

2010 Texas Regional Entity Preliminary Budget Overview

Texas RE Board of Directors
May 19, 2009

Purpose of Today's Meeting

- **Review budget development schedule and timeline**
- **Discuss budget goals and assumptions**
- **Review preliminary budget**
- **Obtain feedback from Texas RE Advisory Committee**
- **No budget decision needed today**

2010 Texas RE Budget Development Schedule

- ✓ **April 21 – Review Preliminary Draft of 2010 Budget at Texas RE Advisory Committee**
- ✓ **May 8 – Draft #1 of Business Plan & Budget (BP&B) due to NERC**
- **May 19 – Texas RE Advisory Committee & Board Discussion of Draft #1 of BP&B**
- **May 29 – Draft #2 of BP&B due to NERC**
- **June 15 – Final Budget Approval Required by Texas RE Board**
- **July 8 – Final Texas RE Board-Approved BP&B due to NERC**

Texas RE Overarching Budget Goals - Summary

- **2010 will be the 3rd full year of operations for Texas RE.**
 - Programs and processes continue to evolve.
- **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.

2010 Base Budget Assumptions for Texas RE

- Texas RE will remain functionally separate from ERCOT ISO and will continue to receive administrative services and support from ERCOT ISO through a memorandum of understanding
- Texas RE will enhance its 60-day cash reserve established in 2009 with a 75-day cash reserve in 2010. Texas RE will possess unspent funds from the prior year that will offset this amount.
- Texas RE will use the remaining surplus funds from the prior year and any penalty funds received prior to July 1, 2009, to offset 2010 funding requirements.
- The Delegation Agreement requirements and NERC expectations will be constant. (No material changes will be required by either the NERC three-year assessment or the FERC audit).
- The number of registered entities is expected to remain fairly constant, except as specifically described herein (e.g. the Load-Serving Entity function) and the current audit frequency will remain constant.
- The number of contested enforcement and registration cases will remain low – one large or two small-to-mid-sized disputes in 2010.
- ERCOT ISO will continue to take primary responsibility for the research and preparation of the seasonal and long-term reliability assessments, with Texas RE responsible only for coordination and review of such assessments.

2010 Base Budget Assumptions (cont.)

- Increase in labor costs:
 - Merit increase of 3% and promotion increase of 1% assumed (consistent with ERCOT ISO assumptions).
 - Additional 2% increase for market adjustment to bring salaries in-line with industry standard.
 - Employee Benefits budget at 33% of salary.
 - Proposing to add 5 FTEs to Compliance.
- Increased Compliance staff required:
 - Additional and longer audits required, due to increased number of FERC-approved Reliability Standards (i.e. CIP Standard enforcement) and increased number of Registered Entities (i.e. LSE registration and possible TOP JROs).
 - Significant increased emphasis on situation awareness, cyber-security, and reliability assessments.
 - Increased Non-Statutory workload related to working with stakeholders and PUC to complete Nodal Protocol and Operating Guide metrics and required reports.

2010 Budget–Statutory & Non-Statutory - Summary

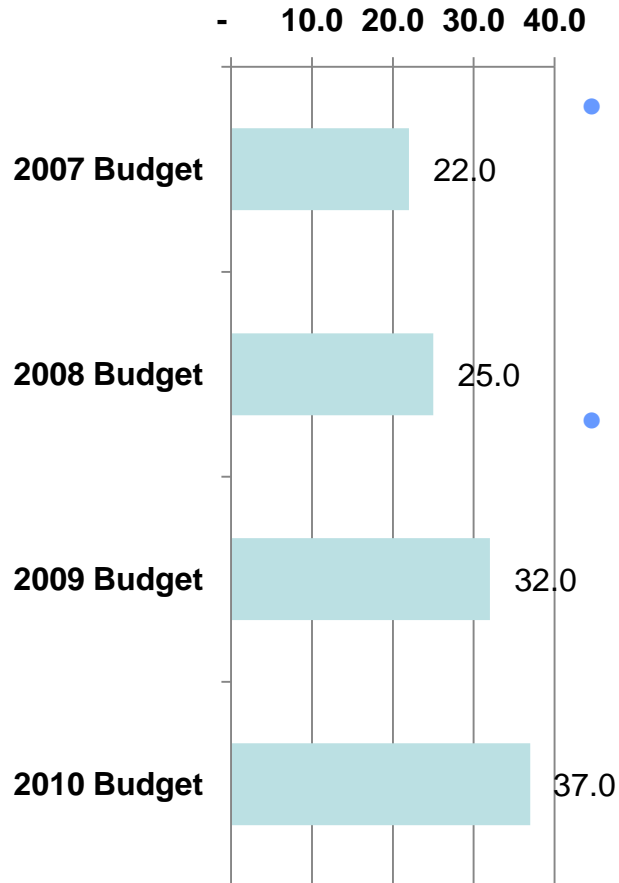
- **Personnel Expenses (Salary & Benefits) ~ \$973K ↑ 25%**
 - Increase associated with adding 5 staff (detailed under personnel increase section). Salary and Benefits Expense \$662K.
 - 4% merit + promotion (3% effective rate) and 2% market adjustment increases for existing staff. Salary and Benefits Expense \$273K.
 - Additional benefits expense \$37K for increase in benefits percentage from 32% to 33%.
- **Technology Related Costs**
 - **Compliance Portal and Web Hosting ~ \$158K ↑ 315%**
 - Portal will be in place all year and adds redundancy for portal and website to ensure adequate uptime.
 - **Capital Expenses (IT Tools and Other) ~ \$51K ↑ 16%**
 - IT capital projects to improve efficiency and consistency of compliance documentation and information exchange.
 - \$302K for portal projects, and \$50K for Document Management.
 - **Depreciation ~ \$103K ↑ 135%**
 - Due to additional capital projects in process as well as future capital projects.
- **Travel ~ \$78K ↑ 72%**
 - Increasing due to additional required travel related to NERC and FERC meetings and increased length and number of compliance audits.
- **MOU (ERCOT ISO) ~ (\$22K) ↓ 2%**
 - Increased MOU Expenses \$223K, offset by \$246K in reduced rent and facilities services in 2010.
- **Operations Training Seminar ~ \$110K ↑ 105%**
 - OTS expenses higher than 2009 budget due to move offsite from Met Center, but funded by attendees to the seminar.

5 Additional Headcount for Texas RE - Overview

- **1 FTE for Compliance Audit Function**
 - Longer audits, additional audit requirements, and additional registered entities
- **1 FTE – Critical Infrastructure Protection Subject Matter Expert**
 - CIP Standard enforcement begins in 2010
- **1 FTE – Stakeholder Management**
 - Respond more timely to organization registration questions, issues, changes, and concerns; manage registration appeals; facilitate and coordinate entity certifications; increased participation in reliability assessments process.
- **1 FTE – Compliance Enforcement**
 - Address anticipated increased enforcement activity due to CIP Standard enforcement and increased number of entity registrations; maintain acceptable procedural timelines
- **1 FTE – Situation Awareness**
 - Delegated function; stay current on ERCOT system conditions; maintain reasonable timeline for event review, compliance analysis, and Compliance Violation Investigations

Headcount Changes from 2007 to 2010

Texas RE Headcount



- **2007 → 2008 Increase 3.0 FTEs**

- 2.0 Senior Compliance Engineers due to the need to formalize and add granularity to the audit process.
- Added 1.0 paralegal to assist the legal counsel with board, regulatory, enforcement activities, and other legal requests.

- **2008 → 2009 Increase 7.0 FTEs**

- New, more granular audit process necessitated hiring additional staff to fulfill all audit requirements under CMEP. Compliance staff increased by 4.0 positions. Additionally, the number of scheduled spot checks (small audits) increased from 1 to approximately 15. Also, added 1 CIP staff.
- Added 1.0 legal counsel due to increases in legal and regulatory filings, requests for information, and general legal work. Added 1.0 position for IT to provide IT support and maintenance for compliance portal, website, and other IT tools to internal/external users. The IT staff person also assists the IT manager with changes to content or the tools.

- **2009 → 2010 Increase 5.0 FTEs**

- 2.0 FTEs for increasing needs in Compliance Enforcement & Situation Awareness. New staff are required to complete all required penalty assessments, analysis work and monitoring activities required under the CMEP.
- 1.0 Audit staff needed to accommodate increased workload for audit schedule. Audits are more complex and lengthened due to complexity.
- 1.0 staff requested for CIP, Texas RE Critical Infrastructure processes and procedures for CIP compliance audits need to be created and implemented before January 1, 2011 when all applicable registered entities will have to be CIP compliant.
- 1.0 staff for stakeholder management to create, maintain and communicate registration and certification processes internally and with registered entities; review and approve registration and certification submittals and activities; review Joint Registration Organization (JRO) agreements; point of contact for registered entities' questions and inquiries about NERC registration and certification

Combined FTEs by Function

Total FTE's by Program Area	Budget 2009	Projection 2009	Budget 2010	Change from 2009 Budget
COMBINED STATUTORY & NON-STATUTORY FTEs				
Operational Programs				
Reliability Standards	1.70	1.84	2.06	0.36
Compliance and Organization Registration and Certification	14.15	15.01	18.69	4.54
Training and Education	0.60	0.84	0.97	0.37
Reliability Assessment and Performance Analysis	2.20	2.15	2.29	0.09
Situational Awareness and Infrastructure Security	1.50	1.43	3.24	1.74
Protocol Compliance	3.85	4.05	5.03	1.18
Total FTEs Operational Programs	24.00	25.32	32.28	8.28
Administrative Programs *				
General & Administrative	2.90	2.87	2.01	-0.89
Information Technology	1.70	1.29	0.69	-1.01
Legal and Regulatory	2.55	1.67	1.17	-1.38
Finance & Accounting	0.85	0.85	0.85	0.00
Total FTEs Administrative Programs	8.00	6.68	4.72	-3.28
Total FTEs	32.00	32.00	37.00	5.00

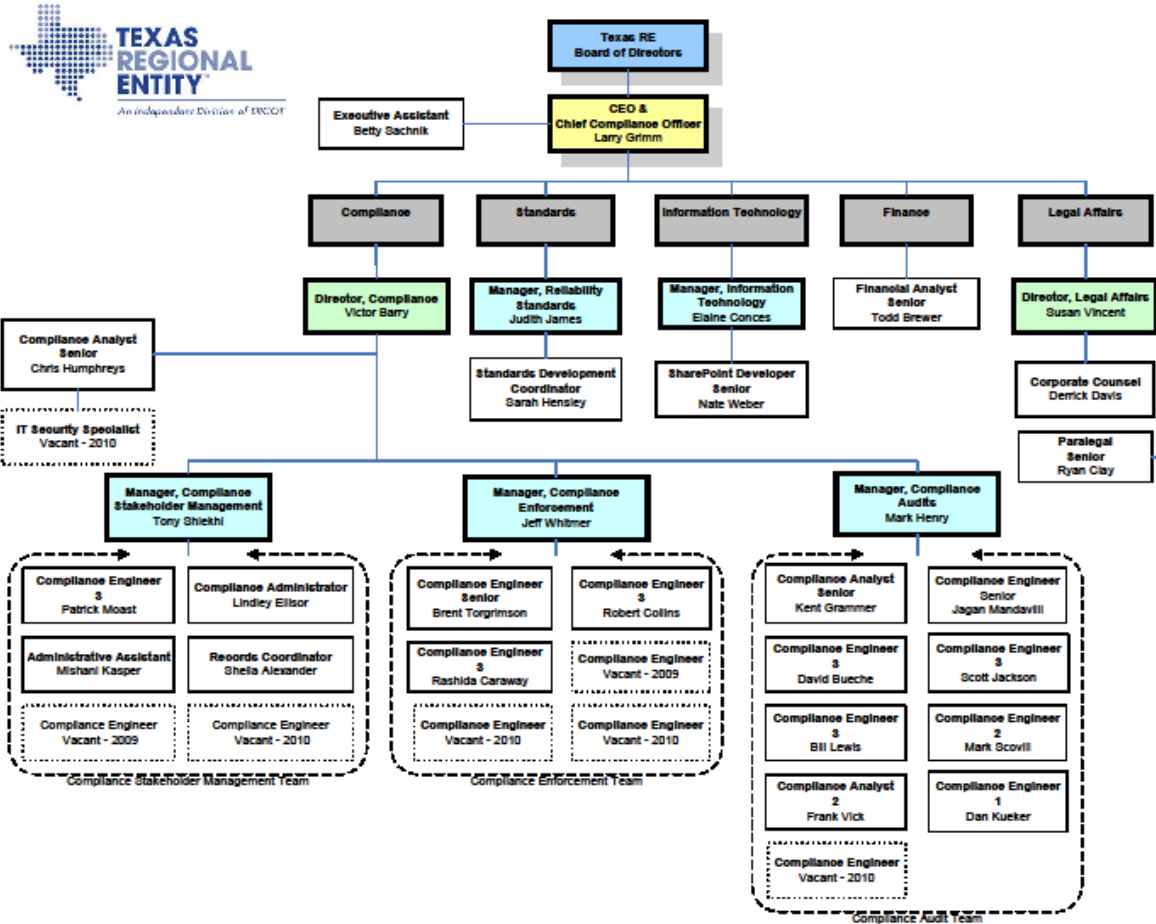
Statutory FTEs by Function

Total FTE's by Program Area	Budget 2009	Projection 2009	Budget 2010	Change from 2009 Budget
STATUTORY				
Operational Programs				
Reliability Standards	1.70	1.84	2.06	0.36
Compliance and Organization Registration and Certification	14.15	15.01	18.69	4.54
Training and Education	0.60	0.84	0.97	0.37
Reliability Assessment and Performance Analysis	2.20	2.15	2.29	0.09
Situational Awareness and Infrastructure Security	1.50	1.43	3.24	1.74
Total FTEs Operational Programs	20.15	21.27	27.25	7.10
Administrative Programs *				
General & Administrative	1.70	1.85	1.05	-0.65
Information Technology	1.70	1.29	0.69	-1.01
Legal and Regulatory	2.55	1.67	1.17	-1.38
Finance & Accounting	0.85	0.85	0.85	0.00
Total FTEs Administrative Programs	6.80	5.66	3.76	-3.04
Total FTEs	26.95	26.93	31.01	4.06

Non-Statutory FTEs by Function

Total FTE's by Program Area	Budget 2009	Projection 2009	Budget 2010	Change from 2009 Budget
NON-STATUTORY				
Operational Programs				
Protocol	3.85	4.05	5.03	1.18
Total FTEs Operational Programs	3.85	4.05	5.03	1.18
Administrative Programs				
General & Administrative	1.20	1.02	0.96	-0.24
Total FTEs Administrative Programs	1.20	1.02	0.96	-0.24
Total FTEs	5.05	5.07	5.99	0.94

2010 Proposed Base Budget Organization Chart



Combined Statutory & Non-Statutory Budget

Statement of Activities 2009 Budget & Projection, and 2010 Budget

STATUTORY & NON-STATUTORY COMBINED

	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Percent Variance	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)	Percent Variance
Funding							
ERO Funding							
ERO Assessments	\$ 3,430,700	\$ 3,430,700	\$ -	0.0%	\$ 6,179,602	\$ 2,748,902	80.1%
Penalty Sanctions ⁽¹⁾	-	-	-	-	-	-	-
Total ERO Funding	\$ 3,430,700	\$ 3,430,700	\$ -	0.0%	\$ 6,179,602	\$ 2,748,902	80.1%
Services & Software	871,997	790,989	(81,009)	-9.3%	1,140,184	268,187	30.8%
Workshops	70,000	174,029	104,029	148.6%	180,000	110,000	157.1%
Interest	-	4,125	4,125	100.0%	2,000	2,000	100.0%
Miscellaneous	-	-	-	-	-	-	-
Total Funding	\$ 4,372,697	\$ 4,399,843	\$ 27,145	0.6%	\$ 7,501,786	\$ 3,129,088	71.6%
Expenses							
Personnel Expenses							
Salaries	\$ 2,945,048	\$ 2,913,236	\$ (31,812)	-1.1%	\$ 3,669,365	\$ 724,317	24.6%
Payroll Taxes	235,604	225,184	(10,420)	-4.4%	290,609	55,005	23.3%
Benefits	305,571	231,502	(74,068)	-24.2%	395,715	90,144	29.5%
Retirement Costs	421,495	388,861	(32,634)	-7.7%	524,547	103,052	24.4%
Total Personnel Expenses	\$ 3,907,718	\$ 3,758,783	\$ (148,934)	-3.8%	\$ 4,880,236	\$ 972,519	24.9%
Meeting Expenses							
Meetings	\$ 105,000	\$ 157,394	\$ 52,394	49.9%	\$ 233,600	\$ 128,600	122.5%
Travel	109,651	122,027	12,376	11.3%	187,443	77,792	70.9%
Total Meeting Expenses	\$ 214,651	\$ 279,421	\$ 64,770	30.2%	\$ 421,043	\$ 206,392	96.2%
Operating Expenses							
Consultants & Contracts	\$ 527,382	\$ 636,774	\$ 109,391	20.7%	\$ 750,397	\$ 223,015	42.3%
Office Rent	635,750	340,364	(295,386)	-46.5%	390,000	(245,750)	-38.7%
Office Costs	18,760	27,175	8,415	44.9%	40,720	21,960	117.1%
Professional Services	515,900	634,631	118,731	23.0%	680,500	164,600	31.9%
Miscellaneous	11,160	14,193	3,033	27.2%	38,101	26,941	241.4%
Depreciation	76,540	106,246	29,706	38.8%	180,000	103,460	135.2%
Total Operating Expenses	\$ 1,785,492	\$ 1,759,383	\$ (26,109)	-1.5%	\$ 2,079,718	\$ 294,226	16.5%
Total Direct Expenses	\$ 5,907,861	\$ 5,797,588	\$ (110,273)	-1.9%	\$ 7,380,997	\$ 1,473,136	24.9%
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	
Other Non-Operating Expenses	\$ 885,000	\$ -	\$ (885,000)	-100.0%	\$ -	\$ (885,000)	-100.0%
Total Expenses	\$ 6,792,861	\$ 5,797,588	\$ (995,273)	-14.7%	\$ 7,380,997	\$ 588,136	8.7%
Change in Assets	\$ (2,420,163)	\$ (1,397,745)	\$ 1,022,418	-42.2%	\$ 120,789	\$ 2,540,952	-105.0%
Fixed Assets							
Depreciation	\$ (76,540)	\$ (106,246)	\$ (29,706)	38.8%	\$ (180,000)	\$ (103,460)	135.2%
Computer & Software CapEx	322,702	354,202	31,500	9.8%	373,500	50,798	15.7%
Change in Fixed Assets	\$ (246,162)	\$ (247,956)	\$ (1,794)	0.7%	\$ (193,500)	\$ 52,662	-21.4%
TOTAL CHANGE IN ASSETS	\$ (2,666,325)	\$ (1,645,701)	\$ 1,020,624	-38.3%	\$ (72,711)	\$ 2,593,614	-97.3%

(1) Reflects penalty sanctions collected prior to June 30, 2009.

Texas RE – Statutory Budget

Statement of Activities 2009 Budget & Projection, and 2010 Budget

STATUTORY

	2009		Variance	Percent	2010		Variance	Percent
	Budget	Projection	2009 Projection v 2009 Budget Over(Under)		Budget	2010 Budget v 2009 Budget Over(Under)		
Funding								
ERO Funding								
ERO Assessments	\$ 3,430,700	\$ 3,430,700	\$ -	0.0%	\$ 6,179,602	\$ 2,748,902	80.1%	
Penalty Sanctions ⁽¹⁾	-	-	-		-	-		
Total ERO Funding	\$ 3,430,700	\$ 3,430,700	\$ -	0.0%	\$ 6,179,602	\$ 2,748,902	80.1%	
Works hops	70,000	174,029	104,029	148.6%	180,000	110,000	157.1%	
Interest	-	4,125	4,125	100.0%	2,000	2,000	100.0%	
Total Funding	\$ 3,500,700	\$ 3,608,854	\$ 108,154	3.1%	\$ 6,361,602	\$ 2,860,902	81.7%	
Expenses								
Personnel Expenses								
Salaries	\$ 2,496,968	\$ 2,479,855	\$ (17,114)	-0.7%	\$ 3,071,829	\$ 574,860	23.0%	
Payroll Taxes	199,757	191,572	(8,186)	-4.1%	243,276	43,519	21.8%	
Benefits	259,628	194,305	(65,323)	-25.2%	330,632	71,004	27.3%	
Retirement Costs	356,523	329,576	(26,947)	-7.6%	439,742	83,219	23.3%	
Total Personnel Expenses	\$ 3,312,878	\$ 3,195,308	\$ (117,570)	-3.5%	\$ 4,085,480	\$ 772,602	23.3%	
Meeting Expenses								
Meetings	\$ 105,000	\$ 157,394	\$ 52,394	49.9%	\$ 228,000	\$ 123,000	117.1%	
Travel	107,470	117,528	10,057	9.4%	186,819	79,348	73.8%	
Total Meeting Expenses	\$ 212,470	\$ 274,922	\$ 62,452	29.4%	\$ 414,819	\$ 202,348	95.2%	
Operating Expenses								
Consultants & Contracts	\$ 490,986	\$ 539,074	\$ 48,088	9.8%	\$ 630,334	\$ 139,348	28.4%	
Office Rent	517,550	287,392	(230,158)	-44.5%	327,600	(189,950)	-36.7%	
Office Costs	18,280	26,581	8,301	45.4%	40,720	22,440	122.8%	
Professional Services	426,000	563,134	137,134	32.2%	622,625	196,625	46.2%	
Miscellaneous	11,160	13,943	2,783	24.9%	36,236	25,076	224.7%	
Depreciation	76,540	76,540	-	0.0%	150,000	73,460	96.0%	
Total Operating Expenses	\$ 1,540,516	\$ 1,506,664	\$ (33,852)	-2.2%	\$ 1,807,515	\$ 266,999	17.3%	
Total Direct Expenses	\$ 5,065,864	\$ 4,976,893	\$ (88,970)	-1.8%	\$ 6,307,813	\$ 1,241,949	24.5%	
Indirect Expenses	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	
Other Non-Operating Expenses	\$ 855,000	\$ -	\$ (855,000)	-100.0%	\$ -	\$ (855,000)	-100.0%	
Total Expenses	\$ 5,920,864	\$ 4,976,893	\$ (943,970)	-15.9%	\$ 6,307,813	\$ 386,949	6.5%	
Change in Assets	\$ (2,420,163)	\$ (1,368,039)	\$ 1,052,124	-43.5%	\$ 53,789	\$ 2,473,952	-102.2%	
Fixed Assets								
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	0.0%	\$ (150,000)	\$ (73,460)	96.0%	
Computer & Software CapEx	322,702	354,202	31,500	9.8%	306,500	(16,202)	-5.0%	
Change in Fixed Assets	\$ (246,162)	\$ (27,662)	\$ (31,500)	12.8%	\$ (156,500)	\$ 89,662	-36.4%	
TOTAL CHANGE IN ASSETS	\$ (2,666,325)	\$ (1,645,701)	\$ 1,020,624	-38.3%	\$ (102,711)	\$ 2,563,614	-96.1%	

(1) Reflects penalty sanctions collected prior to June 30, 2009.

Texas RE – Non-Statutory Budget

Statement of Activities 2009 Budget & Projection, and 2010 Budget

NON-STATUTORY

	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Percent Variance	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)	Percent Variance
Funding							
Services & Software	871,997	790,989	(81,009)	-9.3%	1,140,184	268,187	30.8%
Total Funding	\$ 871,997	\$ 790,989	\$ (81,009)	-9.3%	\$ 1,140,184	\$ 268,187	30.8%
Expenses							
Personnel Expenses							
Salaries	\$ 448,080	\$ 433,382	\$ (14,698)	-3.3%	\$ 597,536	\$ 149,457	33.4%
Payroll Taxes	35,846	33,612	(2,234)	-6.2%	47,333	11,486	32.0%
Benefits	45,942	37,197	(8,745)	-19.0%	65,083	19,140	41.7%
Retirement Costs	64,972	59,284	(5,687)	-8.8%	84,805	19,833	30.5%
Total Personnel Expenses	\$ 594,840	\$ 563,476	\$ (31,364)	-5.3%	\$ 794,757	\$ 199,917	33.6%
Meeting Expenses							
Meetings	\$ -	\$ -	\$ -		\$ 5,600	\$ 5,600	100.0%
Travel	2,181	4,500	2,319	106.3%	624	(1,557)	-71.4%
Total Meeting Expenses	\$ 2,181	\$ 4,500	\$ 2,319	106.3%	\$ 6,224	\$ 4,043	185.4%
Operating Expenses							
Consultants & Contracts	\$ 36,396	\$ 97,700	\$ 61,303	168.4%	\$ 120,064	\$ 83,667	229.9%
Office Rent	118,200	52,972	(65,228)	-55.2%	62,400	(55,800)	-47.2%
Office Costs	480	594	114	23.8%	-	(480)	-100.0%
Professional Services	89,900	71,497	(18,403)	-20.5%	57,875	(32,025)	-35.6%
Miscellaneous	-	250	250	100.0%	1,865	1,865	100.0%
Depreciation	-	29,706	29,706	100.0%	30,000	30,000	100.0%
Total Operating Expenses	\$ 244,976	\$ 252,720	\$ 7,743	3.2%	\$ 272,203	\$ 27,227	11.1%
Total Direct Expenses	\$ 841,997	\$ 820,695	\$ (21,302)	-2.5%	\$ 1,073,184	\$ 231,187	27.5%
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	
Other Non-Operating Expenses	\$ 30,000	\$ -	\$ (30,000)	-100.0%	\$ -	\$ (30,000)	-100.0%
Total Expenses	\$ 871,997	\$ 820,695	\$ (51,302)	-5.9%	\$ 1,073,184	\$ 201,187	23.1%
Change in Assets	\$ -	\$ (29,706)	\$ (29,706)	100.0%	\$ 67,000	\$ 67,000	100.0%
Fixed Assets							
Depreciation	\$ -	\$ (29,706)	\$ (29,706)	0.0%	\$ (30,000)	\$ (30,000)	100.0%
Computer & Software CapEx	-	-	-		67,000	67,000	100.0%
Change in Fixed Assets	\$ -	\$ 29,706	\$ 29,706	100.0%	\$ (37,000)	\$ (37,000)	100.0%
TOTAL CHANGE IN ASSETS	\$ -	\$ (0)	\$ (0)	0.0%	\$ 30,000	\$ 30,000	100.0%

Texas RE - Executive Summary

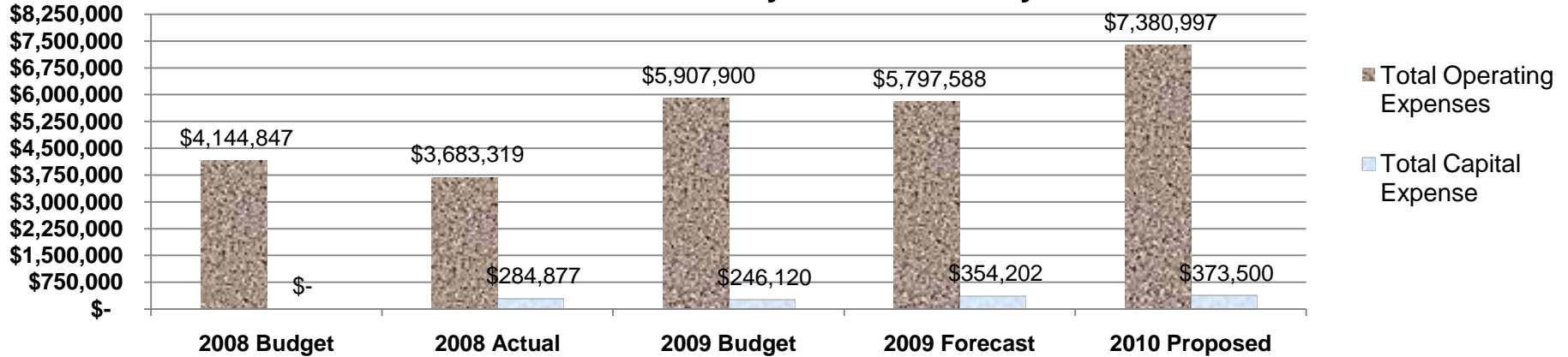
- **The estimated Statutory & Non-statutory funding requirement for the Texas RE budget is:**

2010 Budget (Total Expenses	\$7,754,497
Less: Unspent Prior Year Funds*	(102,711)
Plus: Non-Statutory Reserve	30,000
Less: Depreciation	<u>(180,000)</u>
Net Funding	\$7,501,786
Net Funding per MWH	\$.0231

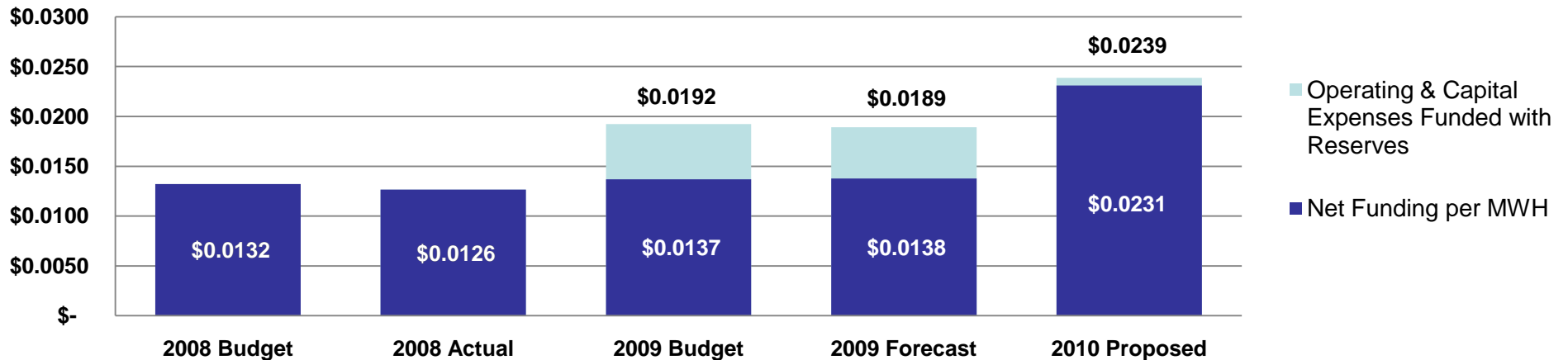
- * Statutory unspent funds balance (regulatory liability) is projected to be \$594K at the end of 2009. \$491K of that balance is being used in 2010 to increase the statutory cash on hand to 75 days. The grand total of the 75 day cash reserve will be \$1,346K at the end of 2010 (\$855K from 2009 & \$491K from 2010).

2010 Budget–Combined Statutory & Non-Statutory & Cost per MWH

Texas RE Financial Trends Combined Statutory & Non-Statutory

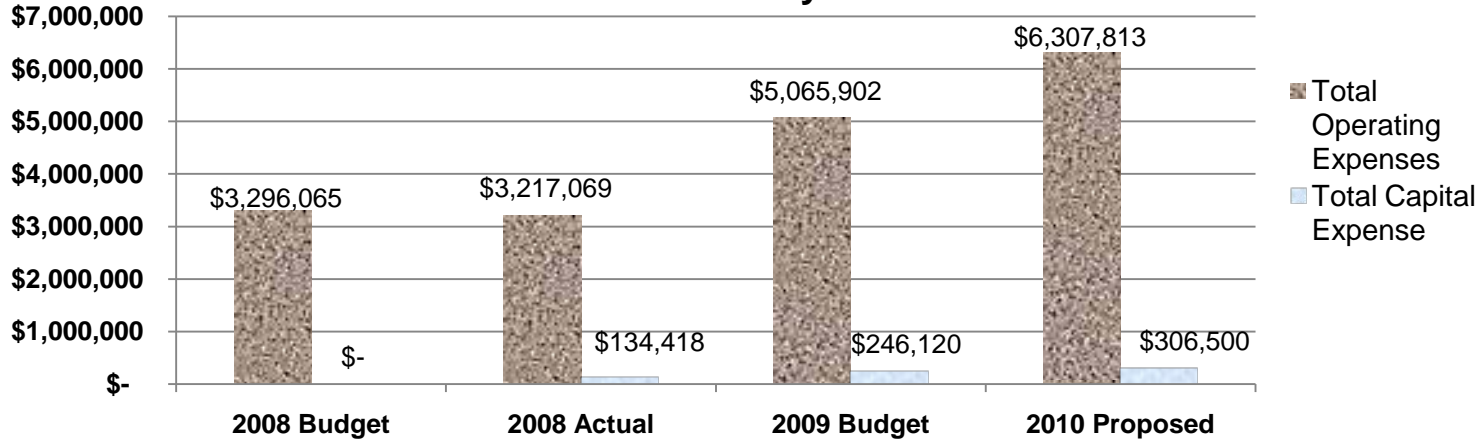


Total Funding per MWH

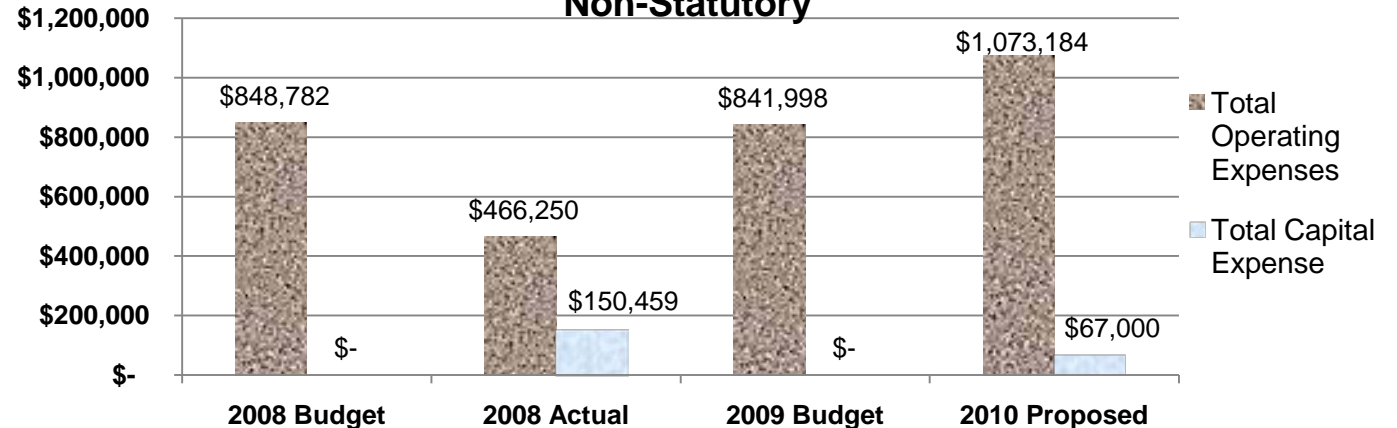


2010 Budget – Statutory & Non-Statutory Budget

Texas RE Financial Trends Statutory

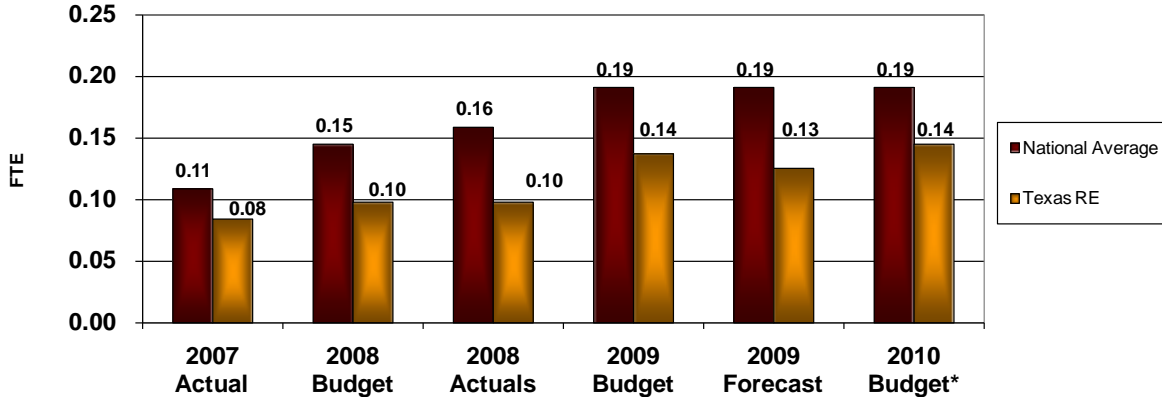


Texas RE Financial Trends Non-Statutory

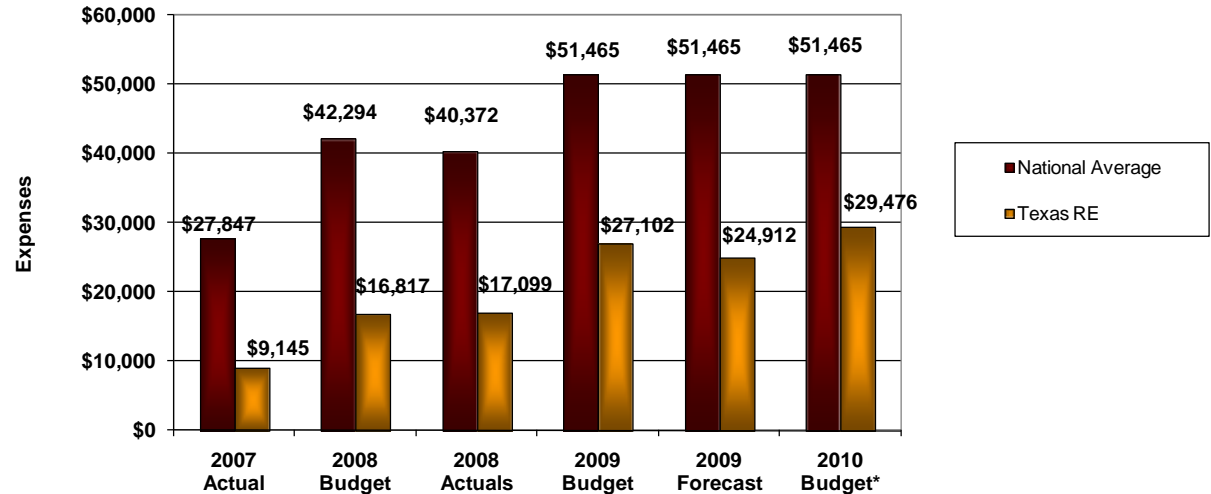


Budget Comparisons – Texas RE vs. Nat'l RE Avg.

Statutory FTE's per Registered Entity



Statutory Operating Expenses per Registered Entity



* Texas RE 2010 Budget, National Average
2009 Budget

2010 Texas RE Budget Overview

2010 Supplemental Budget

2010 Supplemental Budget

- **Personnel Expenses (Salary & Benefits) ~ \$657K ↑**
 - Increase associated with adding 6 staff for corporate services: 2 IT, 1 Members Forums, 1 Finance, 1 Legal, and 1 HR.
- **Consultants & Contracts ~ \$557K ↑**
 - Security \$24K, \$243K BOD Fees, \$266K IT Services, \$353K benefits administration, \$9K 401(k) Admin, \$70K Risk Management (Insurance Products), Board of Directors search fees \$250K, offset by elimination of MOU support, IT admin costs totaling \$750K in base budget.
- **Facilities & Related ~ \$72K ↓**
 - Expenses paid to ERCOT through the MOU for facilities, security, and facilities support would be eliminated once structurally separate from ERCOT ISO.
- **Office Costs ~ \$7K ↑**
 - Increased postage \$3K, forms printing for HR, Finance, etc. \$3K, and office supplies for 2 new FTEs \$1K
- **Professional Services ~ \$116K ↑**
 - Timekeeping system costs \$8K, Expense reporting system \$13K, Payroll and HR fees/systems \$30K, Internal audit and financial services \$50K, and Software maintenance for the accounting system \$3K.
- **Miscellaneous ~ \$14K ↑**
 - Bank fees for impacted payroll account.
- **Depreciation ~ \$172K ↑**
 - Increased depreciation expense for fixed asset purchases.
- **Fixed Assets ~ \$846K ↑**
 - IT equipment and software start-up \$527K
 - Accounting system purchase \$11K
 - Furniture and fixtures purchases \$308K

2010 Base & Supplemental Budget

Statement of Activities 2010 Budget - Supplemental							
STATUTORY & NON-STATUTORY COMBINED							
	2010 Base Budget	Start-Up Charges for 2010 Supplemental	Recurring Charges for 2010 Supplemental	Increases in Charges for 2010 Supplemental	Total 2010 Budget w/ Supplemental	Total Percent Increase	Recurring Percent Increase
Funding							
ERO Funding							
ERO Assessments	\$ 6,179,602	\$ 1,316,784	\$ 868,896	\$ 2,185,680	\$ 8,365,282	35.4%	14.1%
Penalty Sanctions ⁽¹⁾	-	-	-	-	-	-	-
Total ERO Funding	\$ 6,179,602	\$ 1,316,784	\$ 868,896	\$ 2,185,680	\$ 8,365,282	35.4%	14.1%
Services & Software	1,140,184	-	153,335	153,335	1,293,519	13.4%	13.4%
Workshops	180,000	-	-	-	180,000	0.0%	0.0%
Interest	2,000	-	-	-	2,000	0.0%	0.0%
Miscellaneous	-	-	-	-	-	-	-
Total Funding	\$ 7,501,786	\$ 1,316,784	\$ 1,022,231	\$ 2,339,015	\$ 9,840,801	31.2%	13.6%
Expenses							
Personnel Expenses							
Salaries	\$ 3,669,365	\$ -	\$ 494,000	\$ 494,000	\$ 4,163,365	13.5%	13.5%
Payroll Taxes	290,609	-	39,125	39,125	329,734	13.5%	13.5%
Benefits	395,715	-	53,275	53,275	448,990	13.5%	13.5%
Retirement Costs	524,547	-	70,620	70,620	595,167	13.5%	13.5%
Total Personnel Expenses	\$ 4,880,236	\$ -	\$ 657,020	\$ 657,020	\$ 5,537,256	13.5%	13.5%
Meeting Expenses							
Meetings	\$ 233,600	\$ -	\$ -	\$ -	\$ 233,600	0.0%	0.0%
Travel	187,443	-	-	-	187,443	0.0%	0.0%
Total Meeting Expenses	\$ 421,043	\$ -	\$ -	\$ -	\$ 421,043	0.0%	0.0%
Operating Expenses							
Consultants & Contracts	\$ 750,397	\$ 250,000	\$ 316,598	\$ 566,598	\$ 1,316,995	75.5%	42.2%
Office Rent	390,000	-	(72,000)	(72,000)	318,000	-18.5%	-18.5%
Office Costs	40,720	-	7,200	7,200	47,920	17.7%	17.7%
Professional Services	680,500	16,500	99,913	116,413	796,912	17.1%	14.7%
Miscellaneous	38,101	-	13,500	13,500	51,601	35.4%	35.4%
Depreciation	180,000	-	171,961	171,961	351,961	95.5%	95.5%
Total Operating Expenses	\$ 2,079,718	\$ 266,500	\$ 537,172	\$ 803,671	\$ 2,883,389	38.6%	25.8%
Total Direct Expenses	\$ 7,380,997	\$ 266,500	\$ 1,194,192	\$ 1,460,691	\$ 8,841,688	19.8%	16.2%
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%	0.0%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%	0.0%
Total Expenses	\$ 7,380,997	\$ 266,500	\$ 1,194,192	\$ 1,460,691	\$ 8,841,688	19.8%	16.2%
Change in Assets	\$ 120,789	\$ 1,050,284	\$ (171,961)	\$ 878,323	\$ 999,112	727.2%	-142.4%
Fixed Assets							
Depreciation	\$ (180,000)	\$ -	\$ (171,961)	\$ (171,961)	\$ (351,961)	95.5%	95.5%
Computer & Software CapEx	373,500	846,000	-	846,000	1,219,500	226.5%	0.0%
Change in Fixed Assets	\$ (193,500)	\$ (846,000)	\$ 171,961	\$ (674,039)	\$ (867,539)	348.3%	-88.9%
TOTAL CHANGE IN ASSETS	\$ (72,711)	\$ 204,284	\$ -	\$ 204,284	\$ 131,573	281.0%	0.0%

(1) Reflects penalty sanctions collected prior to June 30, 2009.

Combined FTEs by Function-2010 Supplemental

Total FTE's by Program Area	2010 Base Budget	2010 Supplemental Budget	2010 Combined Budget	Change from Base Budget
COMBINED STATUTORY & NON-STATUTORY FTEs				
Operational Programs				
Reliability Standards	2.06	0.00	2.06	0.00
Compliance and Organization Registration and Certification	18.69	0.00	18.69	0.00
Training and Education	0.97	0.00	0.97	0.00
Reliability Assessment and Performance Analysis	2.29	0.00	2.29	0.00
Situational Awareness and Infrastructure Security	3.24	0.00	3.24	0.00
Protocol Compliance	5.03	0.00	5.03	0.00
Total FTEs Operational Programs	32.28	0.00	32.28	0.00
Administrative Programs				
Members Forums & Technical Committees	0.00	1.00	1.00	1.00
General & Administrative	2.01	0.00	2.01	0.00
Information Technology	0.69	2.00	2.69	2.00
Legal and Regulatory	1.17	1.00	2.17	1.00
Human Resources	0.00	1.00	1.00	1.00
Finance & Accounting	0.85	1.00	1.85	1.00
Total FTEs Administrative Programs	4.72	6.00	10.72	6.00
Total FTEs	37.00	6.00	43.00	6.00

Looking on the Horizon – Unknown Items

- **Structural or Functional Separation**
- **Appeals/Hearings**
- **Compliance Violations Investigations**
- **TOP Joint Registrations**
- **LSE Registrations**
- **Outcomes of Texas RE's FERC Audit & New FERC Directives**
- **Nodal Protocol Metrics and New PUC Directives**
- **Critical Infrastructure Protection**
- **Situational Awareness and Reliability Assessment**

2010 Texas RE Budget Overview

Appendix

2 Additional Headcount for Compliance Enforcement Function

- **(2) Compliance Engineer/Analyst III – 1 Situation Awareness & 1 Compliance Enforcement**
 - Event Review, Analysis and Investigations; Compliance Violation Investigation's; Violation Verification from all 8 Compliance Processes; Protocol and Operating Guide Violation Verification; Complaint Analysis; Mitigation Plan Review, Approval and Verification; Penalty and Settlement Development and Processing; Support of NERC in Case Development (Notice of Confirmed Violation and Notice of Penalty); Situational Awareness Development.
 - Current staff levels and workload don't allow for timely completion of the tasks associated with compliance processes. The volume and documentation requirements for each of these processes continues to increase, even as these processes are better defined.
 - Position will help maintain reasonable timelines in performing each of the process tasks; the durations to complete the processes listed will continue to increase.

1 Additional Headcount for Compliance Audit Function

- **Compliance Engineer/Analyst III**

- Increases available staff for auditing and audit support functions. In particular, it will enable the emerging cyber security standards spot check audits targeted for the second half of 2010, in preparation for huge expansion of this work at the start of 2011.
- Audit workload is increasing, most audits since late 2008 are requiring three full days. With additional and revised NERC standards, we see this as a sustained level of effort that may increase further. The CIP material will be a prominent part of this.
- Provides additional labor hours to the team for auditing and associated duties of the audit team, suggested by our review of audit workload and estimates of the time needed.
- Work in the past six months shows a clear trend to longer audits, and other staff has provided extensive support during this period. Much supporting work (e.g. process improvement, procedure refinement) and training have been deferred. Nonstandard labor hours (above 40 per week) are documented.

1 Additional Headcount for CIP Function

- **IT Security Specialist – Critical Infrastructure Protection**

- CIP Standards become enforceable in 2010.
 - ERCOT ISO registered as TOP, RC, & BA must comply.
 - On-site audit of the ERCOT ISO to be conducted (41 requirements).
- NERC/FERC expectations remain unclear and are evolving – but we know the emphasis will be on more activity and rigor vs. less.
 - Spot checks
 - Critical Assets
 - Self-certifications
 - Audit cycles
- CIP Standards become enforceable in 2011 for ~40 additional Registered Entities (still evolving due to definition of “Critical Assets”).
- Expect CIP compliance audits to be similar to current compliance audits with respect to length, resource needs, and rigor.

1 Additional Headcount for Stakeholder Management Function

- **Compliance Engineer/Analyst III**

- **Oversee and implement NERC Registration and Certification process**
 - Create, maintain and communicate Registration and Certification processes internally and with Registered Entities
 - Review and approve Registration and Certification submittals and activities
 - Review Joint Registration Organization (JRO) agreements
 - Point of contact for Registered Entities' questions and inquiries about NERC Registration and Certification
- **National Coordination**
 - Work with other Regional Entities and NERC to maintain consistency and coordination
 - Represent Texas RE in regional and national meetings
 - Point of contact for NERC for Registration and Certification questions and manages the creation of special reports
- **Will allow increased participation in reliability assessments program and ERCOT Regional Planning Process.**