

Date: June 8, 2009
To: Texas RE Board of Directors
From: Larry Grimm, Texas RE CEO and CCO
Subject: Approval of Supplemental Budget for Texas RE Separation

Texas Regional Entity Board of Directors Meeting Date: June 15, 2009

Agenda Item No.: 5c

Issue:

If legal separation of Texas Regional Entity (Texas RE) from Electric Reliability Council of Texas, Inc. (ERCOT) is approved and intended by early 2010, Texas Regional Entity seeks approval of a supplemental budget for start up expenses and 2010 on-going expenses for the new separate legal entity.

Background/History:

If Texas RE intends to become legally separate from ERCOT by early 2010, Texas RE could be required to expend more money than is currently contemplated by its approved 2009 Business Plan and Budget, and Texas RE will be required to expend more than is proposed by its 2010 Business Plan and Budget. Texas RE might need to begin to expend additional funds in 2009, for some of the required new entity start-up costs, to prepare for a possible January 1, 2010 separation date. Most of the additional funds will be expended in 2010 for final implementation and operation of the newly separated Texas RE legal entity.

The Texas RE Board of Directors (Board) has responsibility to adopt an adequate budget for Texas RE's Statutory and Non-Statutory activities. FERC and NERC require the Statutory portion of the Texas RE 2009 and 2010 budgets to be sufficient to enable Texas RE to fulfill its obligations under its Delegation Agreement with NERC and include reasonable reserve funding for unforeseen and extraordinary expenses and other contingencies - consistent with Generally Accepted Accounting Principles.

Texas RE staff estimates that, if it plans to legally separate effective January 1, 2010, it will require \$1,143,286 of additional budget for start up costs and additional budget of \$1,297,719 for 2010 on-going operational expenses to operate as a legally separate entity. These estimates assume Texas RE will continue to perform the same Statutory and Non-Statutory activities that it performs in 2009. If this additional budgetary amount is all added to Texas RE's 2010 proposed Business Plan & Budget, it would cause Texas RE to have a total 2010 budget of \$11,666,136.

In order for Texas RE to separate as of January 1, 2010 (or even the first quarter of 2010), Texas RE staff needs to expend funds not anticipated in its 2009 Budget & Business Plan during 2009, for start-up expenses. Texas RE has \$855,000 in reserves for 2009 and estimates that it will have unspent funds for 2009 of approximately \$593,982 from its 2009 budget. Texas RE believes that, given the timing of any Board action on separation, it will need to expend less than the \$855,000 in reserves during 2009 for a January or first quarter 2010 separation.

Texas RE must obtain formal approval from NERC and FERC for any supplemental funds; therefore, once the Board makes a separation decision, Texas RE will work with NERC to prepare needed filings with FERC for approval of a supplemental 2010 Business Plan & Budget and any needed supplemental 2009 budget. Texas RE intends to file a supplemental 2010 budget request with FERC later in 2009, along with Texas RE's proposed Amended Delegation

Agreement and bylaws, to operate as a separate legal entity. If any portion of the supplemental funds is needed as a 2009 supplemental budget request, Texas RE will coordinate the needed FERC filings with NERC.

Key Factors Influencing Issue:

Texas RE must have adequate and sufficient funds in 2009 and 2010 to:

- Properly complete all activities required by the Delegation Agreement with NERC
- Properly complete all Protocol and Operating Guide compliance responsibilities
- Have reasonable reserve funding for unforeseen and extraordinary expenses and other contingencies

Alternatives:

- Approve the supplemental Texas RE 2010 budget.
 - Modify and approve the modified supplemental Texas RE 2010 budget.
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Conclusion/Recommendation:

Texas RE respectfully requests the Board approve the supplemental budget for Texas RE Texas RE to operate as a legally separate entity in 2010, in the amount of \$2,441,005.

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

, 2009

WHEREAS, the Board of Directors (“Board”) of Texas Regional Entity, a division of the Electric Reliability Council of Texas, Inc. (ERCOT), a Texas non-profit corporation, has determined it to be desirable and in the best interest of Texas Regional Entity to become a separate legal entity from ERCOT; and

WHEREAS, the Board deems it desirable and in the best interest of Texas Regional Entity to expend funds which were not included in the Texas RE 2009 or 2010 Business Plans & Budgets to implement the legal separation of Texas Regional Entity in 2009, with the goal of separating Texas Regional Entity from ERCOT by January 1, 2010; and

WHEREAS, the Board deems it appropriate to approve a supplemental budget for Texas Regional Entity in the amount of \$2,441,005, to supplement the amount included in its 2010 Business Plan and Budget for start-up costs needed for Texas Regional Entity to legally separate from ERCOT and for the 2010 operation of the legally separated Texas Regional Entity, subject to approval by NERC and FERC; and

WHEREAS, the Board deems it appropriate for Texas Regional Entity to use its 2009 cash reserves and/or certain unspent funds to begin to pay for the start-up costs, pending funding of the start-up costs through an additional NERC fee, subject to NERC and FERC approval;

THEREFORE be it RESOLVED, that the Board hereby approves a supplemental budget for Texas Regional Entity in the amount of \$2,441,005 to fund the start-up expenses for legally separating Texas Regional Entity from ERCOT and the operations in 2010 of Texas Regional Entity as a separate legal entity.

CORPORATE SECRETARY’S CERTIFICATE

I, Susan Vincent, Corporate Secretary of Texas Regional Entity, do hereby certify that, at the June 15, 2009 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 , 2009.

Susan Vincent
Corporate Secretary