by ERCOT's independent audit firm for conducting audit testing and providing an audit opinion on Texas RE transactions, financial reports filed with NERC or FERC, or Texas RE financial statements.
7. Administrative and Other.



- a. Texas RE will recognize administrative and other costs as authorized and approved by authorized Texas RE personnel.
8. Interest.
- a. Texas RE will be credited with interest income based on Texas RE's average monthly cash balance and ERCOT's actual average monthly interest rate for the total of all ERCOT cash deposits.
9. Insurance.
- a. Texas RE will be assessed an allocated share of ERCOT insurance expense as a component of the Treasury and Credit (discussed later in this MOU).
10. Employee Expense Reimbursement.
- a. Texas RE will recognize employee business reimbursement expenses as they are incurred by Texas RE employees and approved for payment by Texas RE managers.
 - b. Expense reimbursement requests submitted by the Texas RE CCO will be approved by Texas RE's Director of Legal Affairs.
 - c. Texas RE personnel will follow the ERCOT Business Expense Reimbursement Corporate Standard.
11. Board of Director Fees.
- a. Unless the Board determines otherwise:
 - i. Texas RE will be assessed one-fourth of the annual retainer paid to ERCOT's unaffiliated Directors.
 - ii. Texas RE will be assessed one-fourth of reimbursable business expenses submitted by Board members.
 - iii. Texas RE will be assessed the applicable Texas RE Board and/or Committee Meeting fee (or Special Texas RE Board or Committee Meeting fee) for any such meeting; provided, however, that if the Board or Committee also meets on the same day for an ERCOT Board or Committee meeting, Texas RE will be assessed only one-fourth of such fee.
12. Support Department Allocations.
- a. Treasury and Credit
 - i. ERCOT's Treasury and Credit personnel provide a variety of services benefiting Texas RE including providing liquidity, cash management,



check signing, financial wire processing, and risk management services.

- ii. The cost allocation for the services will be \$72,000 per year (\$6,000 per month).
- iii. See Exhibit 1 for additional background information regarding the Treasury and Credit allocation.

b. Human Resources

- i. ERCOT's Human Resource personnel provide a variety of services benefiting Texas RE including recruitment and hiring, performance management, employee benefit administration, and employee training.
- ii. The cost allocation for base Human Resources services will be \$113 per employee per month.
 - (1) Assuming Texas RE maintains 25 employees each month in 2008, the annual base allocation to Texas RE would total approximately \$33,900.
 - (2) Assuming Texas RE maintains 30 employees each month in 2009, the annual base allocation to Texas RE would total approximately \$40,680.
- iii. Texas RE will also be allocated a recruiting charge for each new Texas RE staff member recruited by Human Resources staff or contractors. The charge allocated will be \$7,500 for each full-time position and \$3,750 for each intern position recruited by Human Resources. Texas RE management may elect to use an independent firm to recruit certain Texas RE positions. Texas RE will not be allocated a recruiting charge for positions for which ERCOT Human Resources staff is not involved in the recruiting process.
- iv. See Exhibit 2 for additional background information regarding the Human Resources allocation.

c. Procurement, Contract Negotiation, Administration and Strategic Sourcing

- i. ERCOT's procurement personnel provide a variety of services benefiting Texas RE including strategic sourcing of goods and services, vendor management, and contract negotiation and administration services.
- ii. The cost allocation for the services will be \$44 per month per contract administered, \$512 per month per purchase order issued following a request for proposal, and \$20 per month per purchase order not following a request for proposal.

- iii. See Exhibit 3 for additional background information regarding the procurement, contract administration, and strategic sourcing allocation.
- d. Accounting, Budget, Financial Analysis, and Payroll (ERCOT Department 114).
 - i. ERCOT's accounting, budget, and payroll personnel provide a variety of services benefiting Texas RE including financial statement preparation, regular and ad-hoc financial analyses, periodic and ad-hoc regulatory (federal and state) filing preparation, budget coordination and preparation, participation in ERO sponsored financial and budget meetings, payroll administration and processing, time tracking monitoring and reporting, vendor payments, billing and accounts receivable transaction processing, reimbursement of Texas RE business expenses incurred by Texas RE staff.
 - ii. The cost allocation for the services will be \$48,000 per year (\$4,000 per month).
 - iii. During 2008, ERCOT's Controller, Accounting Manager, Accounting Supervisor, and Budget Manager are expected to commit significant time and effort to the development, creation, and maintenance of unique accounting codes to support Texas RE. Time spent by these individuals on such organizational initiatives will be discretely tracked and charged to Texas RE at the standard labor rate (\$65 per hour). The time submitted must be approved by Texas RE management.
 - iv. See Exhibit 4 for additional background information regarding the accounting, budget, financial analysis, and payroll allocation.
- e. Facilities Services Cost Allocation.
 - i. ERCOT's facilities, physical security, and telecommunications network personnel provide a variety of services benefiting Texas RE including leased office space, rented storage space, utilities (electricity, water and wastewater service, fuel oil for backup generators, natural gas, and trash services), telecommunications services (local and long distance telephone service, conference bridge and conference call services, and Internet connectivity), maintenance services (building maintenance, grounds maintenance, custodial services, and building security services), office space remodeling, and office equipment.
 - ii. The facilities service cost allocation will be assessed as \$27.37 per year per square foot (\$2.28 per month per square foot) of space allocated to Texas RE.
 - (1) Based on current space utilization, it is expected the Facilities Service Cost Allocation to Texas RE will total approximately \$118,000 per year.

iii. See Exhibit 5 for additional background information regarding the facilities allocation.

f. Information Technology Services Cost Allocation

i. Employees of Texas RE will make use of software applications and hardware assets that are made available to all ERCOT staff but centrally administered by ERCOT's Information Technology (IT) staff. One significant cost incurred to provide hardware and software assets for the benefit and efficiency of ERCOT staff, including employees of Texas RE, relates to the proper maintenance and licensing of the hardware and software.

ii. The IT allocation will be approximately \$8,200 per Texas RE employee. Assuming Texas RE has 25 employees in 2008, the annual allocation to Texas RE would total approximately \$205,000, and assuming Texas RE has 30 employees in 2009, the annual allocation to Texas RE would total approximately \$246,000.

iii. See Exhibit 6 for additional background information regarding the Information Technology allocation.

g. ERCOT personnel assigned to ERCOT department other than those detailed above may also provide support to Texas RE. However, rather than systematically allocate a portion of the cost of such personnel to Texas RE, the appropriate support costs will be determined and charged to Texas RE on a case-by-case basis.

h. Any additional administrative services requested of, agreed to, and approved by ERCOT and Texas RE will be billed to Texas RE at the standard rate of \$65 per hour, which includes reimbursement for salary and benefits of the ERCOT staff person providing the services.

i. Other services requested by Texas RE will be priced as agreed by the ERCOT CFO and the Texas RE CCO.

j. Allocation amounts detailed above are valid in 2008 and for as long as Texas RE primarily conducts its business activity in ERCOT's Met Center facility and has no material changes to its staffing level, space needs, or service needs and ERCOT has no significant change in the costs incurred to provide services to Texas RE.

k. Allocation amounts established are subject to change if Texas RE vacates the Met Center facility, has a material change to its staffing level, space needs, or requires a material change in the level of service provided by ERCOT's support department personnel and ERCOT has no significant change in the costs incurred to provide services to Texas RE.

l. Allocation amounts established may be adjusted or cancelled given 60-day's notice and the agreement of the ERCOT CFO and the Texas RE CCO.



V. General Provisions

- A. All provisions in this MOU are subject to the availability of funds. ERCOT and Texas RE will commit to accomplish all provisions in this MOU to the best of their ability.
- B. This MOU is intended only to address how support services and other activities provided by ERCOT staff to Texas RE should be captured and presented in accounting records. This MOU is not intended to direct or bind any person outside ERCOT or Texas RE.
- C. This MOU neither expands nor is it in derogation of those powers and authorities vested in ERCOT or Texas RE by applicable law.

VI. Principle Contacts

ERCOT and Texas designate the contacts identified below. ERCOT or Texas RE may change their contact upon notice to the other party.

VII. Effective Date and Duration:

This MOU is effective January 1, 2008. It shall continue to be in effect until terminated by ERCOT or Texas RE.

Steve Byone
 Vice President, Chief Financial Officer
 Electric Reliability Council of Texas, Inc.
SByone@ercot.com

Date: _____

Larry Grimm
 Chief Compliance Officer
 Texas Regional Entity, an independent division of
 Electric Reliability Council of Texas, Inc.
Larry.Grimm@texasre.org

Date: _____

Exhibit 1
Texas RE - ERCOT Memorandum of Understanding
Treasury and Credit Services Cost Allocation

Base Allocation

ERCOT's treasury and credit personnel provide a variety of services benefiting the Texas RE including: credit management: finance and debt management; enterprise risk management, including insurance programs; and cash investments and banking services. Total allocations relating to treasury and credit personnel for 2008 are \$72,000.

Insurance

| Insurance Type | Allocation Basis | 2008 Allocation | Comment |
|----------------------|------------------|-----------------|---|
| D&O Premiums | 25% | \$ 56,756 | Tie allocation to allocated share of independent director fees. |
| Property | Square Feet | \$ 1,668 | Linked to square feet of space used by Texas RE staff. |
| Workers Compensation | Staff Count | \$ 3,593 | Cost assumed a function of headcount. |
| Other | Square Feet | \$ 1,002 | Linked to square feet of space used by Texas RE staff. |
| Total | | \$ 63,017 | |

Enterprise Risk Management

| | |
|--|--------------|
| Insurance Premiums Allocated to Texas TE | \$ 63,017 |
| Total ERCOT Insurance Premiums | \$ 1,691,547 |
| Proportion of Premiums Allocated | 3.73% |
| Annual ERM Cost | \$ 100,000 |
| ERM Cost Allocated to Texas RE | \$ 3,725 |

Treasury and Cash Management

| | |
|--|--|
| Treasury and Cash Management Costs | \$ 390,637 |
| Total ERCOT Costs | \$ 225,415,000 |
| Treasury and Cash Management Costs relative to Total ERCOT Costs | 0.17% Applied to each dollar spent by the Texas RE. For example if the the Texas RE spends \$3 million, the allocation for treasury and cash management services will total \$5,100 (\$3 million * 0.17%). |

Credit Management

No allocation of cost to Texas RE.

Exhibit 2
Texas RE - ERCOT Memorandum of Understanding
Human Resource Services Cost Allocation

Base Allocation

ERCOT's human resource personnel provide a variety of services benefiting the Texas RE including recruitment and hiring, performance management, employee benefit administration, and employee training. The cost allocation for the services will be \$113 per employee per month (calculation summarized below).

Assuming the Texas RE will have 30 employees throughout 2008, the base human resources allocation for the year is expected to total approximately \$40,680.

A summary of the tasks and services provided by human resource staff is listed below.

| | |
|--|-------------------|
| Total Human Resources expenses recorded in 2007 | \$ 1,129,000 |
| Less: | |
| Recruiting expenses (Account 65240) recorded in 2007 | \$ 24,000 |
| Estimated 2007 internal recruiting labor and benefits cost | \$ 140,000 |
| External 2007 recruiting cost (Vendor 2271) | \$ 55,363 |
| External 2007 recruiting cost (Vendor 2339) | \$ 81,669 |
| Adjusted Human Resources expenses recorded in 2007 | <u>\$ 827,968</u> |
| | |
| ERCOT employee count at January 1, 2007 | 591 |
| ERCOT employee count at January 1, 2008 | 625 |
| Average employee count in 2007 | 608 |
| | |
| Adjusted Human Resources expenses recorded in 2007 | \$ 827,968 |
| Average employee count in 2007 | 608 |
| Average annual human resource expense per ERCOT employee | \$ 1,362 |
| Average monthly expense per employee | \$ 113 |

Human Resources Task Descriptions

- Provide HR and organizational development support
- Define, create and manage HR strategy
- Develop succession and career plans
- Implement organizational changes
- Manage and coordinate board activities regarding human resources, compensation, benefits, and training
- Plan, organize, and facilitate ERCOT's annual member meeting
- Design, manage, and maintain compensation and benefits offered to ERCOT employees
- Prepare and distribute periodic internal reports on HR issues
- Prepare and distribute periodic external reports regarding HR issues (e.g. Annual EEO1, reports to external auditors, and schedules to benefits vendors)
- Develop, manage, and ensure compliance with human resource related policies, standards, and procedures
- Oversee and administer workforce benefits
- Oversee and administer workforce compensation
- Provide support to ERCOT's Strategic Review Team, Policy Review Team and other similar initiatives impacting ERCOT's workforce
- Create and review contracts and agreements relating to human resource issues
- Administer ERCOT's family medical leave program
- Coordinate and review annual filing with the Internal Revenue Service and Department of Labor
- Monitor and ensure benefit plan compliance
- Prepare and support internal audit requests related to benefits
- Coordinate and complete a quarterly review of 401(k) plan investment and recommend changes, if any
- Manage ERCOT's annual merit review process
- Complete an annual review of employee classification
- Manage and update (as necessary) job descriptions and position grading to ensure continued pertinence and consistency with the current job market
- Manage ERCOT's employee recognition and reward program
- Manage annual audit of ERCOT's benefit plans including preparation of work papers to support compensation audit requests
- Manage workforce relations and the employee life cycle
- Coordinate retention, moral, other social programs enjoyed by ERCOT staff

Exhibit 2
Texas RE - ERCOT Memorandum of Understanding
Human Resource Services Cost Allocation

Develop and administer orientation program for new employees and contractors
Evaluate, report on, and develop and undertake initiatives to influence workforce staffing and turnover trends
Manage employee relations including the on-boarding and off-boarding processes and performance management
Recruit, select and hire human resources (internal staff and contingent workers)
Manage relationships with benefits vendors
Develop and deliver training opportunities to ERCOT staff
Develop and administer ERCOT's centralized corporate training program
Complete an annual assessment of ERCOT's corporate training needs
Manage relationships with training vendors
Devise, prepare, and distribute corporate training metrics
Organize and administer performance management training
Organize and administer "respect at the workplace" training
Organize and implement diversity training
Organize and implement harassment training
Administer ERCOT's HR information system within the Lawson application
Configure, maintain, and manage new system modules and functionality to reflect changes in policy or improve efficiency of HR operations

Recruitment Allocation

The Texas RE will be allocated a recruiting charge for each new Texas RE staff member recruited by human resources staff or contractors. The charge allocated will be \$7,500 for each full-time position and \$3,750 for each intern position recruited by human resources staff or contractors working for human resources staff.

Texas RE management may elect to use an independent firm to recruit certain Texas RE positions. The Texas RE will not be allocated a recruiting charge for positions for which human resources staff is not involved in the recruiting process.

Exhibit 3 a
Texas RE - ERCOT Memorandum of Understanding
Procurement, Contract Administration and Strategic Sourcing Services Cost Allocation

Base Allocation

ERCOT's procurement and contract administration personnel provide a variety of services benefiting the Texas RE including: administering competitive processes such as request for proposal and request for information functions; managing vendor selection and evaluation processes; overseeing contract administration and compliance functions; and administering purchase order services. A summary of the tasks and services is listed below.

| Procurement, Contract Administration and Strategic Sourcing Task Descriptions |
|---|
| Prepare period status reports on procurement and contract administration activity |
| Establish, monitor and modify, as necessary, internal controls relating to procurement and contract administration |
| Provide assistance to the vendor payment process to ensure professional vendor relationships |
| Issue purchase orders and related documentation |
| Prepare requests for proposals, requests for information, requests for quote and similar procurement documentation |
| Evaluate vendor proposals to provide goods and/or services to ERCOT |
| Negotiate pricing terms with vendors |
| Develop sourcing options for goods and services |
| Administer the process to qualify vendors to conduct business |
| Manage vendor relationships with ERCOT including activity such as ensuring vendors possess necessary insurance coverages and remain on acceptable financial condition |
| Analyze vendor activity and performance to ensure contractual compliance among other reasons |
| Monitor contracts and alert business users of upcoming events such as expiration dates, renewal dates, or compliance issues |

Exhibit 3 b
Texas RE - ERCOT Memorandum of Understanding
Procurement, Contract Administration and Strategic Sourcing Services Cost Allocation

\$ 969,559 Total 2007 expense for department 112 - Procurement and Contract Administration

65% Percentage of Total 2007 expense for department 112 associated with Procurement

35% Percentage of Total 2007 expense for department 112 associated with Contract Administration

\$ 630,213 Amount of Total 2007 expenses for department 112 associated with Procurement

40% Percentage of cost associated with Procurement relating to RFP/PO transactions

60% Percentage of cost associated with Procurement relating to PO transactions (no RFP)

\$ 252,085 Amount of 2007 costs associated with RFP/PO transactions
41 Number of RFP/PO transactions in 2007

\$ 6,148 Assumed annual cost per RFP/PO transaction

\$ 512 Assumed monthly cost per RFP/PO transaction

\$ 378,128 Amount of 2007 costs associated with PO transactions (no RFP)
1,587 Number of PO transactions (no RFP) in 2007

\$ 238 Assumed annual cost per PO transaction (no RFP)

\$ 20 Assumed annual cost per PO transaction (no RFP)

\$ 339,346 Amount of Total 2007 expenses for department 112 associated with Contract Administration

650 Number of contracts being in 2007

\$ 522 Assumed annual cost per contract administered in 2007

\$ 44 Assumed annual cost per contract administered in 2008

Procurement Cost per Unit

Contract Administration Cost per Unit

Exhibit 4
Texas RE - ERCOT Memorandum of Understanding
Accounting, Budget, and Payroll Services Cost Allocation

Base Allocation

ERCOT's accounting, budget, and payroll personnel provide a variety of services benefiting the Texas RE including financial statement preparation, regular and ad-hoc financial analyses, periodic and ad-hoc regulatory (federal and state) filing preparation, budget coordination and preparation, participation in ERO sponsored financial and budget meetings, payroll administration and processing, time tracking monitoring and reporting, vendor payments, billing and accounts receivable transaction processing, reimbursement of Texas business expenses incurred by Texas RE staff.

During 2008, ERCOT's controller, accounting manager, accounting supervisor, and budget manager are expected to commit significant time and effort to the development, creation, and maintenance of unique accounting codes to support the Texas RE. Time spent by these individuals on such organizational initiatives will be discretely tracked and charged to the Texas RE at actual labor rates.

Accounting, budget, and financial analysis

| | | |
|---------------------|----|--------|
| 2008 cost per month | \$ | 2,000 |
| Months in the year | | 12 |
| 2008 allocated cost | \$ | 24,000 |

Payroll

| | | |
|---------------------|----|--------|
| 2008 cost per month | \$ | 2,000 |
| Months in the year | | 12 |
| 2008 allocated cost | \$ | 24,000 |

Exhibit 5 a
Texas RE - ERCOT Memorandum of Understanding
Facilities Services Cost Allocation

Cost per square foot

Square feet of ERCOT facilities
ERCOT facilities cost
2007 ERCOT facility cost per square foot

| | |
|--------------|---------------------------|
| 221,000 | |
| \$ 6,047,686 | |
| \$ 27.37 | per square foot per year |
| \$ 2.28 | per square foot per month |

Space directly occupied by Texas RE staff

2,526 **2,526**

Texas RE proportional share of common space in dedicated to the Texas RE and IMM

Square feet occupied by Texas RE staff
Square feet occupied by Independent Market Monitor staff
Square feet occupied by Texas RE and IMM staff

| | |
|-------|------|
| 2,526 | 73% |
| 936 | 27% |
| 3,462 | 100% |

Square feet of common space dedicated to the Texas RE and IMM staff
Texas RE's relative share of space occupied by Texas RE and IMM staff

684
73%

Texas RE's proportional share of common space dedicated to the Texas RE

499 **499**

Space directly occupied by Texas RE staff

3,025 **3,025**

Space directly occupied by IMM staff
Subtotal - Texas RE & IMM space in dedicated, secured area
Divided by Adjusted square footage in the Met Center

| | |
|--------|--|
| 1,120 | |
| 4,145 | |
| 45,000 | |

Texas RE's propotional share of Adjusted square footage in the Met Center

7%

Common area square footage in the Met Center (excluding common space dedicated to the Texas RE and IMM)

| | |
|--------|--|
| 19,153 | |
|--------|--|

Texas RE proportional share of common space not dedicated to the Texas RE and IMM

1,288 **1,288**

Grand Total of Texas RE Space and Common Space

4,313 **4,313**

Total square footage allocated for the Texas RE

| | |
|-------|-------------|
| 4,313 | square feet |
|-------|-------------|

Estimated facilities charge

| | |
|------------|-----------|
| \$ 118,015 | per year |
| \$ 9,835 | per month |

Exhibit 5 b
Texas RE - ERCOT Memorandum of Understanding
Facilities Services Cost Allocation

| Expense Description | Account | Dept | 2007 Actual |
|--|----------------|-------------|-------------------------|
| <u>Utilities</u> | | | |
| Electricity | 73120 | 325 | 1,422,453 |
| Fuel Oil | 73128 | 325 | 11,739 |
| Water/Gas/Sewer/Trash | 73160 | 325 | 75,272 |
| Subtotal - Utilities | | | <u>1,509,464</u> |
| <u>Rent</u> | | | |
| Office Rental | 67000 | 325 | 690,252 |
| Storage Rental | 67060 | 325 | 44,162 |
| Subtotal - Rent | | | <u>734,414</u> |
| <u>Telecom</u> | | | |
| Telephone - Local | 73080 | 330 | 182,230 |
| Telephone - Long Distance | 73085 | 330 | 103,072 |
| Internet Service | 73200 | 330 | 81,596 |
| Subtotal - Telecom | | | <u>366,897</u> |
| <u>Building Maintenance</u> | | | |
| Building Maintenance | 73180 | 325 | 185,116 |
| Building Maintenance | 73181 | 325 | 385,147 |
| Grounds Maintenance | 73182 | 325 | 64,666 |
| Custodial Service | 73183 | 325 | 228,803 |
| Misc Services | 73184 | 325 | 102,500 |
| Bldg Security Services | 73185 | 371 | 995,203 |
| Subtotal - Maintenance | | | <u>1,961,436</u> |
| <u>ERCOT Labor and Benefits</u> | | | |
| Facilities Staff | Various | 325 | 1,145,903 |
| Physical Security Staff | Various | 371 | 329,572 |
| Subtotal - Labor and Benefits | | | <u>1,475,475</u> |
| Total | | | <u>6,047,686</u> |

Exhibit 6

**Texas RE - ERCOT Memorandum of Understanding
Information Technology Services Cost Allocation**

Texas Regional Entity - IT Services Cost Breakdown

| Internal User Services | Per Annum | Per Month |
|--|------------------|------------------|
| <i>License & Maintenance related charges</i> | | |
| Microsoft | 675 | 56 |
| Oracle | 186 | 16 |
| Quest | 164 | 14 |
| Cisco | 103 | 9 |
| Altiris | 43 | 4 |
| Symantec | 26 | 2 |
| IBM | 144 | 12 |
| Lawson | 204 | 17 |
| Other | 173 | 14 |
| Total Technology Services | 1,719 | 143 |
| <i>Labor related charges</i> | | |
| IT Operations & Overhead | | |
| CIO Administration | 1,141 | 95 |
| IT Account Management | 444 | 37 |
| Enterprise Architecture | 17 | 1 |
| EIS | 116 | 10 |
| Corporate Applications | 1,029 | 86 |
| Web & Data Services | 22 | 2 |
| Database Administration | 56 | 5 |
| Release Management | 63 | 5 |
| Commercial Operations | 103 | 9 |
| SE&A | 724 | 60 |
| Storage Resources | 78 | 6 |
| WAN | 979 | 82 |
| Networking | 385 | 32 |
| Console Operations | 583 | 49 |
| IT Project Management | 330 | 27 |
| Total IT Operations & Overhead | 6,070 | 505 |
| Total Internal User Services | 7,789 | 649 |
| (per Employee/Annum) | | |
| Total for 30 Employees | 233,665 | 19,457 |
| Computer Hardware Lease | 11,880 | 990 |
| Total TRE IT Costs | 245,545 | 20,447 |

Internal User Services:

| | | |
|--------------------------|--------------------------|----------------|
| ▪ Desktop Services | Other: | |
| ▪ Corporate Applications | Audit-Paisley Consulting | 1,212 |
| ▪ Intranet | Hummingbird | 708 |
| ▪ Voice, Internet, WebEx | Aperture | 19,364 |
| ▪ Project Management | Informatica | 35,625 |
| | Sun IDM | 50,800 |
| | OSI - PI app | 34,775 |
| | | <u>142,484</u> |

Desktop Services:

The management of the desktop environment including labor, licenses, and support and maintenance fees paid to vendors in support of desktop services. Includes file storage and print services, data backup and restoration, helpdesk services, and other services in the support of maintaining file/print services and the desktop environment.

Corporate Applications:

These services fulfill the operational and maintenance requirements of ERCOT Corporate Applications Hardware and Software resources, thereby enabling and enhancing productivity of corporate operations. Applications include: AIM Service Desk, Aperture Vista, Altiris, Aperture View, Internal Audit Applications, Fund Transfer Wiring Tools, Hummingbird, Lawson (ERP function) MS Project Server, SharePoint Portal, and others.

Intranet:

These services fulfill the operational and maintenance requirements corporate Intranet, including content and infrastructure management

Voice, Internet, WebEx:

These services fulfill the operational and maintenance requirements of communications infrastructure that include Voice telephony, Internet Connectivity and web conferencing (WebEx)

Project Management:

These services fulfill the project, program and portfolio management requirements for Operations & Maintenance projects, related to both Zonal Market as well as Internal User services, thereby enabling / enhancing efficiency of project lifecycle