

TEXAS REGIONAL ENTITY STRATEGIC PLAN

~~October~~December 2008

Introduction

The Texas Regional Entity (RE) is an independent division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), a Texas non-profit corporation. In May 2007, Texas RE executed a Delegation Agreement with the North American Electric Reliability Corporation (NERC), the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC), pursuant to Section 215(c) of the Federal Power Act (FPA). In response to subsequent orders by the FERC, Texas RE and NERC signed an Amended and Restated Delegation Agreement on March 28, 2008.

In addition, pursuant to P.U.C. SUBST. R. 25.503, Texas RE monitors and reports to the Public Utility Commission of Texas (PUC) on material occurrences of non-compliance with ERCOT Protocols and Operating Guides (Protocols) that have the potential to impede ERCOT operations, or represent a risk to the reliability of the ERCOT Bulk Power System.

The purpose of Texas RE is to preserve and enhance reliability across the ERCOT Region by encouraging a culture of compliance among all users, owners, and operators of the ERCOT Bulk Power System. Texas RE's core delegated functions are the development of reliability standards, compliance monitoring and enforcement of all reliability standards, compliance monitoring of and reporting on Protocols, reliability coordination, studies and assessments, and training. The Texas RE has prepared this plan to provide strategic direction for Texas RE's activities in ~~2009~~2008 and beyond.

Mission

In order to fulfill its obligations, Texas RE will act in accordance with its Delegation Agreement, NERC Rules of Procedure, and the PUC-approved ERCOT Compliance Process to:

- Monitor, report, and enforce compliance with NERC Reliability Standards by all users, owners, and operators of the bulk power system in the ERCOT Region.
- Develop regional variances or standards which go beyond, add details to or implement NERC Reliability Standards.
- Monitor and report compliance with ERCOT Protocols by all Market Participants in the ERCOT Region.

Guiding Principles

Texas RE is committed to the following guiding principles, which will continue to guide its philosophies, practices, and operations:

- Independence – Texas RE will ensure clear independence from the ERCOT ISO and all ERCOT Market Participants and registered entities that are expected to comply with the reliability standards and Protocols, and will not be unduly influenced by the owners, operators, and users of the bulk power system being monitored.
- Ethics and Integrity – Texas RE will maintain the highest levels of professional and ethical conduct and integrity, and strive to exceed the expectations of those it serves.

- Inclusiveness – Texas RE will reach out to, encourage, and welcome the involvement of all industry participants.
- Fairness and Openness – Texas RE will embrace a philosophy of conducting its activities fairly, openly, and transparently to the extent possible under the Code of Conduct.
- Organizational Effectiveness and Efficiency – Texas RE is committed to using its resources in the most effective and efficient manner to be responsive to emerging challenges and fulfill its mission.

Strategic Drivers

Section 215 of the FPA established mandatory reliability standards and compliance obligations in the continental United States. FERC authorized NERC to develop standards for the reliable operation and planning of the bulk power system, to enforce compliance with those standards, and to conduct periodic assessments of the reliability and adequacy of the bulk power system. FERC further authorized NERC to delegate these responsibilities to eight Regional Entities through Delegation Agreements approved by FERC, and FERC provides oversight of the ERO and Regional Entity performance in the United States, pursuant to the FPA.

Since the adoption of §215 of the FPA authorizing FERC to establish an ERO, industry stakeholders have worked together with regulatory authorities to develop a consistent process and structure for the ERO. As the Self-Regulating Organization (SRO), the ERO develops standards for the reliable operation and planning of the bulk power system and enforces compliance with those standards. Under the legislation, FERC provides oversight of the ERO in the United States. The Texas RE supports and endorses the continued development and implementation of the SRO Model.

Each Regional Entity serves as an extension of NERC with a specific focus on assessment and enforcement of reliability standards within its respective region. As such, the Regional Entities are also the primary contacts with stakeholders. As a delegated Regional Entity, and pursuant to the terms of the Delegation Agreement between NERC and Texas RE, Texas RE is required to monitor, enforce, and assess compliance with mandatory reliability standards by all owners, operators, and users of the bulk power system in the ERCOT Region.

NERC, with input from the Regional Entities, stakeholders, and regulators, annually selects a subset of the NERC Reliability Standards and requirements to be actively monitored and audited in the NERC annual compliance program. Compliance is required with all NERC Reliability Standards whether or not they are included in the subset of Reliability Standards and requirements designated to be actively monitored and audited in the NERC annual compliance program. The Texas RE submits an Annual Implementation Plan for the subsequent year by November 1st of each year to NERC for approval that identifies all reliability standards to be actively monitored during each year, either including additional reliability standards selected by Texas RE to be actively monitored by Texas RE, and Texas RE's Annual Audit Plan is included in the Annual Implementation Plan.

The Texas RE monitors, enforces, and assesses compliance with mandatory reliability standards within the ERCOT Region as described in the Texas RE Compliance Monitoring and Enforcement Program. Texas RE also monitors, reports upon, and provides advice to the PUC if requested regarding compliance with the Protocols, as described in the ERCOT Compliance Process. This is accomplished through compliance monitoring and rigorous proactive compliance audits. The Texas RE has also developed a Regional Reliability Standards Development Process for the development, revision, withdrawal, and approval of Texas RE Reliability Standards for the ERCOT Region. These standards specifically apply to the reliable planning and operation of the bulk power system in the

ERCOT Region. Stakeholders are a significant voice in providing input for standards but must remain isolated from compliance reviews so that independence, integrity, and confidentiality of those reviews remain intact.

Strategic Objectives

Texas RE recognizes it has a major responsibility to promote the reliability of the ERCOT Bulk Power System. Texas RE will continue to identify reliability issues and their potential impact on future reliability and potential solutions or action items to address these issues.

Texas RE will continue to focus its efforts on the effective and efficient operation of its existing program areas, but will be open to expanding into other areas where Texas RE finds it necessary in order to improve reliability. In support of Protocol compliance, Texas RE will continue to emphasize compliance monitoring and reporting and will coordinate with the PUC and ERCOT market participants regarding the development of appropriate reliability compliance metrics for the Nodal Protocols, prior to the implementation of the Nodal market.

In support of NERC and ensuring the reliability of the bulk power system, Texas RE recognizes the need to, and benefit of, placing the greatest strategic focus over the next one to two years primarily on three key delegated functions:

- Regional Reliability Standards Development
- Compliance Monitoring and Enforcement
- Reliability Assessment and Performance Analysis

Management of these areas will be directed at improving performance, increasing efficiency, and raising the level of effectiveness of each program. Although particular focus will initially be placed on the above functions, Texas RE will continue to meet its obligations related to the remaining delegated functions as agreed upon in the FERC-approved Delegation Agreement between Texas RE and NERC. The Texas RE will continue to perform the statutory functions pursuant to the terms of the Delegation Agreement between NERC and Texas RE as well as non-statutory services related to ERCOT Protocol and Operating Guides compliance monitoring and reporting. These areas will be kept separate and there will be distinct funding regarding the activities determined to be statutory and in the furtherance of NERC's mission and activities that are determined to be non-statutory.

In addition,—Texas RE continues to believe that its ability to accomplish its mission is strengthened by the active involvement of industry participants. This involvement is most effective when relevant groups of industry representatives are directly involved with the activities of NERC and Texas RE program areas. Texas RE benefits from the expertise of industry participants, the results achieve greater support because of broad participation in their development, and the volunteers gain greater insight and understanding of current issues. Texas RE is committed to active participation by broad industry representation and on drawing requisite expertise from the industry and active participation on program tasks. Texas RE will coordinate industry participant activities to ensure consistency and effective performance.

Regional Reliability Standards Development

Texas RE is responsible for and will play a significant role in the development of reliability standards that apply to registered entities throughout its footprint. This delegated function has been an area of high focus during the initial transition period and will continue to be a core area of focus in the coming years. Texas RE will provide a forum and support for the development of necessary Regional

Reliability Standards. Along with the other Regional Entities, Texas RE supports consistency of standards and compliance enforcement across all regions. Texas RE Regional Reliability Standards will only be developed when there is clear and specific justification and rationale. A Regional Reliability Standard shall either be more stringent than a continent-wide Reliability Standard or shall be a regional difference that (a) addresses matters that the continent-wide Reliability Standard does not or (b) is necessitated by a physical difference in the bulk power system.

Compliance Monitoring and Enforcement

Through a rigorous program of monitoring, audits, assessments, investigations, mitigation activities, and the imposition of penalties and sanctions for non-compliance with reliability standards, Texas RE will strive to maintain a high level of reliable operation of the ERCOT Bulk Power System by its owners, operators, and users. Like Standards Development, the Compliance Monitoring and Enforcement delegated function has been an area of high focus during the initial transition period and will continue to be a core area of focus and competence in the coming years. Ensuring the reliable operation of the bulk power system will benefit all owners, operators, and users of the bulk power system, as well as consumers in the ERCOT Region.

Texas RE uses eight (8) different monitoring processes to collect information to confirm compliance with NERC Reliability Standards and the Protocols: Compliance Audits, Self-Certifications, Spot Checking, Investigations, Self-Reporting, Periodic Data Submittals, Exception Reporting, and Complaints.

The cornerstone of the Compliance Monitoring and Enforcement Program effort is the proper identification and registration of all owners, operators, and users of the ERCOT Bulk Power System. Registration is an activity that is delegated to Texas RE by the ERO and it requires significant review of the reliability functions performed by each entity to determine its applicability to the NERC registration criteria and Functional Model. The initial set of owners, operators, and users has been identified by the Texas RE. Further refinements of these registrations will be made to ensure proper alignment between the activities of the registered entities and the requirements of the Reliability Standards. This will likely result in a number of joint registration relationships. This is expected to result in a far more efficient and effective Compliance Monitoring and Enforcement Program.

Texas RE has implemented the Compliance Monitoring and Enforcement Program with a strong emphasis on independence, fairness, a high standard of ethics, and consistency. Although the Texas RE is obligated to levy financial penalties and sanctions as part of the enforcement efforts, emphasis has been on working with the registered entities to ensure compliance and mitigation of any non-compliance. These enforcement efforts must include reinforcing the importance of the Reliability Standards as well as emphasizing the importance of having a culture of compliance which includes positive behaviors and practices by registered entities.

Reliability Assessment and Performance Analysis

The Texas RE ensures that required annual assessments of expected bulk power system performance within the Texas RE footprint are completed. These include assessments of resource adequacy, short and long term transmission system assessments, and summer and winter assessments. These formal assessments are performed by the ERCOT ISO in collaboration with other entities involved in transmission and generation activities within the Texas RE footprint. Texas RE also assesses other issues impacting regional reliability and analyzes major system events and disturbances to determine root causes, lessons learned, and compliance with Reliability Standards.

Other Strategic Objectives

While the three key areas of strategic focus described in the prior section will have a major influence on Texas RE's activities over the next one to two years, there are additional issues that Texas RE will pay particular attention to as it fulfills its mission of preserving and enhancing bulk power system reliability across the ERCOT Region. Each of these issues could have a significant impact on Texas RE's operation in the future.

Human Resources

Texas RE, as well as the entire industry, is facing a shrinking resource pool as the number of qualified new entries into the industry is limited and current employees are nearing retirement age. Texas RE is competing with many other organizations for the same resources. This will require that special attention be paid to staffing issues and succession planning.

Critical Infrastructure Protection

Cyber and physical security, or Critical Infrastructure Protection (CIP), have become areas of increased focus across the industry. Although NERC has developed an initial set of standards to address issues associated with CIP, this area requires a different skill set, expertise, and way of thinking than has typically resided within the electric power industry. Texas RE will continue to play an active and key role during the implementation of the CIP Standards requirements by educating stakeholders and in assessing and ensuring compliance to the CIP Standards so that the bulk power systems are properly protected from intrusion and compromise at all times.

Technology and Tools

Texas RE will be open to fostering new technology solutions to better accomplish Texas RE's role related to data collection and analysis. Texas RE will play a valuable role in identifying technology development opportunities and the tools needed.

Conclusion

Successful implementation of this strategic plan, along with the subsequent program area work plans and annual business plans, will enable Texas RE to achieve its mission and vision in an effective and efficient manner. Although the direction described in this current Strategic Plan has been carefully developed and with due diligence, Texas RE and the entire industry are operating in a dynamic and rapidly changing environment.

Texas RE will face new and changing demands now and into the future. As such, Texas RE will continue to be flexible in implementing the steps necessary to achieve its mission and vision. This will likely require Texas RE to make internal changes to enhance its organizational effectiveness and efficiency including modifying its internal structure, reorganizing existing staff, and proposing increases in staff. Texas RE expects the strategic statements above will need to be reviewed, revised, and supplemented on an annual basis.