

Board of Directors Meeting
Texas Regional Entity – a Division of ERCOT
Room 206, 7620 Metro Center Drive, Austin, Texas
June 15, 2009 at 12:30 p.m.**

Item	Topic	Presenter	Time**
1.	Call to Order Open Session	J. Newton	12:30 p.m.
2.	Approval of May 19, 2009 Minutes* (Vote)	J. Newton	12:31 p.m.
3.	CEO Report	L. Grimm	12:35 p.m.
4.	Operating Reports		
	A. Compliance Report* (Q&A)	V. Barry	12:40 p.m.
	B. Violation Tracking Report* (Q&A)	V. Barry	12:45 p.m.
	C. Standards Report* (Q&A)	L. Grimm	12:50 p.m.
	D. Financial Report* (Q&A)	T. Brewer	12:55 p.m.
5.	Texas RE Advisory Committee Report	M. Gent	12:53 p.m.
	A. Approval of 2010 Business Plan & Budget* (Vote)	L. Grimm	1:00 p.m.
	B. Approval of Amended MOU with ERCOT* (Vote)	S. Vincent	1:10 p.m.
	C. Governance - Possible Separation from ERCOT* (Vote)	L. Grimm J. Newton	1:15 p.m.
	• Approval of Supplemental Budget for Structural Separation* (Possible Vote)	L. Grimm	
	D. Approval of Texas RE Statement of Activities* (Possible Vote)	L. Grimm	1:25 p.m.
6.	Other Business	J. Newton	1:30 p.m.
7.	Future Agenda Items*	J. Newton	1:33 p.m.
	Convene Executive Session		
8.	Executive Session	J. Newton	1:35 p.m.
	A. Approval of May 19, 2009 Minutes* (Vote)	J. Newton	1:36 p.m.
	B. Confidential Compliance Update*	L. Grimm	1:38 p.m.
	C. Governance, Personnel Matters, Audit and/or Legal Advice	J. Newton	1:45 p.m.
	• Approval of CEO Compensation Modification (Vote)	M. Gent	1:50 p.m.
	Reconvene to Open Session		
9.	Vote on Matters from Executive Session (Vote)	J. Newton	1:58 p.m.
	Adjourn Texas RE Board Meeting		

* Background material enclosed or will be distributed prior to meeting.

** All times shown in the Agenda are approximate.

The next Board Meeting will be held on **August 17, 2009** at 7620 Metro Center Drive

**DRAFT MINUTES OF THE BOARD OF DIRECTORS OF
THE TEXAS REGIONAL ENTITY DIVISION OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

Room 206, Met Center, 7620 Metro Center Drive, Austin, Texas 78744
May 19, 2009

Directors

Jan Newton, Chair		Unaffiliated
Michehl Gent ¹ , Vice Chair		Unaffiliated
Barry T. Smitherman	Chairman, Public Utility Commission of Texas (PUCT)	
Mark Armentrout		Unaffiliated
Danny Bivens ²	Office of Public Utility Counsel	Residential Small Consumer
Andrew Dalton ³	Valero	Ind. Consumer
Clifton Karnei	Brazos Electric Cooperative	Cooperative
Bob Helton	International Power America	Independent Generator
Bob Kahn	Electric Reliability Council of Texas, Inc. (ERCOT ISO)	ERCOT ISO, CEO
A.D. Patton		Unaffiliated
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider
Dan Wilkerson ⁴	Bryan Texas Utilities	Municipal

Other Attendees

Larry Grimm, Texas RE CEO & CCO
Susan Vincent, Texas RE Director, Legal Affairs
Victor Barry, Texas RE Director, Compliance
Todd Brewer, Texas RE Senior Financial Analyst
Ryan Clay, Texas RE Senior Paralegal
Nancy Capezzuti, ERCOT VP & CAO
Eric Goff, Reliant Energy
Liz Jones, Oncor
David Brown, K&L Gates
Kent Saathoff, ERCOT
Charles Manning, ERCOT
Bridget Headrick, PUCT
Bill Wullenjohn, ERCOT
Mark Dryfus, Austin Energy
Mark Bruce, MJB Energy Consulting

¹ Miguel Espinosa designated Michehl Gent as his proxy for this meeting.

² Don Ballard Designated Danny Bivens as an alternative representative for this meeting.

³ Nick Fehrenbach designated Andrew Dalton as his proxy for this meeting.

⁴ Charles Jenkins designated Dan Wilkerson as his proxy for this meeting.

Call to Order

Pursuant to notice duly given, the meeting of the Texas Regional Entity (Texas RE) Board of Directors (Board) convened at approximately 12:32 p.m. on May 19, 2009. Chair Newton called the meeting to order and ascertained that a quorum was present.

Approval of Previous Minutes

Michehl Gent made a motion to approve the minutes of the February 16, 2009 Board meeting, as amended by removal of a typographic error; Dr. A.D. Patton seconded the motion. The motion passed by voice vote with abstentions from Clifton Karnei, Robert Thompson, and Andrew Dalton.

CEO Report

Larry Grimm provided an update on the activities of Texas RE since the February meeting, including:

- The NERC Board of Trustees (BOT) approved Texas RE's Standard Authorization Request (SAR 001) giving the ERCOT ISO $\frac{1}{4}$ of a vote; NERC will file the SAR with FERC for approval.
- The draft 3-Year Performance Assessment of NERC and regional entities is posted for public comment on the NERC website. Derrick Davis (Texas RE Corporate Counsel) is attending a workshop in Denver today where NERC is soliciting feedback from industry stakeholders. Each regional entity board will be able to approve the Regional Entity Assessment and provide feedback to NERC.
- NERC sent the first draft of its 2010 Business Plan & Budget (BP&B) to its Board of Trustees (BOT)
 - Proposes an approximately 40 percent increase (or \$18 million) over its 2009 budget
 - NERC was asked by the NERC BOT to submit modified alternative budgets, with explanations of what work could not be accomplished at possible lower amounts.
 - Reductions in the NERC budget and headcount could impact regional entity budgets by shifting work to the regional entities
- Mr. Grimm informed the Board that the first draft of the 2010 Texas RE Business Plan & Budget (BP&B) was submitted to NERC on May 8, 2009, and the second draft is due May 29, 2009.

The Board members discussed the NERC 2009 Summer Assessment. Chairman Smitherman noted that, although previous NERC seasonal assessments did not seem to correctly describe ERCOT's reserve margin calculation, it appeared that NERC did a very good job of understanding and explaining ERCOT issues in this assessment. Kent Saathoff, ERCOT VP of System Operations, informed the Board that ERCOT Operations staff spent a lot of time this year explaining ERCOT's methodology to NERC.

Mr. Gent asked Mr. Grimm to update the Board on the status of the FERC audit of Texas RE, and Mr. Grimm confirmed that the FERC audit was on-going. He reported that Texas RE had recently responded to FERC's 5th Request for Information and Texas RE still expects FERC to release a draft audit report around September.

In response to a question by Dr. Patton asking if ERCOT had submitted a new SAR for an increase in the ERCOT vote from $\frac{1}{4}$ to a full vote, Mr. Grimm responded that ERCOT had not yet submitted a new SAR. Bob Kahn, ERCOT President and CEO, told the Board that ERCOT was waiting for NERC and FERC to approve SAR 001 before submitting a new SAR.

Operating Reports

Compliance Report

The Directors discussed the improvement in the CPS1 score and possible reasons for this improvement. The Directors then discussed the new wind metrics that had been approved through recent Protocol Revision Requests (PRRs). Chair Newton asked Victor Barry to identify the new wind metrics and include a report on these to the Board in the monthly materials. Mr. Barry explained that it was difficult for Texas RE to report on all of the new metrics, because Texas RE does not monitor the system in real time and some metrics were pass/fail. Mr. Barry said that Texas RE relied on ERCOT ISO to provide reports on any non-compliance in order for Texas RE to monitor compliance. Mr. Barry reported that Texas RE had not yet received any reports on the new metrics from ERCOT ISO. Mr. Kahn said that if ERCOT ISO catches any failure in real time, it would report the failure to Texas RE, but if ERCOT ISO did not experience a disturbance or operational problem, it might not know that a market participant had failed a metric. Mr. Grimm and Mr. Barry agreed to get with ERCOT operations staff to discuss monitoring and reporting on the new wind metrics. Chair Newton stated that when the Board passed new metrics, it expected to receive a report on the new metrics, including the pass/fail metrics. In response to questions by the Directors, Mark Bruce, Chairman of the Technical Advisory Committee (TAC), stated that TAC would follow up with ERCOT operations to verify whether: (a) appropriate tools were in place to measure the metrics, (b) the new metrics were serving the purpose for which they were developed, and (c) any gaps in reliability remained.

Mr. Barry responded to questions by Directors about the Compliance Report. Dr. Patton and Mr. Gent expressed concern regarding proposed definitions in PRR 787. Mr. Barry and Bob Helton explained that ERCOT stakeholders were attempting to eliminate violations due to uncontrollable hardware failures. Mr. Helton noted that there have always been exemptions in the Protocols for hardware failures over which a market participant has no control. The Directors discussed PRR 796 and confirmed that it was expected at the ERCOT Board for a vote in June.

Violation Tracking Report

In response to a request by Dr. Patton, Mr. Barry said that he would highlight what has changed month to month in the Violation Tracking Report. After discussion by the Directors, Chair Newton and Mr. Gent instructed Mr. Barry that the Board wanted a page in future Violation Tracking Reports to include identification of any violations that have not been mitigated – even if the page was blank because all violations were mitigated.

In response to a question by Mr. Gent about violation No. 6 on the Report, Mr. Barry stated that this entity agreed to settle and the settlement paperwork had been submitted to NERC for approval, but some revisions were required. Mr. Grimm explained that the NERC Board of Trustees had approved the settlement agreement but required certain modifications to the documentation before submittal to FERC for final approval.

Mr. Karnei asked why the Violation Tracking report showed no violations from audits for the year 2009. Mr. Grimm explained the lengthy process that occurs between finding a possible violation on an audit and sending notice of an alleged violation under the NERC Rules of Procedure. He explained this process normally takes a minimum of 90 days before a violation appears on the Violation Tracking Report. In response to questions from Mr. Karnei asking how many possible audit violations have been identified by Texas RE in 2009, Mr. Grimm responded there had been approximately five or less possible violations from audits.

Dr. Patton requested that Texas RE also add a column to the Protocol Violation Tracking Report for Texas RE's assessment of reliability impact (similar to the column contained on the NERC standards portion of the report).

Texas RE Advisory Committee Update

Approval of 2009 Goals & Key Performance Indicators (KPIs)

The Board briefly discussed the Texas RE 2009 Goals and KPIs. Mr. Dalton asked why KPI #1 (Meet responsibilities as a Regional Entity and maintain independence from the ERCOT ISO) was weighted higher than KPI #3 (Effectively manage the NERC CMEP). Mr. Armentrout explained that other delegation agreement requirements and overall compliance with the CMEP were also included in KP #1, as discussed in the detailed KPIs. Dan Wilkerson questioned how the Board would be able to measure Texas RE's effectiveness in monitoring compliance with and not missing violations of Protocols and Operating Guides. The Directors discussed Texas RE's data sampling plan with Mr. Grimm, and Chair Newton stated that perhaps some type of assessment could be discussed in the future.

Chair Newton made a motion to approve the proposed 2009 Goals and KPIs; Mark Armentrout seconded the motion. The motion passed by voice vote with Mr. Dalton abstaining.

Acceptance of Texas RE's 2008 Audited Financial Statements

The Directors discussed the Texas RE 2008 audited financials and the report of PricewaterhouseCoopers.

Clifton Karnei made a motion to approve the recommended 2008 Audited Financials; Chair Newton seconded the motion. The motion passed by unanimous voice vote.

2010 Business Plan and Budget Review

Mr. Grimm reviewed Texas RE's proposed 2010 Business Plan & Budget and asked the Directors if they had any questions. Mr. Karnei asked if Texas RE had an estimate of whether the Memorandum of Understanding (MOU) with ERCOT for administrative services was saving or costing Texas RE overall. Todd Brewer informed the Board that Texas RE estimated it would require an additional \$1.2 million per year in expenses if Texas RE became legally separate from ERCOT and received no administrative services from ERCOT through the MOU.

In response to questions by the Directors, Mr. Grimm explained that the significant cost driver for the increase in the 2010 budget was the additional five (5) compliance employees, which were needed for cyber security, additional and longer audits, increased situational awareness, and additional non-statutory work required to work with the PUCT and stakeholders on the new

metrics for the nodal market. Mr. Grimm confirmed to the Board that Texas RE time tracking supported the allocations to the various compliance activities.

Chair Newton stated that the Advisory Committee had initially been hesitant about the proposed increase in the 2010 budget, but Texas RE had provided sufficient detail to support the need for the additional staff. Chair Newton explained that the Advisory Committee had instructed Texas RE that it was seeking a flattening of the staffing and overall expenses for 2011.

Mr. Dalton asked for the drivers behind the funding increase from \$4.3 million in 2009 to \$7.5 million in 2010. Mr. Brewer explained that because Texas RE had \$2.7 million in funding in 2009, from prior years (primarily from 2007), this surplus carried over to offset the needed funding for the 2009 budget. In 2010, the unspent "surplus" was not expected to nearly as much. Mr. Brewer suggested that comparing the total budgeted expenses for 2009 to those proposed for 2010 provided a better comparison of the increase in costs for Texas RE.

Governance Discussion

Mr. Gent confirmed to the Directors that the Texas RE Advisory Committee and the ERCOT Human Resources & Governance Committee were both looking at the possible legal separation of Texas RE from ERCOT and putting together plans for such a separation. Chair Newton confirmed that such a separation would take some time.

Future Agenda Items

Mr. Armentrout requested that an update of the status regarding all new reliability metrics be added to Future Agenda Items.

Adjournment to Executive Session

Chair Newton adjourned the Texas RE Board of Directors meeting into executive session at approximately 1:46 p.m., noting that the Committee would not return to open session.

Susan Vincent
Corporate Secretary

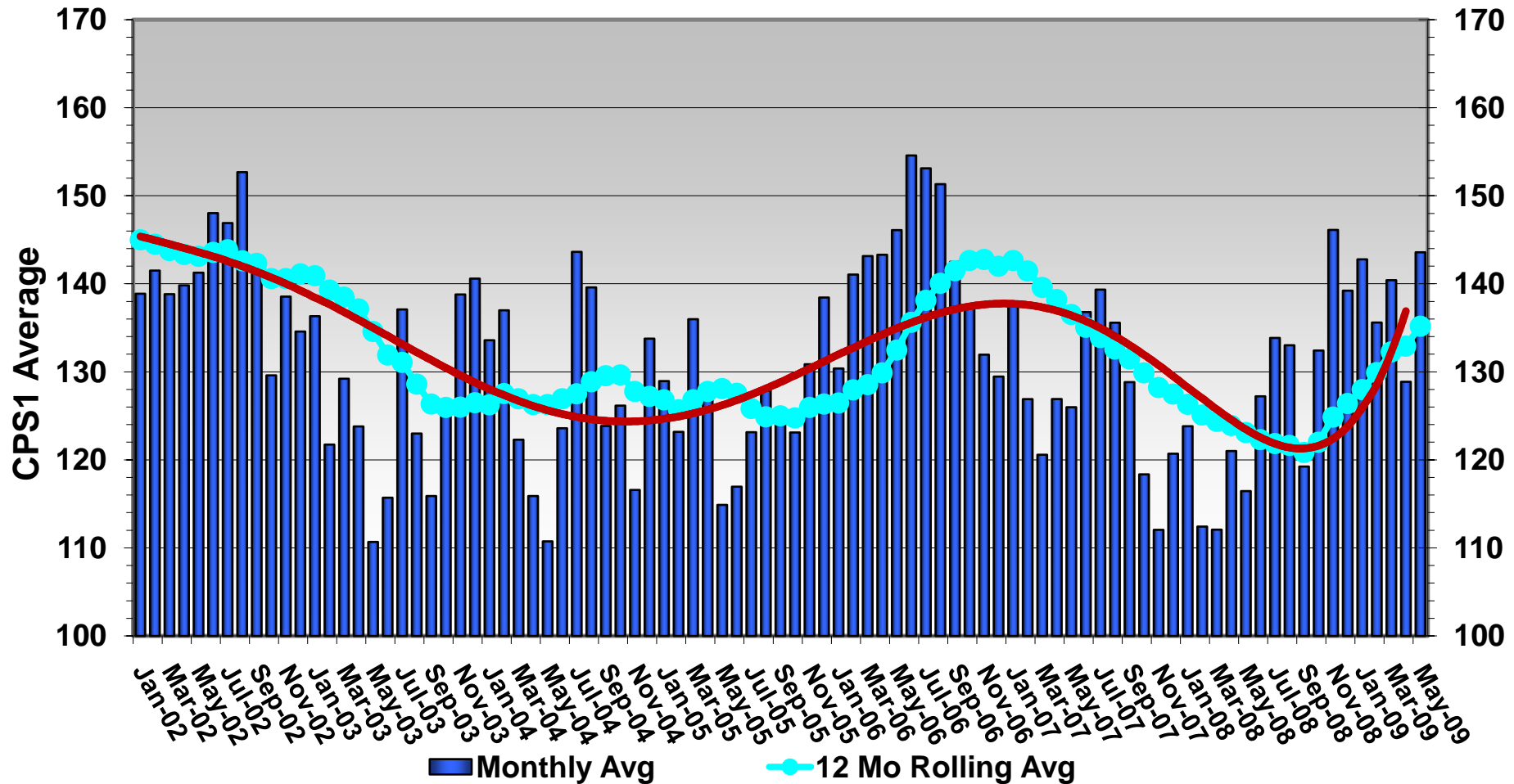
Texas Regional Entity Compliance Report

Board of Directors
June 15, 2009

Overview

- **April 2009 ERCOT's CPS1 Monthly Performance**
- **April 2009 SCPS2 Scores for Non-Wind and Wind Only QSEs**
- **March 2009 Resource Plan Performance Metrics for Non-Wind and Wind Only QSEs**
- **Key Issues**
 - NERC Registration update
 - Load Serving Entity (LSE) Registration JRO update
 - NERC Standards Self Certification Schedule
 - NERC Audit & Enforcement Highlights
 - Compliance Human Resources
 - Critical Performance Metric and Criteria for the ERCOT Nodal Market
 - Zonal PRR and OGRR progress

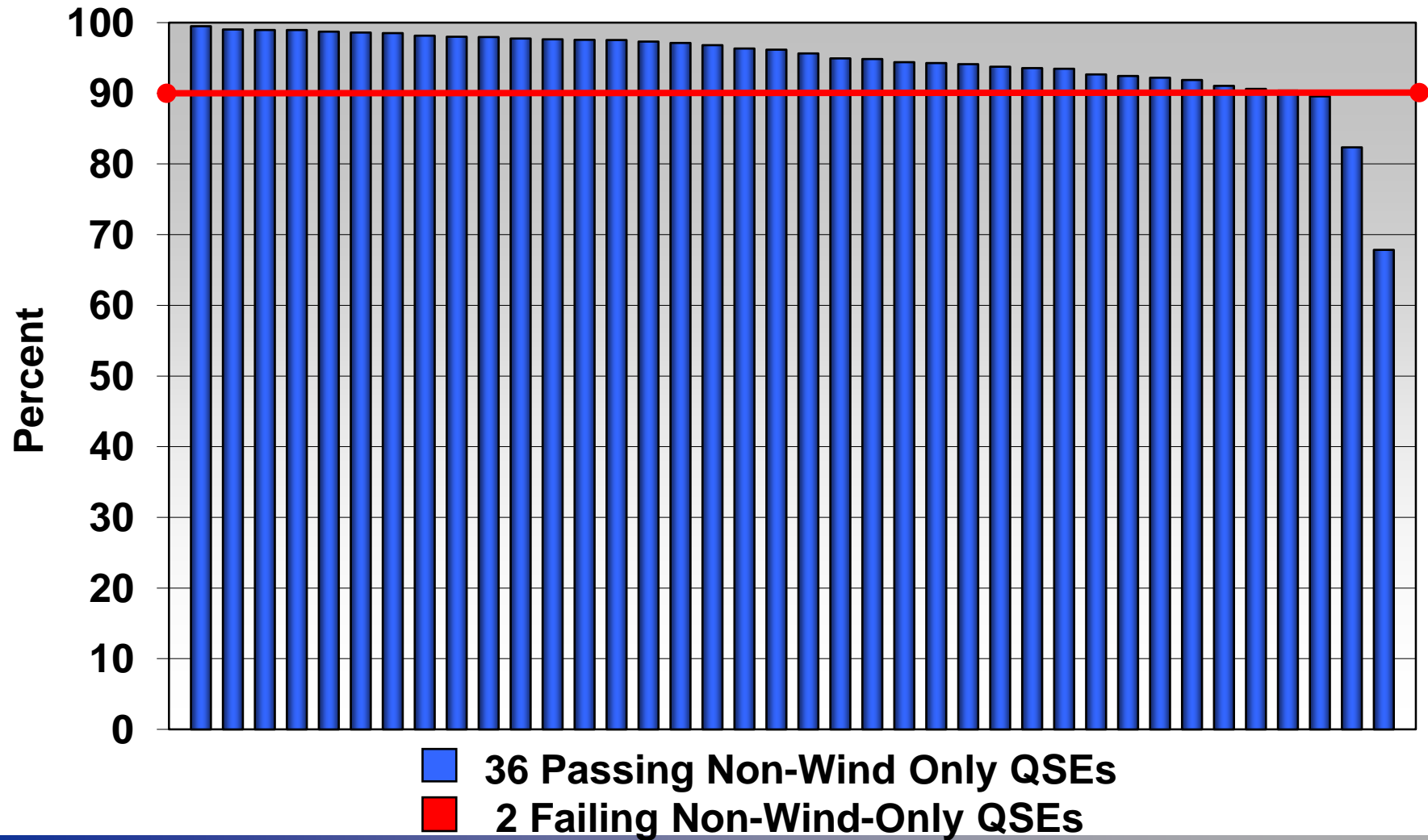
May 2009 ERCOT's CPS1 Monthly Performance



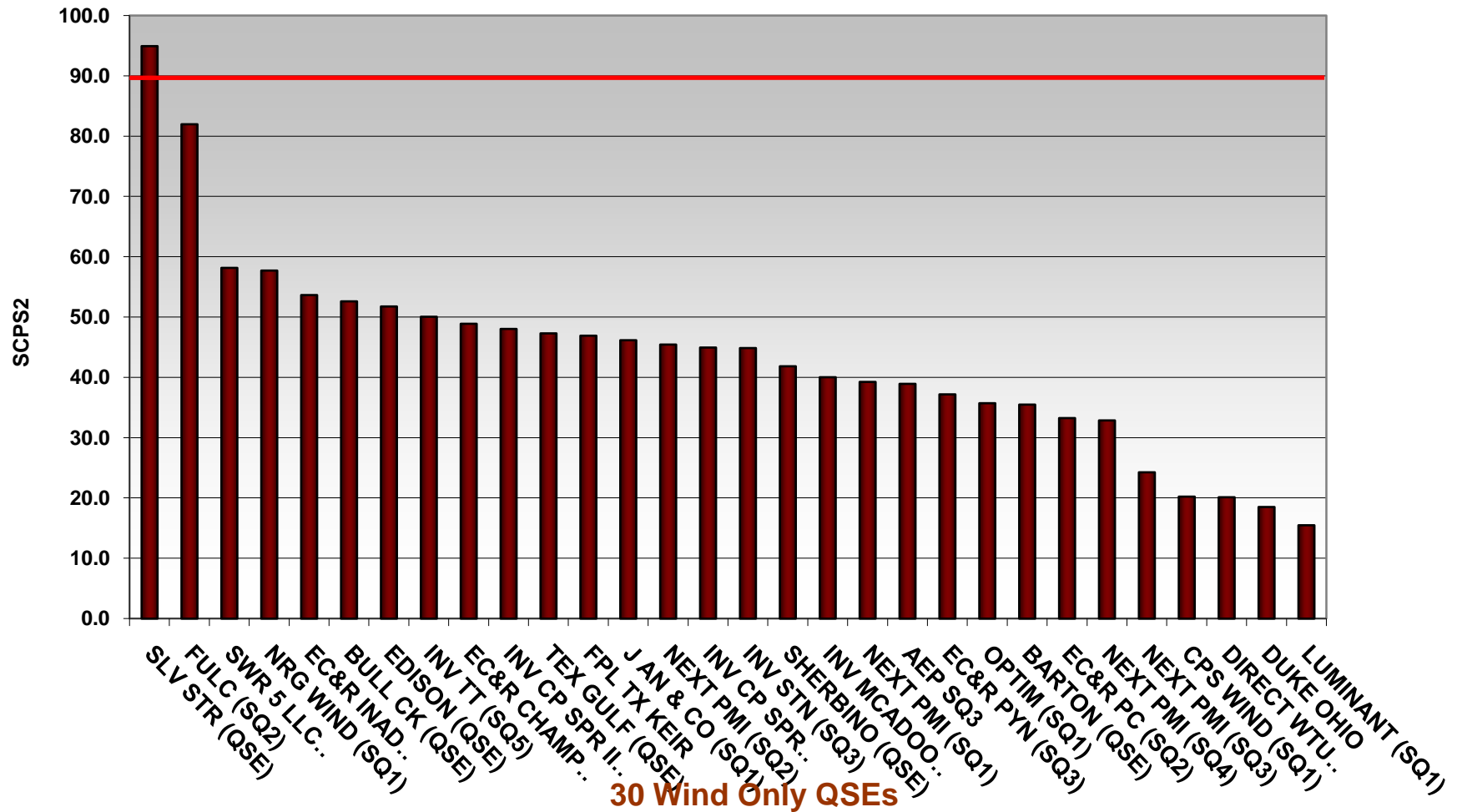
Analysis of CPS1 Monthly Performance

- **Purpose:** To maintain Interconnection steady-state frequency within defined limits by balancing real power demand and supply in real-time
- **CPS1 is one reliability measure of how well the ERCOT region managed the BPS**
- **ERCOT region's frequency performance is determined by NERC Control Performance Standard 1 (CPS1)**
- **Seasonal fluctuation is expected**
- **Scores for individual months can be adversely affected by events (such as hurricanes)**
- **A detailed formula can be found in NERC Reliability Standard BAL-001-0a**

May 2009 SCPS2 Scores for Non-Wind Only QSEs



May 2009 SCPS2 Scores for Wind Only QSEs



Analysis of May 2009 SCPS2 Scores

- **This is a schedule focused metric**
- **Calculations are Portfolio Based by QSE**
- **A detailed formula can be found in Protocol 6.10.5.3**

April 2009 Resource Plan Performance Metrics for Non-Wind Only QSEs

Resource Plan Performance Metric	ID																		
	DE	AP	BY	BC	AY	AM	AR	KB	BR	DF	CI	AD	BJ	CF	ET	DA	DP	IP	
Resource Status	100	100	100	100	99	98	100	100	98	100	100	100	99	100	99	99	100	100	
LSL as % of HSL	100	93	99	100	100	100	99	99	99	100		100	99	100	100	100	98	68	
DA Zonal Schedule	100	97	100	100	96	100	100	100	100	100	100	100	100	100	100	97	100	100	
AP Zonal Schedule	100	97	100	100	91	100	100	100	99	99		99	99	99	100	99	100	100	
Down Bid & Obligation	99	99	95	100	98	99	100	100	97	97		95	96	99	99	96	99	100	
Total Up AS Scheduled	100	96	99	100	98	95	100	96	97	100			100	100	100	93	100		
	ID																		
	BG	CQ	JZ	JV	JU	CX	FK	HW	JD	KA	JZ	IN	IZ	BX	CC	CD	AC	KD	
Resource Status	100	100	100	100	100	100	100	100	100	100	99	97	100	100	100	99	99	93	
LSL as % of HSL	100	90		100	100	99	94	100	100	99	99	100	91	97	95	98	100	100	
DA Zonal Schedule	98	100				100	100	96	100	100	99	100	100	100	100			100	
AP Zonal Schedule	99	97		100	91	99	100	95	99	100	98	99	100	99	96	100	100	100	
Down Bid & Obligation	99	99		100		98	100	98	98	89	91	99	99	99	82	99	99	100	
Total Up AS Scheduled	98	99		98	100	100	99	98	95	96	95	100		97	97	91		100	

 4 Consecutive
Failing Scores

 3 Consecutive
Failing Scores

 2 Consecutive
Failing Scores

 1 Failing
Score

Analysis of April 2009 Resource Plan Performance Metrics for Non-Wind Only QSEs

- **CC – First time failing the Down Bid & Obligation Resource Plan Performance Measure. Actions:** QSE was notified of its failing score. QSE acknowledged the score and affirmed it has identified the cause of the occurrences. **Reason:** Failed intervals resulted from Resource Plan adjustments. **Solution:** The QSE has taken steps to validate its resource plan against ERCOT adjustment period measures.
- **IP – Second consecutive time failing the LSL as % of HSL Resource Plan Performance Measure. Actions:** QSE was notified of its failing score. QSE acknowledged the score and affirmed the measure will be met going forward. **Reason:** an operational change was not correctly reported in the Resource Plan. **Solution-** Operators have been trained on Resource Plan scheduling requirements.
- **KA – Second consecutive time failing the Down Bid & Obligation Resource Plan Performance Measure. Actions:** QSE was notified of its failing score. QSE acknowledged the score and met with TRE regarding the measure. **Reason:** QSE's portfolio is challenged by the Down Bid & Obligation measure's requirements. **Solution:** QSE & TRE will continue communication to address the QSE's issues.

April 2009 Resource Plan Performance Metrics for Wind Only QSEs

Resource Plan Performance Metric	ID														
	JG	BT	JF	JS	HJ	BH	DI	JY	JM	JW	JL	GR	GS	HS	BF
DA Zonal Schedule	100	98	100	100	0	100	100	100	100	100	99	97	96	99	97
AP Zonal Schedule	100	100	99	97	99	99	98	100	100	99	96	100	100	100	100
Down Bid & Obligation	100	95	98	100	100	100		100	100	99	100	100	100	100	100
	ID														
	BE	FX	JH	JI	JN	JJ	JT	JC	IV	JQ	EL	JP	JK	JE	JR
DA Zonal Schedule	97	100	100	100	100	100	100	100	100	100	100	100	100	100	100
AP Zonal Schedule	100	100	100	100	100	100	100	100	100	100		100	100	99	100
Down Bid & Obligation	99	100	100	100	100	100	100	100	100	100		100	100	100	100

 **4 Consecutive
Failing Scores**

 **3 Consecutive
Failing Scores**

 **2 Consecutive
Failing Scores**

 **1 Failing
Score**

Analysis of April 2009 Resource Plan Performance Metrics for Wind Only QSEs

- **No Resource Plan Performance Metric Violations**

Key Issues

- **NERC Registration update**
- **Load Serving Entity (LSE) Registration JRO update**
- **NERC Standards Self Certification Schedule**
- **NERC Audit & Enforcement Highlights**
- **Compliance Human Resources**
- **Critical Performance Metric and Criteria for the ERCOT Nodal Market**
- **Zonal PRR and OGRR progress**

NERC Registration Update

- **Stakeholders are encouraged to review and comment on the proposed changes to NERC Rules of Procedures (section 500), by July 6th, which modify:**
 - The rules dealing with organization registration and certification
 - Appendix 5, the Organization Registration and Certification Manual
- **Changes are posted on the NERC website:**
<http://www.nerc.com/page.php?cid=1|8|169>
- **Significant changes include:**
 - Modifications to Joint Registration Organizations
 - Addition of Coordinated Functional Registration
 - Clarification regarding process for certification of TOPs, BAs, and RCs

NERC LSE Registration Update

- **Stakeholders from the Load Serving Entity Registration Working Group (LSERWG) made additional comments for Texas RE staff to incorporate into the NERC LSE JRO Matrix and proposed Agreement**
- **Texas RE staff provided two proposed revised versions of NERC LSE JRO Matrix to LSERWG for review for the June 2nd meeting:**
 - Option #1 (sought by stakeholders)- seeks to register an entity as LSE only if the requirements are not already being performed by an entity (even if the performance is done by an entity in a different functional capacity, such as TO, TP, RC) [Note, this has not previously been permitted by NERC]
 - Option #2 – Seeks the registration of a responsible entity as LSE for each requirement and sub-requirement (even if the entity already performs the requirement in its capacity as a different registered function)
- **Texas RE will make changes to Agreement and Matrix content, based on stakeholders comments and will send out for review**

NERC Standards Self Certification Schedule

<u>Self-Certification Activity by NERC Function</u>	<u>Start</u>	<u>Due</u>
Generation Owner (GO) and Generation Operator (GOP)	June 1	July 1
Critical Infrastructure Protection (CIP) Standards, CIP-002-009 For GO, GOP and Transmission Owner (TO)	July 1	August 3
Distribution Provider (DP), Purchasing-Selling Entity(PSE), Transmission Planner (TP), Load Serving Entity (LSE) and TO	August 3	Sept 3

All submissions will be via the Texas RE Portal

NERC Audit & Enforcement Highlights

- **Six (6) NERC Audits were conducted in May 2009, as scheduled. Three (3) audits also included review of Protocols**
- **FERC and NERC observers attended an audit at one location and provided favorable comments on the conduct of the audit team**
- **Texas RE and the other seven (7) regions are continuing efforts to coordinate compliance activities for multi-region registered entities**

- **Compliance has one unfilled, budgeted 2009 opening-interviews are being conducted**

Critical Performance Metric and Criteria for the ERCOT Nodal Market

- Preliminary measures and criteria were published on June 3 at <http://www.puc.state.tx.us> (under Hot Topic Briefs – ERCOT Nodal Metrics Project 37052)
- Workshop to be held on: Friday, June 12th, at 9:30 a.m. in PUCT's Commissioners' Hearing Room located on the 7th floor of the William B. Travis Building, 1701 North Congress Avenue, Austin, Texas, 78701.
- This workshop will focus on Critical Performance Metric and Criteria for the ERCOT Nodal Market

PRR 787 – SCPS2 Metric & Outage Definitions

PRR 787: Defines enforcement methodology and adds exemptions to the SCPS2 scoring calculation.

- Approved by PRS May 21
- Next step is PRS IA Review
- Texas RE supports PRR 787 with reservations on the new exemptions

Concerns:

Added exemptions for forced de-rating and failure to start up may reduce the effectiveness of the protocol to identify generating units with on-going, repeat reliability concerns. ERCOT ISO is analyzing the cost to integrate the new exemptions into the Outage Scheduler.

PRR 796: Allows two (2) hours following a Forced Outage to be excluded from performance calculation. TRE will incorporate 2-hour allowance into review process.

- Approved by TAC to vote May 7
- Next stop, Board to vote June 15
- Texas RE supports PRR-796 as currently revised before the board

Concerns: None

PRR 811 – Real Time Production Potential

PRR 811: This PRR establishes a requirement for Wind Generation Resources to telemeter a real time signal indicating the real time production potential which will be a function of wind and turbine availability.

- Tabled at PRS May 21th meeting for one month
- Texas RE supports PRR 811 with modification to support compliance

Concerns: A metric and criteria that define passing and failing are required as well as the method for monitoring the metric (e.g. exception report, ISO complaint). Texas RE will file comments.

NERC Standards Violations

	Entity	Violation Date	Violation Status	Category	VSL	VRF	Mitigation Plan Status	Texas RE Assessment of Reliability Impact
1	T	10/20/2008	Preliminary	Technical	H	M	Approval (by NERC)	Large
2	T	10/20/2008	Preliminary	Technical	H	M	Approval (by NERC)	Large
3	T	10/20/2008	Preliminary	Technical	H	M	Approval (by NERC)	Large
4	T	10/20/2008	Preliminary	Technical	S	H	Revised Mitigation Plan Requested	Large
5	T	10/20/2008	Preliminary	Technical	H	H	Revised Mitigation Plan Requested	Large
6	F	3/21/2008	Preliminary	Technical	S	H	Completed & Confirmed*	Medium
7	T	10/10/2008	Preliminary	Technical	H	M	Submitted*	Medium
8	W	11/17/2008	Preliminary	Technical	S	H	Approval (by NERC)	Medium
9	Q	9/22/2008	Preliminary	Technical	S	H	Completed	Small
10	U	9/24/2008	Preliminary	Technical	S	H	Submitted	Small
11	F	10/10/2008	Preliminary	Technical	M	H	Approval (by NERC)	Small
12	V	11/3/2008	Preliminary	Technical	S	H	Not Submitted	Small
13	V	11/3/2008	Preliminary	Technical	S	M	Not Submitted	Small
14	A	10/3/2007	Confirmed	Admin	S	L	New Plan Submitted	Minimal
15	A	10/3/2007	Confirmed	Admin	S	L	New Plan Submitted	Minimal
16	A	10/3/2007	Confirmed	Admin	S	L	New Plan Submitted	Minimal
17	A	10/3/2007	Confirmed	Admin	S	M	New Plan Submitted	Minimal
18	A	10/3/2007	Confirmed	Admin	S	M	New Plan Submitted	Minimal
19	A	10/3/2007	Confirmed	Technical	L	H	Approved, Completed	Minimal
20	C	1/16/2008	Alleged	Admin	L	M	Completed & Confirmed*	Minimal
21	C	1/16/2008	Alleged	Admin	H	M	Completed & Confirmed*	Minimal

NERC Standards Violations

	Entity	Violation Date	Violation Status	Category	VSL	VRF	Mitigation Plan Status	Texas RE Assessment of Reliability Impact
22	D	2/15/2008	Preliminary	Technical	S	H	Completed & Confirmed*	Minimal
23	D	2/15/2008	Preliminary	Technical	S	H	Completed & Confirmed*	Minimal
24	D	2/15/2008	Preliminary	Technical	S	M	Completed & Confirmed*	Minimal
25	D	2/15/2008	Preliminary	Technical	S	M	Completed & Confirmed*	Minimal
26	D	2/15/2008	Preliminary	Technical	S	M	Completed & Confirmed*	Minimal
27	D	2/15/2008	Preliminary	Admin	L	M	Completed & Confirmed*	Minimal
28	D	2/15/2008	Preliminary	Admin	L	M	Completed & Confirmed*	Minimal
29	D	2/15/2008	Preliminary	Admin	H	M	Completed & Confirmed*	Minimal
30	D	2/15/2008	Preliminary	Admin	L	M	Completed & Confirmed*	Minimal
31	D	2/15/2008	Preliminary	Admin	S	M	Completed & Confirmed*	Minimal
32	D	2/15/2008	Preliminary	Admin	S	L	Completed & Confirmed*	Minimal
33	E	2/28/2008	Preliminary	Admin	M	L	Completed & Confirmed*	Minimal
34	E	2/28/2008	Preliminary	Admin	M	M	Completed & Confirmed*	Minimal
35	T	10/20/2008	Preliminary	Technical	L	M	Approval (by NERC)	Minimal
36	T	10/20/2008	Preliminary	Technical	S	H	Approval (by NERC)	Minimal
37	T	10/20/2008	Preliminary	Technical	L	M	Approval (by NERC)	Minimal
38	T	10/20/2008	Preliminary	Technical	S	L	Approval (by NERC)	Minimal
39	T	10/20/2008	Preliminary	Technical	M	M	Approval (by NERC)	Minimal
40	F	11/18/2008	Preliminary	Technical	TBD	M	Completed	Minimal
41	F	11/18/2008	Preliminary	Technical	S	M	Completed	Minimal
42	Z	12/18/2008	Preliminary	Technical	TBD	L	Completed	Minimal

NERC Standards Violations

	Entity	Violation Date	Violation Status	Category	VSL	VRF	Mitigation Plan Status	Texas RE Assessment of Reliability Impact
43	F	2/10/2009	Possible	NA	NA	NA	NA	NA
44	F	3/9/2009	Possible	TBD	TBD	TBD	TBD	TBD
45	F	3/9/2009	Possible	TBD	TBD	TBD	TBD	TBD
46	T	3/30/2009	Possible	TBD	TBD	TBD	Submitted	TBD
47	T	3/30/2009	Possible	TBD	TBD	TBD	Submitted	TBD
48	AC	4/16/2009	Possible	TBD	TBD	TBD	TBD	TBD
49	AC	4/16/2009	Possible	TBD	TBD	TBD	TBD	TBD
50	AC	4/16/2009	Possible	TBD	TBD	TBD	TBD	TBD

Legend:

Violation Status – Preliminary, Alleged, Confirmed

Discovery Method – Compliance Audit, Readiness Audit, Investigation, Self-Reported, Spot Check, Self-Certification, Data Submittal, Complaint

Category – Technical, Training, Administrative

Violation Severity Level (VSL) – Lower (L), Moderate (M), High (H), Severe (S)

Violation Risk Factor – High (H), Medium (M), Lower (L)

Mitigation Plan Status – Not Submitted, Submitted, Approval (by NERC), (After Approval - On Schedule, Behind Schedule, Extension Requested, Completed)

NAVAPS = Notice of Alleged Violation and Proposed Penalty or Sanction

Status Change = Highlighted in Gray

* Entity is in settlement discussions *Next step is dependent on entity

PRR 812 – Wind Generator Forecasting for Scheduling Metric

PRR 812: This PRR adds a requirement for wind-powered generation resources to update resource plans and schedules every hour using the ERCOT provided most likely short-term wind power forecast as the standard for accuracy.

- PRS passed it on May 12th
- Next step: PRS impact analysis review on June 18th
- Texas RE supports this protocol with modification to support compliance

Concerns: A metric and criteria that define passing and failing are required as well as the method for monitoring the metric (e.g. exception report, ISO complaint). Texas RE will file comments.

OGRR 224 - Special Protection System (SPS) Operations Under No Contingency

OGRR 224: Places an obligation on Resource owners who have an SPS to monitor the flows monitored by the SPS in the base case and reduce output as needed before the arming point of the SPS is reached

- Was Tabled by OWG on May 20th
- Next step: To be withdrawn by ERCOT and replaced by modifications to the reporting requirement via a written clarification by Texas RE to ERCOT ISO.

Texas Regional Entity Standards Report

Board of Directors
June 15, 2009

SAR-001-TRE-02 – ERCOT ISO VOTE

- Provision for ERCOT ISO to Have a Vote in the Regional Standards Process, subject of Standard Authorization Request SAR-001-TRE-002
 - Approved by NERC Board of Trustees May 6, 2009.
 - Attachment procedures approved by NERC on June 3, 2009.
 - NERC has drafted a filing with FERC for final approval and implementation. Official filing with FERC is imminent.
 - FERC approval could be 3-4 months from NERC filing.
 - Implement upon FERC approval.

SAR-002 and 003

- SAR-002 Development of Regional UFLS Program
 - Drafting team submitted comments with NERC on second draft of continent-wide standard.
 - No final determination on whether regional standard is necessary, but most likely will not be.

- SAR-003 Draft Regional Standard BAL-001-TRE-01
 - The first comment period closed on April 14, 2009.
 - The team has met four times to write responses to comments.
 - Responses will be posted when they are complete.
 - The team will discuss the draft standard with FERC standards staff in August.
 - Revised draft will be presented to RSC later this summer/early fall.

Texas Regional Entity Financial Report

May 2009
Financial Overview
June 15, 2009

May 2009 Financial Accomplishments

- **Draft 2 of Texas RE's Business Plan & Budget was submitted to NERC for review:**
 - Texas RE Board approval of final draft needed June 15, 2009
 - Final Board approved Business Plan & Budget submitted to NERC before July 8, 2009
 - Draft budget assumes continued arrangement of functional separation from ERCOT ISO.
- **Texas RE is adding additional review to its monthly financials to ensure there is an appropriate segregation of duties, those changes are as follows:**
 - The CEO will review all journal entries made into the financial system that equal to, or exceed \$25,000 in total.
 - Texas RE will prepare an enhanced monthly financial package to include at least the following:
 - Trial Balance
 - Balance Sheet
 - Income Statement
 - High level variance report
 - Copies of the GL checklist and journal entries made
 - Intercompany

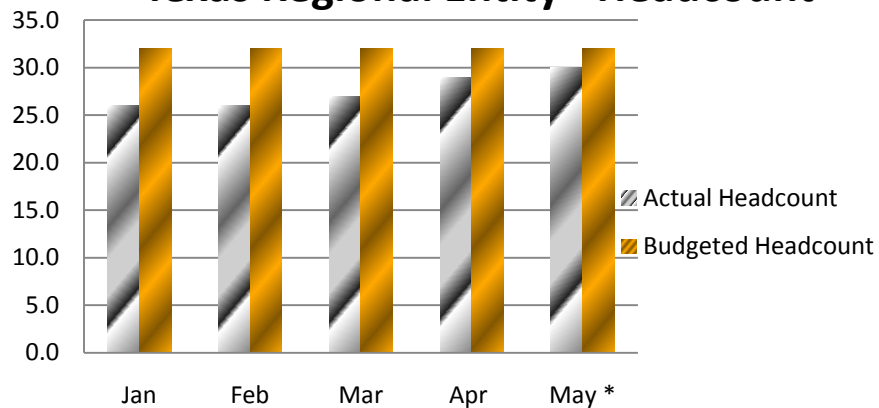
May 2009 Actual Workforce

Texas Regional Entity Headcount Statutory & Non-Statutory Combined For The Month Ended May 31, 2009

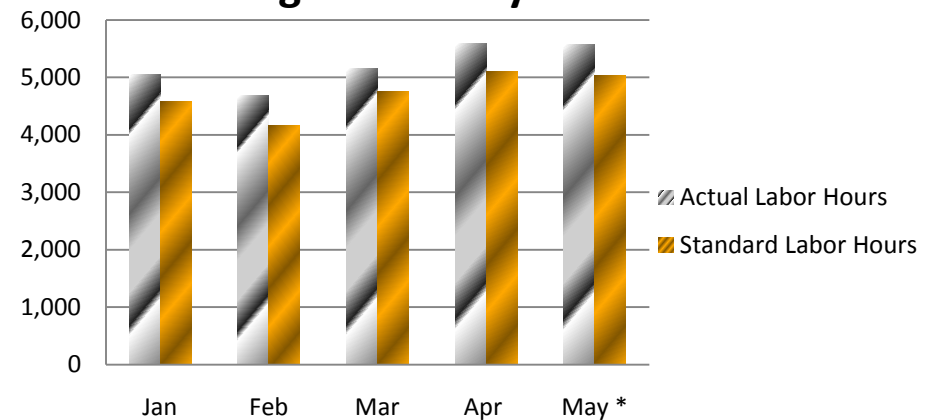
	Jan	Feb	Mar	Apr	May *	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual Headcount	26.0	26.0	27.0	29.0	30.0							
Budgeted Headcount	32.0	32.0	32.0	32.0	32.0							
Variance Under/(Over)	6.0	6.0	5.0	3.0	2.0							
	Jan	Feb	Mar	Apr	May *	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual Labor Hours	5,050	4,688	5,154	5,584	5,577							
Standard Labor Hours	4,576	4,160	4,752	5,104	5,040							
Variance Under/(Over)	(474)	(528)	(402)	(480)	(537)							
	10.4%	12.7%	8.5%	9.4%	10.7%							
FTE's Calc'd from Labor	28.7	29.3	29.3	31.7	33.2							

* Does not include interns and consultants

Texas Regional Entity - Headcount

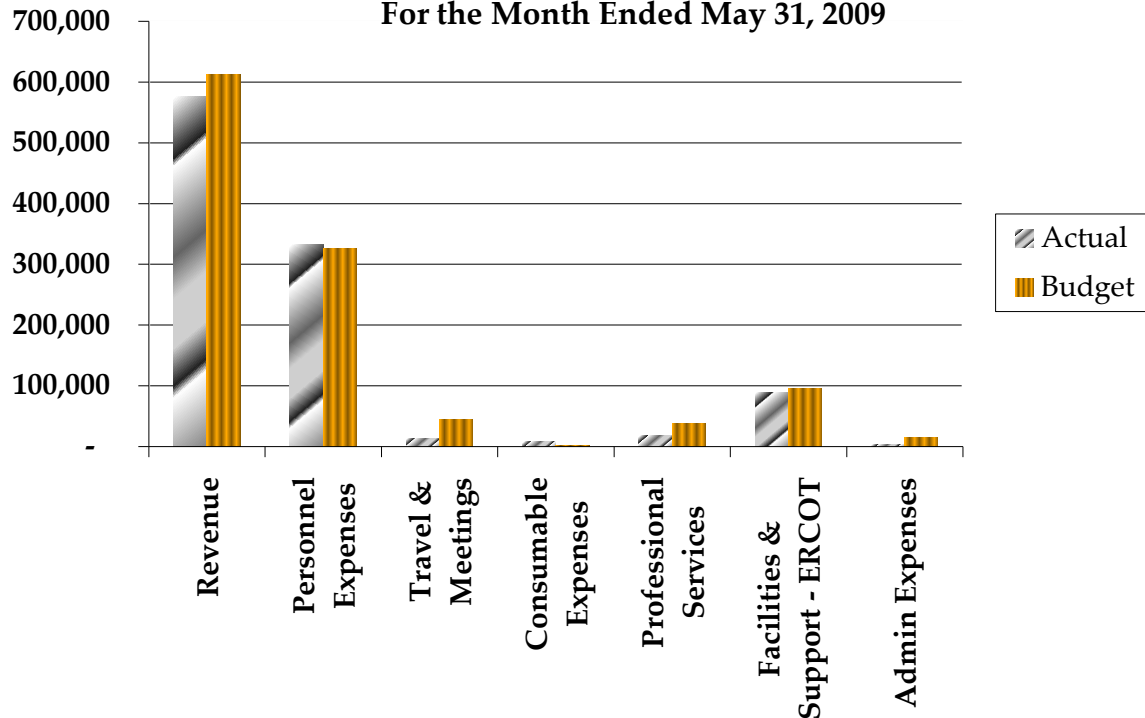


Texas Regional Entity - Labor Hours



May 2009 Operating Expenses

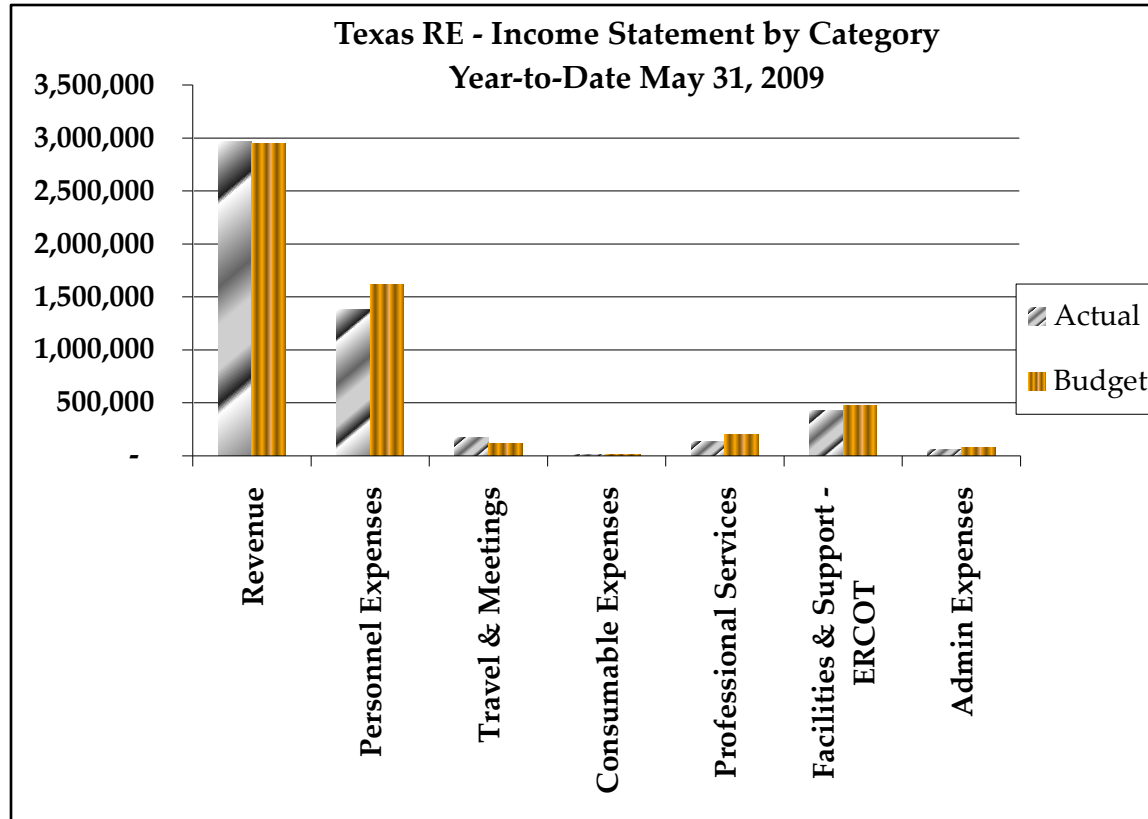
**Texas RE - Income Statement by Category
For the Month Ended May 31, 2009**



May Comments

- ➔ **Revenue** - Revenue is less than budget due to receipt of Operations Training Seminar fees prior to May.
- ➔ **Personnel Expenses** - Slightly higher than plan due to reclass of miscoded April expenses.
- ➔ **Travel & Meetings Expenses** - Underspending due to Operations Training Seminar costs, recognized prior to May.
- ➔ **Consumable Expenses** - Slightly over for the month due to final invoice from vendor for Operations Training Seminar printed materials.
- ➔ **Professional Services** - Less than plan for the month due to underspending on legal expenses.
- ➔ **Facilities & Support** - Accruing the expenses associated with Texas RE's move and rent.
- ➔ **Administrative Expenses** - Variance is primarily driven by underspending on IT for the month (Timing Variance).

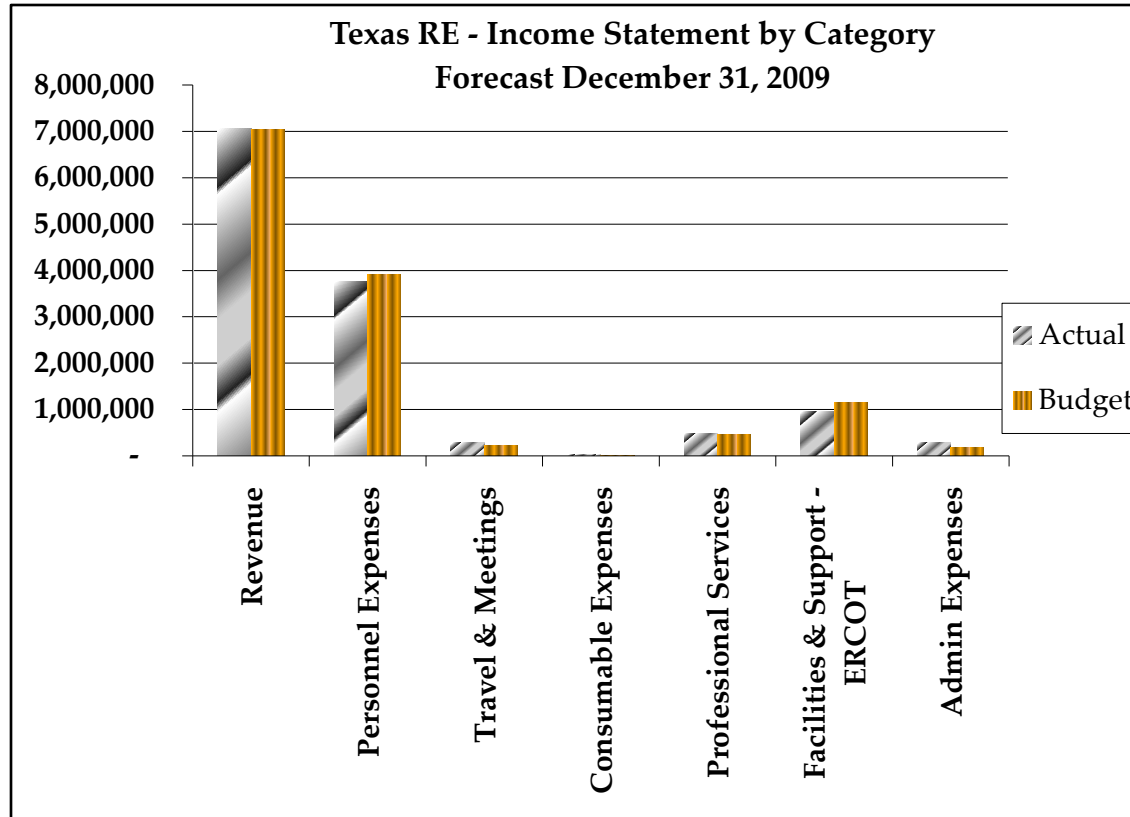
YTD May 2009 Operating Expenses



YTD May Comments

- ➡ **Revenue** - Higher than budget due to the Operations Training Seminar.
- ➡ **Personnel Expenses** - Lower YTD due to employee vacancies. Budget is 32 FTEs, we currently are staffed at 30 FTEs.
- ➡ **Travel & Meetings Expenses** - Overspending due to Operations Training Seminar. Fees collected were also higher.
- ➡ **Consumable Expenses** - Spending is higher than plan due to expenses incurred for the OTS. This additional spending was offset by additional fees charged to attendees.
- ➡ **Professional Services** - Less than plan primarily due to underspending in legal.
- ➡ **Facilities & Support** - Accruing the expenses associated with Texas RE's move and rent. There will be a permanent variance due to the timing of Texas RE's move and the budget, as well as the budgeted rent vs. actual rent.
- ➡ **Administrative Expenses** - Variance is primarily driven by the budgeted cash/operating reserve of \$855K (annual).

2009 Forecast for Annual Operating Expenses



2009 Forecast Comments

Revenue - Higher than budget due to the Operations Training Seminar. Non-statutory revenue forecast to be approximately \$81K less than plan due to lower expenses.

Personnel Expenses - Lower YTD due to employee vacancies. Budget is 32 FTEs, we currently are staffed at 30 FTEs. Expect to be fully staffed before the end of June.

Travel & Meetings Expenses - Overspending due to Operations Training Seminar costs, however revenue exceeded cost for a net gain. Additionally, more NERC and Audit related travel.

Consumable Expenses - Expect to exceed plan primarily due to the FERC audit.

Professional Services - Expect to be higher than plan due to unbudgeted direct Board expenses.

Facilities & Support - Expect to be below budget on rent.

Administrative Expenses - Variance is primarily driven by hosting expenses for Texas RE's portal and website, as well as additional expenses for portal maintenance.

May 2009 Operating Expenses

Texas Regional Entity
Income Statement
Statutory & Non-Statutory Consolidated
For the Period Ended May 31, 2009
Unaudited Management Report

Group Rollup	Group Rollup Name	Period to Date			Year to Date			Forecast	Annual	
		Actual	Budget	Difference	Actual	Budget	Difference	Actual	Budget	Difference
Revenue	1-Assessments*	576,189	577,683	(1,493)	2,793,555	2,881,650	(88,095)	6,886,521	6,969,023	(82,502)
	2-Workshops	-	35,000	(35,000)	174,029	70,000	104,029	174,029	70,000	104,029
	3-Interest Income	572	-	572	2,367	-	2,367	4,125	-	4,125
Total Revenue		576,762	612,683	(35,921)	2,969,951	2,951,650	18,301	7,064,675	7,039,023	25,652
Personnel	10-Salaries	257,032	247,490	(9,543)	1,066,434	1,227,002	160,567	2,913,236	2,945,048	31,812
	11-Payroll Taxes	19,224	20,038	814	85,054	104,548	19,494	225,184	235,604	10,420
	12-Employee Benefits	23,694	24,696	1,003	88,408	108,670	20,262	231,502	305,571	74,069
	13-Saving and Retirement	32,165	33,526	1,361	142,218	174,813	32,595	388,861	421,495	32,634
Total Personnel		332,115	325,750	(6,365)	1,382,114	1,615,032	232,918	3,758,783	3,907,718	148,935
Travel & Meetings	20-Meetings & Training	1,214	35,000	33,786	120,375	70,000	(50,375)	157,394	105,000	(52,394)
	30-Travel	12,455	9,306	(3,149)	51,040	43,206	(7,834)	122,027	109,651	(12,376)
Total Travel & Meetings		13,669	44,306	30,637	171,415	113,206	(58,209)	279,421	214,651	(64,770)
Consumables	40-Office Supplies	330	860	530	3,970	4,260	290	13,333	10,200	(3,133)
	41-Postage & Shipping	116	200	84	2,195	1,000	(1,195)	6,311	2,400	(3,911)
	42-Telecommunications	1,179	967	(213)	3,646	4,833	1,187	6,867	4,960	(1,907)
	43-Printing & Copying	6,220	100	(6,120)	6,220	500	(5,720)	800	1,200	400
Total Consumables		7,845	2,127	(5,718)	16,031	10,593	(5,438)	27,311	18,760	(8,551)
Professional Services & Consulting	60-Professional Services-Legal	5,730	29,167	23,437	58,245	145,833	87,588	350,000	350,000	-
	61-Professional Services-Auditing	4,167	3,750	(417)	21,809	18,750	(3,059)	50,976	45,000	(5,976)
	62-Professional Services-Other	8,245	5,575	(2,670)	53,181	36,625	(16,556)	91,485	75,650	(15,835)
Total Professional Services & Consulting		18,141	38,492	20,351	133,236	201,208	67,973	492,461	470,650	(21,810)
Facilities & Support - ERCOT	70-Rent & Improvements**	34,835	49,979	15,144	185,558	249,895	64,337	340,364	599,748	259,384
	71-Support (HR, Treas, Finance, BOD)	34,124	26,388	(7,736)	153,198	131,939	(21,259)	368,303	316,654	(51,649)
	72-IT/MIS Support & Services	20,462	19,000	(1,462)	94,126	95,000	874	247,592	228,000	(19,592)
Total Facilities & Support - ERCOT		89,421	95,367	5,946	432,881	476,834	43,953	956,258	1,144,402	188,144
Administrative	73-IT/MIS Projects, Purchases & Maint.	-	5,250	5,250	41,755	27,212	(14,543)	163,385	63,988	(99,397)
	74-Employee Training	32	550	518	4,279	2,970	(1,309)	9,266	7,440	(1,826)
	80-Depreciation Expense	2,476	6,378	3,903	12,378	31,892	19,514	106,246	76,540	(29,706)
	82-Bank Fees	74	-	(74)	640	-	(640)	1,766	-	(1,766)
	90-Miscellaneous Other	1,675	2,700	1,025	2,381	13,885	11,504	2,691	33,712	31,021
Total Administrative Expenses		4,257	14,878	10,621	61,433	75,959	14,526	283,354	181,680	(101,674)
Total Expenses		465,449	520,919	55,470	2,197,111	2,492,833	295,722	5,797,588	5,937,861	140,273
GAIN / (LOSS)		111,313	91,764	19,550	772,840	458,817	314,023	1,267,087	1,101,162	165,925
Non-Operating Expenses	91-Cash / Contingency Reserve	-	71,250	71,250	-	356,250	356,250	-	855,000	855,000
Grand Total of Expenses (Operating & Non-Operating)		465,449	592,169	126,720	2,197,111	2,849,083	651,972	5,797,588	6,792,861	995,273
TOTAL GAIN / (LOSS)		111,313	20,513	90,800	772,840	102,567	670,273	1,267,087	246,162	1,020,925

* Reflecting the release from the regulatory liability and Statutory assessments per budget.

** Accruing the payment to ERCOT for Texas RE's higher rent expense.

Date: June 8, 2009
To: Texas RE Board of Directors
From: Larry Grimm, Texas RE CEO and CCO
Subject: Approval of Texas RE 2010 Business Plan & Budget

Texas Regional Entity Board of Directors Meeting Date: June 15, 2009
Agenda Item No.: 5a

Issue:

Approval of the Texas Regional Entity 2010 Business Plan & Budget.

Background/History:

Section 4.10 of the ERCOT Bylaws requires the Board of Directors to approve the ERCOT budget (including the separate budget of the independent and functionally separate Texas Regional Entity division.) The Texas Regional Entity (Texas RE) Board of Directors (Board) has responsibility to adopt an annual budget for Texas RE's Statutory and Non-Statutory activities. FERC and NERC require the Statutory portion of the Texas RE 2010 budget ("Budget") to be sufficient to enable Texas RE to fulfill its obligations under its Delegation Agreement with NERC and include a reasonable reserve funding for unforeseen and extraordinary expenses and other contingencies - consistent with Generally Accepted Accounting Principles.

The Texas RE 2010 Business Plan and Budget (BP&B) is attached hereto as Exhibit A and is incorporated herein for all purposes. A redlined version of the BP&B, showing the changes made to this document since the draft 1, which was reviewed at the May 19, 2009 Advisory Committee and Board meetings, is attached as Exhibit B hereto. The Non-statutory portion of the Texas RE 2010 Budget must be sufficient to enable Texas RE to fulfill its Protocol and Operating Guide compliance responsibilities under the Texas Public Utility Regulatory Act (PURA). The Budget proposes Statutory requirements of \$8,041,359 and Non-statutory requirements of \$1,183,772, for a **total 2010 expenses of \$9,225,131**.

In developing the Texas RE 2010 Business Plan & Budget (BP&B), Texas RE staff followed a process which included opportunities for stakeholders to provide input. Texas RE solicited information from interested parties (including NERC, registered entities and market participants) by posting drafts of the 2010 BP&B on the Texas RE and NERC websites and by presenting the BP&B at the Texas RE Advisory Committee meetings on April 21, 2009 and May 19, 2009, as well as the May 19, 2009 Texas RE Board of Directors meeting - all of which were open to the public. The only comments received thus far were from Directors at the Advisory Committee and Board meetings and have been addressed. To date, Texas RE has not received any comments from market participants, registered entities, NERC, or FERC which would cause Texas RE to change the proposed Budget request. If any comments are received before the June 15, 2009 Board meeting, Texas RE staff will notify the Advisory Committee and Board. The Texas RE 2010 Business Plan & Budget must be approved by the Board of Directors and submitted to NERC for approval before July 8, 2009.

Key Factors Influencing Issue:

Texas RE must have adequate and sufficient funds in 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 Texas RE 2010 Business Plan & Budget.
 - Modify and approve the modified Texas RE 2010 Business Plan & Budget.
-

Conclusion/Recommendation:

Texas RE respectfully requests the Board approve the Texas RE 2010 Business Plan & Budget, which is attached hereto as Exhibit A, with no material changes.

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., a Texas non-profit corporation, finds that the 2010 Business Plan and Budget, which is attached hereto as Exhibit A and is incorporated herein for all purposes, is acceptable for Texas Regional Entity to submit to North American Electric Reliability Corporation (NERC) and file with the Federal Energy Regulatory Commission (FERC); and

WHEREAS, the Board deems it desirable and in the best interest of Texas Regional Entity to approve the proposed Texas Regional Entity 2010 Business Plan and Budget, with no material changes;

THEREFORE be it RESOLVED, that the Board hereby approves the 2009 Texas Regional Entity Business Plan and Budget, which is attached hereto as Exhibit A, with no material changes.

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



2010 Business Plan and Budget

DRAFT Version 3.0

Texas Regional Entity

Approved by:

Submitted:

June 15, 2009

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Introduction

Total Texas RE Resources (in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	31.00			
Non-statutory FTEs	6.00			
Total FTEs	37.00			
Statutory Expenses	\$6,520,641	\$6,520,641		
Non-statutory Expenses	\$1,123,772	\$1,123,772		
Total Expenses	\$7,644,413	\$7,644,413		
Statutory Funding	\$6,442,377	\$6,442,377		
Non-statutory(Member) Funding	\$1,153,772	\$1,153,772		
Total Funding	\$7,596,148	\$7,596,148		
NEL	324,830,913	324,830,913		
NEL %	100%	100%		

Organizational Overview

Texas Regional Entity (Texas RE) is an independent and functionally separate division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), a Texas non-profit corporation. The vision and 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 Bulk-Power System (BPS).

The ERCOT region is the geographic area located within the State of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 200,000 square miles and 85% of Texas load.

In May 2007, Texas RE executed a Delegation Agreement with 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 Commission, Texas RE and NERC signed Amended and Restated Delegation Agreements on March 28, 2008 and January 3, 2009.

In the May 2007 Delegation Agreement and the March 28, 2008 and January 3, 2009 Amended and Restated Delegation Agreements (collectively "the Delegation Agreement"), NERC delegates to Texas RE certain responsibilities and authorities of a regional entity as defined in the FPA, regulations adopted by the Commission (including but not limited to Order Nos. 672 and 672-A in Docket No. RM05-30-000), and other directives of the Commission, including the authority to propose, develop, monitor, assess, and enforce reliability standards and regional standards and variances within the ERCOT region, in accordance with the NERC Rules of Procedure (ROP). Texas RE's activities under the Delegation Agreement are referred to herein as Statutory activities.

In addition to Texas RE's Statutory activities, Texas RE monitors, investigates, audits, and reports on compliance with the ERCOT region reliability-based Protocols and Operating Guides (Protocols) for the PUCT, pursuant to the PUCT-approved ERCOT Compliance Process. Texas

RE's Protocol compliance activities are referred to herein as Non-Statutory activities. Texas RE coordinates with PUCT staff regarding enforcement of potential Protocol violations, but the PUCT prosecutes any Protocol violations that result in enforcement actions. Due process is provided to any entity that is reported to have violated a Protocol, pursuant to state law, and the PUCT makes all final decisions regarding Protocol violations.

Membership and Governance

Because Texas RE is an independent division of ERCOT ISO, members of ERCOT ISO are also members of Texas RE. These members can be from any ERCOT ISO Segment (as listed below), and, except for the Consumer Segment, must have an actual financial interest in the retail or wholesale electric market in the ERCOT region and be able to do business in one of these markets. ERCOT ISO charges a nominal fee for membership, but the membership fee can be waived upon good cause shown. Any person or entity that has a direct and material interest in the BPS has a right to participate in the Texas RE Standards Development Process, even if not a Texas RE member.

In order to maintain clear independence from and not be unduly influenced by the owners, operators, and users of the BPS being monitored, Texas RE operates as a functionally separate division of ERCOT ISO. Texas RE is led by a chief executive officer with the title Chief Executive Officer and Chief Compliance Officer (CEO) who manages the general affairs of Texas RE as its chief executive officer and reports to the Board of Directors or a subcommittee thereof for administrative purposes. Texas RE maintains office space that is separate from the ERCOT ISO office space. Texas RE and its employees function independently of the ERCOT ISO and its officers, and Texas RE creates, monitors, and operates under an independent budget and maintains separate books and records from ERCOT ISO. Texas RE contracts for certain administrative services by ERCOT ISO at a rate agreed to in a Memorandum of Understanding which was executed in 2008.

Texas RE's board is comprised of the sixteen (16) directors of the ERCOT ISO board, including the Chair of the PUCT, as an ex officio non-voting member, the ERCOT ISO CEO as an ex-officio voting member, five (5) Unaffiliated Directors (not affiliated with any ERCOT ISO market participant), and directors from the following market Segments:

- Three (3) Consumers:
 - Texas Public Utility Counsel (representing residential consumers and small commercial consumers, as an ex officio voting member)
 - Large Commercial Consumer (peak demand >1000 kilowatts)
 - Industrial Consumer
- One (1) Independent Retail Electric Provider (and one segment alternate)
- One (1) Generator (and one segment alternate)
- One (1) Independent Power Marketer (and one segment alternate)
- One (1) Investor Owned Utility (and one segment alternate)
- One (1) Municipal (and one segment alternate)
- One (1) Cooperative (and one segment alternate)

The Texas RE directors maintain independence from their role as ERCOT ISO directors by holding board and committee meetings separately from ERCOT ISO meetings and by not having any role regarding Texas RE's Statutory compliance and enforcement activities (as described below).

Statutory Functional Scope

In accordance with the Delegation Agreement and in compliance with the NERC ROP, Texas RE performs the following Statutory Functions:

- Propose and participate in the development of reliability standards, or modifications thereof and propose and develop needed regional standards or variances through Texas RE's Standards Development Process.
- Monitor and enforce approved reliability standards, including the registration of responsible entities and, as needed, the certification of such entities within the ERCOT region, through the Compliance Monitoring and Enforcement Program (CMEP).
- Perform other delegation-related services on behalf of NERC, in furtherance of NERC's responsibilities as the ERO under the FPA, including:
 - Assessment and performance analysis of the present and future reliability, adequacy, and security of the BPS.
 - Promote effective training and education of reliability personnel and assist in the certification of operating personnel.
 - Promote situational awareness and the security and protection of critical infrastructure.

2010 Key Assumptions

The key assumptions for Texas RE's 2010 Budget include the following:

- 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 still possesses unspent funds that will offset this amount.
- 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 Texas RE FERC audit.
- Texas RE will use any surplus funds from the prior year and any penalty funds received prior to July 1, 2009, to offset 2010 funding requirements.
- 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 per year.
- 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 for coordination and review of such assessments.
- NERC, Texas RE, and the other regional entities will continue to invest in technology improvements and process automation to improve efficiency and increase national consistency.
- Texas RE will lead the audits & other compliance monitoring processes of ERCOT ISO. Although NERC will participate, NERC will not charge Texas RE a fee for NERC's participation.

- NERC will conduct CIP audits of nuclear facilities with Texas RE participation. No funding has been included for NERC to conduct these audits.
- NERC will review and respond to Technical Feasibility Exception (TFE) requests.

2010 Goals and Key Deliverables

Texas RE's Goals and Key Deliverables for 2010 are as follows:

1. Improve reliability through rigorous monitoring and enforcement of compliance with mandatory standards, in accordance with the Delegation Agreement and the CMEP
 - a. Maintain registrations for responsible entities.
 - b. Monitor compliance of registered entities in the ERCOT region with mandatory standards, while adopting risk-based methodologies to optimize reliability benefits and improving quality and timeliness.
 - c. Ensure timely and thorough mitigation of all violations of mandatory reliability standards.
 - d. Enforce registered entities' compliance with the mandatory standards, while improving timeliness.
 - e. Promote a strong culture of compliance excellence, reliability improvement, and risk-based methods among registered entities in the ERCOT region.
2. Effectively communicate with NERC, other regional entities, regulators, and industry stakeholders as follows:
 - a. Continue to build and improve cooperative relationships with other registered entities, industry stakeholders, and regulators through regular, consistent messaging regarding all of Texas RE's program areas.
 - b. Deliver a consistent message through the new Texas RE website and a variety of electronic media (including the bi-monthly newsletter) as a timely and efficient means of providing important information to the industry and the public.
3. Maintain effective financial controls and conduct Texas RE operations within the approved budget.
4. Effectively manage the Texas RE Standards Development Process
 - a. Participate in and encourage stakeholder participation in the development of national standards, in support of the NERC three-year plan
 - b. Propose and facilitate development of regional standards or variances that are needed to comply with NERC's three-year plan, FERC directives, and any ERCOT region-wide physical differences.
5. Continue to increase situational awareness and event analysis capabilities, to improve timeliness of root cause analyses and lessons learned and strengthen overall reliability.
6. Work with NERC and the other regional entities to develop appropriate procedures for auditing and monitoring cyber and physical security of critical infrastructure.
7. Efficiently adopt appropriate technology to increase efficiency and productivity.
8. Establish Key Performance Indicators and Benchmarks for Texas RE operations.

Overview of Cost Impacts

In 2010, total direct Statutory expenses, plus Statutory capital expenses are increasing by 23.8% or \$1,282K from the 2009 budget. This increase is primarily being driven by the following items:

1. Increased personnel expenses resulting from adding five (5) additional staff (4.05 FTEs Statutory, .95 FTEs Non-statutory) and salary and benefit increases for existing staff. The total increase for personnel expenses is approximately \$769K.
2. Increased technology and capital expenditures, including the Texas Regional Entity Compliance Portal projects, document management system project, and other management and reporting tools to improve quality, efficiency and consistency of reporting total \$158K
3. Increased cash reserves total \$516K which in 2010, does not impact expenses. This cash reserve is being funded through unspent funds from prior years (Texas RE's regulatory liability) appearing on Texas RE's balance sheet and does not appear on the statement of activities. We are listing it for disclosure purposes.
4. Increased travel costs associated with NERC and Regional Entity meetings and compliance audits total \$79K.
5. Increased cost of administrative services received from ERCOT ISO through the MOU total \$139K, offset by reductions in rent expense and facilities services year-over-year of \$190K.
6. The Operations Training Seminar is budgeted in 2010 to accommodate a venue change that occurred in 2009. This resulted in increased costs; however those costs were funded by seminar attendees through the registration fee. For 2010, the expected increase year-over-year is approximately \$110K. This amount is also expected to be similarly funded through the seminar registration fees attendees pay.

Detailed Business Plans and Budgets by Program

Details of the planning, operation, review, and adjustment for each program area are included in Section A. The corresponding budget details are shown in Section B.

Section A — 2010 Business Plan

Reliability Standards Program

Reliability Standards Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.70	2.06	0.36
Total Direct Expenses	\$176,491	\$273,959	\$97,468
Total Indirect Expenses ¹	\$287,778	\$147,954	(\$139,824)
Total Expenses	\$464,269	\$421,913	(\$42,356)

Texas RE Standards staff facilitates the development of regional standards and variances, in accordance with the Texas RE Standards Development Process, which was approved as Exhibit C to the Delegation Agreement. Texas RE standards staff coordinates and publicly posts information regarding the activities of the Reliability Standards Committee (RSC) and all standards drafting teams (SDTs).

The Texas RE Standards Development Process is open to all organizations that are materially affected by the ERCOT region BPS, with no undue financial barriers. Any such entity has the right to participate by expressing an opinion, having its opinion considered, and having the right to appeal. Notice of all meetings of the Texas RE RSC and all drafting teams are provided on the Texas RE website and are open to the public.

The Texas RE Standards Development Process provides for a balance of interests, containing seven market segments and a requirement of a vote of at least two-thirds of the segments for approval of any regional standard. The first Texas RE Standard Authorization Request (SAR), SAR-001, proposed to add an additional market segment, with a ¼ vote, for ERCOT ISO and has been approved by NERC for filing with FERC. No two segments can dominate, and no single segment can defeat any matter. In addition, each of the current seven segments has at least two representatives on the RSC. Currently, 47 entities have joined the RBB, representing about 25% of all Texas RE members.

Texas RE's Standards Development Process provides for fair and due process by providing sufficient public notice of the intent to develop a regional standard. In addition, all proposed standards are posted on the Texas RE Reliability Standards Tracking site for public comments. The site allows all interested parties to submit comments during the commenting period. This process also provides an appeals process.

The RSC meets once a month. The SDTs meet as necessary and include WebEx participation. In addition to facilitating all meetings, Texas RE Standards employees are directly involved in the non-technical aspects of the drafting of the standards. Texas RE Compliance employees also provide technical support, as requested. To promote wider awareness of and participation in the reliability standards process throughout the ERCOT region, Texas RE launched the Reliability Standards Tracking site in 2008. The tool allows all registered parties to efficiently

¹ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

submit comments on SARs and draft standards during commenting periods and allows members of the Registered Ballot Body (RBB) to vote online.

Texas RE staff supports and participates in the NERC Standards Committee and Regional Reliability Standards Working Group and has contributed to the 2009-2011 NERC Work Plan. The Texas RE Manager of Standards was nominated and accepted into the NERC Communications and Planning Subcommittee of the NERC Standards Committee. In addition, the Texas RE staff review draft reliability standards from other regions, and staff from other regional entities review draft Texas RE regional standards.

Texas RE informs stakeholders of the impact and requirements of emerging NERC standards through training at the Texas RE workshops. In general, Texas RE works to ensure that stakeholders have the most current and accurate information on reliability standards. procedures, forms, meetings, minutes, notes, agendas, drafts, etc., for all regional activities associated with standards are posted in a timely fashion on the Texas RE website. Market notices on major topics and upcoming meetings are sent regularly to Texas RE email lists. Articles on reliability standards topics are included in the bi-monthly Texas RE newsletter.

2010 Key Assumptions

- Standards workflow remains constant, with no more than four (4) new SARs being developed during 2010.
- Standards program staffing is complete with two full time equivalent employees (FTEs) to maintain the continuation of existing SARs and development of potential new ones.
- Travel will increase in 2010 to meet goals of increasing participation in NERC and other regional committees and subcommittees.

2010 Goals and Key Deliverables

The goals of the Reliability Standards Program for 2010 are as follows:

1. Meet all FERC and NERC directives with regard to regional standards development and procedures and maintain effective relationships and communications with the standards staff at NERC and the other regional entities.
2. Develop regional standards program communications that educate and inform stakeholders and support the Texas RE Standards Development program objectives.
3. Work closely with NERC and registered entities within the Texas RE footprint to develop regional standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain a regional variance; or otherwise address issues that are not addressed in NERC Reliability Standards.
4. Ensure consistency and quality of regional standards without causing undue restrictions or adverse impacts on competitive electricity markets.
5. Ensure Texas RE Reliability Standards development process is aligned to meet agreed-upon expectations.
6. Streamline and improve the Texas RE's Standards Development Process and associated tools.
7. Participate and be actively involved in various NERC reliability standards program and related functions.

8. Continue to educate and inform the market participants to ensure adequate representation on the Registered Ballot Body.

To implement these goals Texas RE Standards staff is leading the RSC in developing a scope of work for the RSC to include more comprehensive review and comment to the existing and proposed NERC standards under development for tracking of possible regional variances that may be necessary with the associated continent-wide efforts. Texas RE Standards staff presented the RSC with the 39 standards development projects in the current NERC workplan and asked the RSC to rank them in importance. Ten projects emerged as most important to the ERCOT region. The RSC plans to have subject matter experts (SMEs) make one presentation each month on the 10 projects for evaluation as to any potential regional standard that may be necessary. A presentation on NERC Project 2006-03 System Restoration and Blackstart (EOP-005, 006, 007 and 009) was made at the March RSC meeting.

Certain stakeholders submitted comments requesting improvements to the Texas RE website. The new Texas RE website (which is expected to launch by the end of the second Quarter 2009) will have a Standards section that is intended to have improved clarity and navigation.

Texas RE Standards staff is considering having a regional standards workshop (a longer and more detailed presentation than the normal standards presentation made during the Compliance workshop), to allow ERCOT region stakeholders to learn about standards in general and the process for developing new regional and national standards. If this workshop is warranted, it would occur in the latter half of 2009. Otherwise, Texas RE Standards staff will continue to include a standards section in the Compliance Workshop.

Stakeholders also submitted comments indicating that the NERC Fill-in-the-Blank standards have caused confusion. Texas RE supports the concept of revising the standards to remove the Fill-in-the-Blank components. Texas RE will develop (as necessary) any regional standards that are subsequently required.

A regional-wide announcement was sent out in December 2008 to update and solicit more RBB registrations, to ensure wider participation by all segments. This announcement was part of the ballot pool solicitation and formation efforts for SAR-001. This resulted in the 47 RBB members as of February 28, 2009,

Texas RE Standards staff will increase its participation in NERC Standards Committee meetings to stay current on all NERC Standards under development for presentation to the ERCOT ISO stakeholders, and Texas RE will continue participating in the NERC Communication and Planning Subcommittee.

Funding Requirements — Explanation of Increase (Decrease)

The Reliability Standards funding requirements reflects an increase of \$247K year-over-year for two (2) reasons:

1. 2009 was lowered because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and
2. In 2010, indirect program expenses are fully allocated to the direct program areas.

Reliability Standards Program

Funding sources and related expenses for the reliability standards section of the 2010 business plan are shown in the table below.

Statement of Activities 2009 Budget & Projection, and 2010 Budget					
Reliability Standards					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 176,491	\$ 176,491	\$ -	\$ 423,446	\$ 246,955
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 176,491	\$ 176,491	\$ -	\$ 423,446	\$ 246,955
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 176,491	\$ 176,491	\$ -	\$ 423,446	\$ 246,955
Expenses					
Personnel Expenses					
Salaries	\$ 127,238	\$ 159,073	\$ 31,835	\$ 184,729	\$ 57,491
Payroll Taxes	10,179	11,949	1,770	14,901	4,722
Benefits	14,320	10,126	(4,194)	20,489	6,169
Retirement Costs	18,450	21,800	3,350	26,697	8,248
Total Personnel Expenses	\$ 170,187	\$ 202,948	\$ 32,762	\$ 246,816	\$ 76,629
Meeting Expenses					
Meetings	\$ -	\$ 304	\$ 304	\$ 400	\$ 400
Travel	4,344	3,389	(955)	6,824	2,480
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 4,344	\$ 3,693	\$ (651)	\$ 7,224	\$ 2,880
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	1,960	456	(1,504)	480	(1,480)
Professional Services	-	10,938	10,938	18,824	18,824
Miscellaneous	-	470	470	615	615
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 1,960	\$ 11,864	\$ 9,904	\$ 19,919	\$ 17,959
Total Direct Expenses	\$ 176,491	\$ 218,506	\$ 42,015	\$ 273,959	\$ 97,468
Indirect Expenses	\$ 287,778	\$ 211,201	\$ (76,578)	\$ 147,954	\$ (139,824)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 464,269	\$ 429,707	\$ (34,562)	\$ 421,913	\$ (42,356)
Change in Assets	\$ (287,778)	\$ (253,216)	\$ 34,562	\$ 1,533	\$ 289,312
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (20,746)	\$ (20,746)	\$ -	\$ (1,533)	\$ -
Change in Fixed Assets	\$ (20,746)	\$ (20,746)	\$ -	\$ (1,533)	\$ -
TOTAL CHANGE IN ASSETS	\$ (308,524)	\$ (273,962)	\$ 34,562	\$ 0	\$ 289,312

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- 2010 personnel expenses are increasing to accommodate additional FTEs of work in the Reliability Standards area. The primary increase is resulting from increased management, IT, Compliance, and other personnel working on Reliability Standards activities \$77K.

Meeting Expenses

- The \$3K increase in meeting expenses is primarily driven by increases in travel. Reliability Standards expects to attend at least 3 additional standards workgroup meetings in the coming year.

Operating Expenses

- The \$18K increase in operating expenses is attributed to expenses associated with the Texas Regional Entity Portal, the Reliability Standards Tracking site that relate to Reliability Standards and the Texas RE Website. These types of expenses were budgeted in administrative services last year; however, these are more appropriately direct costs to this program.

Indirect Expenses

- Indirect expenses are decreasing by \$140K year-over-year, through the identification of direct expenses that were previously budgeted in administrative services.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	14.15	18.74	4.59
Total Direct Expenses	\$1,628,802	\$3,123,961	\$1,495,159
Total Indirect Expenses	\$2,404,881	\$1,345,291	(\$1,059,590)
Total Expenses	\$4,033,683	\$4,469,253	\$435,569

The purpose of Texas RE's Compliance Monitoring and Enforcement Program (CMEP) is to protect the reliability of the ERCOT region's Bulk-Power System (BPS) through our interactions with and oversight of the registered entities in the region. Texas RE is responsible for monitoring, assessing, and enforcing compliance with NERC Reliability Standards and regional standards for all registered entities in the ERCOT region. The CMEP activities make up the majority of the work currently done by Texas RE although Non-statutory work continues to be an important aspect of overall compliance in the ERCOT region.

The CMEP focuses on four primary areas: properly registering organizations responsible for complying with reliability standards (Organization Registration and Certification), monitoring the registered entities for compliance with reliability standards (Compliance Monitoring), determining and reporting to NERC violations of reliability standards by registered entities (Enforcement), and ensuring correction of non-compliance and violations (Mitigation of Violations). Texas RE maintains processes and procedures for data gathering, reporting, investigating, auditing, assessing, penalizing and sanctioning violators, and mitigating non-compliance.

Because the CMEP is still a relatively new program, Texas RE continues to develop policies and procedures to support the evolving requirements that are developed at the national level. Texas RE will continue to review its organizational structure, processes, procedures and document management with the intent to continuously improve the quality and timeliness of its work while also addressing the cost of compliance whenever possible. The reliability of the BPS always remains the unquestionable number one priority of the organization.

Organization Registration and Certification Program Description and Functions

Texas RE is responsible for identifying and registering the owners, operators, and users of the BPS as registered entities in the ERCOT region per Section 500 of the NERC ROP. These registered entities are responsible for complying with all applicable reliability standards. Texas RE must maintain an accurate registration list of all entities, their contact personnel and the business relationships, as well as managing the Joint Registered Organization agreement process.

Texas RE has 216 registered entities representing 334 functions as of May 15, 2009. The list of registered entities in the ERCOT region continues to evolve and currently includes:

- 112 Generator Owners
- 77 Generator Operators
- 24 Transmission Planners
- 29 Transmission Owners
- 43 Distribution Providers
- 42 Purchasing Selling Entities
- 1 ISO with seven (7) registrations: Transmission Operator, Reliability Coordinator, Balancing Authority, Planning Authority, Resource Planner, Transmission Service Provider, and Interchange Authority (ERCOT ISO)

Texas RE created the Stakeholder Management Department in 2008 as the primary organization in Texas RE with responsibility for registration, certification, training, communications, reporting, document management and reliability assessments (discussed later). The plan was to provide organizational focus for Stakeholder management and services. In practice in 2009, staffing levels have not been adequate to properly manage registration and certification in a timely fashion and some dissatisfaction was expressed by registered entities with in the 2009 NERC survey.

In December 2008, Texas RE launched its portal. The portal allows registered entities to update or modify contact information and to submit self-certification response electronically. However, extracting data from the portal for submission to NERC continues to require manual intervention and quality control to validate entity changes. Texas RE has planned improvements for the portal to address issues such as reporting, and NERC is working toward completing its portal to allow a more efficient submission of this information. The updated Texas RE and NERC portals should reduce some of the administrative burdens on this program.

The management of Joint Registration Organizations (JRO) agreements adversely impacted work load in 2009 as this work has taken significant attention from staff to coordinate and approve. In addition, the implementation of the modified LSE registration criteria resulted in significant challenges in the ERCOT region due to the unique market design of the ERCOT region (including competitive markets and a single Balancing Authority). To avoid gaps, overlaps and registration appeals, Texas RE has spent approximately six (6) months working with stakeholders to obtain stakeholder feedback and facilitate a JRO design for LSE registration that eliminates all gaps, minimizes overlap, and reduces potential registration appeals. This process has been extremely beneficial with respect to improved communications and coordination with registered entities and is planned to be used again should a similar problem arise. Texas RE anticipates that the LSE JRO will result in a small increase in newly registered entities and a more significant increase in registered functions for existing entities.

Registration work is expected to remain at the current level (which is higher than anticipated for 2009) through 2010 due to on-going registered entity changes (changes in business names, mergers, acquisitions, asset sales, and reorganizations) and a possible JRO for the Transmission Operator (TOP) function (which could require TOP certification audits), and anticipated participation in national discussions regarding modifications or additions to the Statement of Registry Criteria (such as LSE) and registered entity functions or responsibilities, to ensure that the issues unique to the ERCOT region are properly considered.

Registration disputes also have the potential to adversely impact work load in the registration area. Texas RE should finalize its second significant registration dispute in 2009. The time

expended on each registration appeal has been significant. Texas RE anticipates that registration disputes should reduce over time once the NERC functions and registration criteria stabilize. This budget anticipates no significant changes in registration criteria in 2010. Stakeholder Management has remained relatively constant in 2009 and is adequately staffed. Stakeholder Management has a records coordinator who is helping to organize and maintain the records and procedures that are important to Texas RE's internal compliance and enforcement case management. Texas RE plans to install document management software in late 2009, which will require transitioning of existing files and revisions to internal procedures but is expected to enable Texas RE to more efficiently manage documents and evidence, even as the volume of evidence maintained increases.

The extensive reporting requirements for NERC, FERC, and the Texas RE board continue to remain higher and more challenging than expected. Texas RE anticipates that this could reduce somewhat, but, as a fairly new enterprise that is trying to achieve consistency among eight regional entities and NERC, Texas RE anticipates that it will need to continue to expect extensive reporting obligations through 2010.

To improve the organization's ability to address the dissatisfaction with timely registration responses, the ongoing support of the registration and certification process, including JROs, appeals and coordination with NERC and the other regions, Texas RE is planning to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) to Stakeholder Management in 2010.

Compliance Monitoring and Enforcement Program Description and Functions

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 strives to maintain a high level of reliable operation of the ERCOT region BPS. Ensuring the reliable operation of the BPS benefits all owners, operators, and users of the BPS in the ERCOT region.

In 2008, Texas RE divided its compliance staff into a Compliance Audit group and a Compliance Enforcement group in order to provide separation between the audit the other compliance and enforcement processes.

Texas RE uses a total of eight (8) monitoring and investigation processes to collect information to confirm compliance or a violation with NERC Reliability Standards:

1. Compliance Audits,
2. Self-Certifications,
3. Spot Checking,
4. Compliance Violation Investigations (CVI),
5. Self-Reporting,
6. Periodic Data Submittals,
7. Exception Reporting,
8. Complaints.

Compliance Audit

Texas RE audits the reliability standards on a recurring basis using an approved audit plan coordinated with NERC and the other regions. Texas RE also augments the audit schedule

based on regional needs. The Compliance Audit schedule follows a three or six-year cycle, depending on the entity's registration, and an audit report is issued for each audit.

In any year that a registered entity does not receive a Compliance Audit, Texas RE requires the entity to complete a compliance Self-Certification using electronic forms developed in coordination with NERC and distributed by Texas RE. The entity must certify its compliance or non-compliance with each designated measure and submit the Self-Certification form to the Texas RE by the date specified in Texas RE's request. Texas RE may require registered entities to also self-certify their compliance with reliability standards at other times as well.

Texas RE's Compliance Audit group performs Spot Checks of registered entities to 1) confirm compliance certified on Self-Certifications, 2) follow up on Self Reports and Periodic Data Submittals, and 3) follow up on complaints, events, or other indications of non-compliance. Texas RE may perform Spot Checks by telephone, site visit, or a data or document request. Deficiencies found in Self-Certifications and Spot Checks are treated as if they were audit findings of violations.

Prior to 2009, most on-site audits took two days at the registered entity's site. In 2009, these audits have been extended to three days due to the increase in work brought about by the need to verify completion of past mitigation plans and to investigate potential issues of reliability concern, including recent violations or events. The growth in the audit duration directly impacts audit staffing and travel costs.

The current plan for Texas RE is to support the 2010 Critical Infrastructure Protection (CIP) audit with the Compliance Audit staff. CIP experts will be staffed in the CIP budget; however, Texas RE intends to augment the CIP audit team with experienced auditors from the Compliance audit team in 2010. Texas RE has only one (1) registered entity that is required to be auditably compliant with CIP 002 – 009 prior to January 1, 2011, but Texas RE plans to perform 2010 validation and testing of CIP methodologies for CIP 002 via a minimum of six (6) CIP Spot Checks of the 41 requirements contained in the reliability standards CIP 002 – 009. (The CIP FTEs are discussed in the Critical Infrastructure Information section.)

Texas RE plans to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) auditor to the Compliance Auditing department to address the increase in audit work load from the organic growth in regular audits and to support CIP audits and spot checks in 2010. This is in addition to the additional CIP expert discussed in a later section.

Compliance Enforcement

Texas RE has implemented a separate Compliance Enforcement group that processes alleged violations originating from audits, spot-checks, self-certifications, complaints, self reports, CIQs and CVIs. The Compliance Enforcement program activities include reviewing all potential alleged violations from any of the eight (8) defined processes, preparing and submitting notices of alleged violations, preparing Notices of Confirmed Violations, assisting NERC with Notices of Penalties, and managing settlement negotiations and hearings associated with contested violations. This group also reviews all mitigation plans and must confirm completion of all mitigation plans not verified during audit, using Spot Checks, when necessary.

Once a potential alleged violation is identified from any compliance monitoring process, the Compliance Enforcement group may begin a Compliance Inquiry (CIQ), Compliance Violation

Investigation (CVI), or perform a Spot Check to gather additional information to assist with the final determination of a potential violation. A CIQ is initiated as an informal, non-public review of facts, circumstances, and information that is conducted to determine if a more formal CMEP activity (such as a Spot Check or CVI) should be initiated. The CVI process is a detailed and lengthy process used for the more serious or complicated potential violations. The Spot Check is a very efficient process to gather information to reach a final determination of a potential violation.

Documentation requirements for all Compliance Enforcement program activities and processes increased during 2009 to support due process and to address all NERC and FERC-required improvements. Texas RE expects the Compliance Enforcement program activities to continue to increase in 2010 due to the level of complexity to reach violation determination and penalty calculation.

Texas RE also anticipates additional work to support enforcement appeals. Since no significant penalties have yet been approved, there have not been any significant appeals in the ERCOT region. Texas RE is staffing to ensure that it will be prepared for 1 large or 2 smaller enforcement appeals.

Texas RE plans to add an additional 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) in 2010 to accommodate the work load in Compliance Enforcement.

2010 Key Assumptions

Organization Registration and Certification

- Additional JRO workload due to LSE and possible TOP registrations.
- Certification audit for a maximum of 4 TOPs (registered by JRO) might be performed.
- No additional NERC functions will be added or substantially modified by or during 2010.
- The Texas RE and NERC Portals will be fully functional and supporting electronic reporting of registration information to NERC by late 2010.
- Document management software will be installed in 2009 and fully operational in 2010.

Compliance Audit

- Audits will require three (3) full days for the team to conduct the audit, with additional time required for preparation of audit notification, review of submitted responses prior to the audit and completion of the audit reports, similarly to 2009.
- Spot checks of requirements will be incorporated in the audit team schedule based on system events, self-certification results and complaints. A maximum of 20 entities will have a spot check, (including the six (6) Spot checks of CIP 002 – 009 standards listed below) conducted in the second half of the year.

Compliance Enforcement

- The number of alleged violations will remain fairly constant in 2010.
- Have one (1) large or two (2) small-to-medium contested enforcement cases.
- Conduct 2 Compliance Violation Investigations.

- Conduct 20 detailed analyses of incidents, system disturbances, and events.
- Analyze and investigate 10 Complaints.
- Continue to work with NERC and other regional entities to improve consistency in processing violations and applying penalties for Registered Entities with operations in multiple regions.

2010 Goals and Key Deliverables

Organization Registration and Certification

1. Maintain an accurate registration list of all owners, operators, and users of the BPS by establishing a schedule to verify entity registration and contact information.
2. Provide updated registered entity information to NERC and appropriate government authorities.
3. Participate in development of registration criteria, procedures, policies and databases with NERC and FERC, and implement and communicate changes as necessary.
4. Provide support for all registration appeals.
5. Implement organization certification in accordance with NERC processes, some of which are still under development – conduct required certification audits, if necessary.
6. Maintain processes and procedures for registration and certification activities that are required by the certification standards.
7. Review and improve procedures to improve communications with registered entities
8. Achieve significant improvement in responsiveness and add more focus on regional consistency.
9. Respond to requests and special reports from NERC/FERC and the board.
10. Continue to improve the Portal to facilitate automated communications with registered entities.
11. Maintain the document management system to preserve work papers and evidence.

Compliance Enforcement

1. Review and process or dismiss all alleged violations in a more timely fashion.
2. Manage all settlements and contested cases to completion, as efficiently as possible.
3. Coordinate with and provide assistance to the Legal Department on settlements, appeals and contested cases.
4. Conduct required Compliance Violation Investigations.
5. Conduct compliance analysis of all significant events and other system disturbances.
6. Analyze and investigate all Complaints.
7. Achieve reasonable timelines in performing each of the compliance monitoring and enforcement processes.
8. Achieve reasonable timelines in processing violations, penalties and settlement agreements (less than 100 days).

Audits

1. Conduct approximately 52 audits, 18 at the entity's site and the remaining 34 at TRE's offices, per the 2010 schedule, Texas RE procedures and the provisions of the NERC CMEP.
2. Perform Spot Checks, including a sample of entities for spot checks of the CIP standards.
3. Continue to work with other Regional Entities to improve auditing consistency and reduce the cost of audits for Registered Entities with operations in multiple regions.
4. Complete a review of policies and procedures with the goal of improving the clarity of communications with Registered Entities, to determine how to mitigate the cost of compliance without impacting reliability, and meeting compliance with NERC ROP modifications and NERC guidance.
5. Prepare an overall CMEP implementation plan for the 2011 program by November 1, 2010, including recommendations from the FERC and upcoming NERC audit of Texas RE.

Funding Requirements — Explanation of Increase (Decrease)

The Compliance funding requirements reflects an increase of \$2,990K year-over-year due to 2009 being lower because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, there are personnel increases proposed for 2010 as detailed below.

Compliance will have increased personnel expenses as a result of adding three (3) staff (2.55 FTEs Statutory, .45 FTEs Non-statutory) and additional management, legal, IT, and other personnel work on compliance activities.

Organization Registration and Certification

Staffing levels are inadequate to provide reasonable response times on registration and certification issues including JRO activity. The department only has one professional staff (currently vacant) member to address all work in this area, which has proven to be inadequate. Adding one professional level staff member will help correct uneven response times in this area. More focus on regional consistency will be made possible by shifting registration duties away from the manager. In addition, the new staff member will effectively address special requests for data and reports from NERC/FERC. Based on the supporting Registration and Certification business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, .15 Non-statutory) for 2010 to be hired at the beginning of the 2nd quarter.

Compliance Enforcement

Current staff levels and workload don't allow for timely completion of the tasks associated with the required CMEP processes. Documentation requirements for each of these processes continue to increase. Adding one additional staff will allow the organization to reduce enforcement processing delays to more reasonable durations. Based on supporting the Compliance Enforcement business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, and .15 Non-statutory) for 2010 to be hired in the middle of the first quarter.

Audits

The audit team is requesting the addition of a ninth staff member in 2010 due to the required increases in audit time. Typical on-site audits are requiring a third day, and the overall time for an audit is increasing commensurately. The audit team will also be supporting spot checks of

the CIP 002-009 standards during the second half of 2010. These CIP spot checks are also anticipated to require significant additional effort. Based on supporting the Audit business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, and .15 Non-statutory) for 2010 to be hired in the middle of the first quarter.

In addition to the headcount additions, direct legal expenses are increasing \$257K. The Texas RE Compliance Portal hosting expenses are increasing \$160K. Both of these expenses were recognized under administrative services in prior years, but are more appropriately reflected in 2010 as direct costs.

Compliance Enforcement and Organization Registration and Certification Program

Funding sources and related expenses for the compliance enforcement and organization registration and certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance and Organization Registration and Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 4,619,430	\$ 2,990,495
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 4,619,430	\$ 2,990,495
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 4,619,430	\$ 2,990,495
Expenses					
Personnel Expenses					
Salaries	\$ 1,164,106	\$ 1,221,917	\$ 57,811	\$ 1,799,918	\$ 635,812
Payroll Taxes	93,128	97,661	4,532	142,553	49,425
Benefits	134,510	100,088	(34,422)	196,011	61,501
Retirement Costs	163,258	161,664	(1,594)	255,408	92,150
Total Personnel Expenses	\$ 1,555,003	\$ 1,581,331	\$ 26,327	\$ 2,393,890	\$ 838,887
Meeting Expenses					
Meetings	\$ -	\$ 634	\$ 634	\$ 4,000	\$ 4,000
Travel	73,199	85,850	12,651	147,091	73,892
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 73,199	\$ 86,484	\$ 13,285	\$ 151,091	\$ 77,892
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	600	2,630	2,030	8,760	8,160
Professional Services	-	22,108	22,108	416,660	416,660
Miscellaneous	-	171	171	15,561	15,561
Depreciation	-	-	-	138,000	138,000
Total Operating Expenses	\$ 600	\$ 24,909	\$ 24,309	\$ 578,980	\$ 578,380
Total Direct Expenses	\$ 1,628,802	\$ 1,692,723	\$ 63,921	\$ 3,123,961	\$ 1,495,159
Indirect Expenses	\$ 2,404,881	\$ 1,722,893	\$ (681,988)	\$ 1,345,291	\$ (1,059,590)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 4,033,683	\$ 3,415,617	\$ (618,067)	\$ 4,469,253	\$ 435,569
Change in Assets	\$ (2,404,749)	\$ (1,786,682)	\$ 618,067	\$ 150,177	\$ 2,554,926
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ (138,000)	\$ (138,000)
Computer & Software CapEx	-	-	-	274,237	274,237
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (136,237)	\$ (136,237)
Allocation of Fixed Assets	\$ (173,365)	\$ (173,365)	\$ -	\$ (13,940)	\$ -
Change in Fixed Assets	\$ (173,365)	\$ (173,365)	\$ -	\$ (150,177)	\$ (136,237)
TOTAL CHANGE IN ASSETS	\$ (2,578,113)	\$ (1,960,047)	\$ 618,067	\$ -	\$ 2,418,689

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- The Compliance, Organization Registration & Certification program is proposing to add 3.0 staff (2.55 FTEs Statutory, .45 FTEs Non-statutory) to this area to enhance functional performance (improved response times and increased effectiveness) \$300K. There are additional management, legal and project personnel that are directly working in these functions that are also reflected in the total FTEs (as reported on table 2 of Section B) for these programs.

Meeting Expenses

- Meeting expenses are increasing year-over-year primarily related to travel expenses. The length of audits has been extended resulting in a 16% increase in travel \$15K. Additionally, there are a significant number of NERC working group meetings that are planned based on the 2009 meeting schedule, expected increase \$59K. The additional working group meetings are expected to result in a more consistent compliance implementation across the regions.

Operating Expenses

- Professional services expenses are increasing in 2010 due to the direct costing of external legal (for enforcement hearings and registration appeals - \$257K) and other professional service expenses directly attributed to hosting Texas RE's portal \$160K for the benefit of the program.
- Additionally, there is approximately \$138K in depreciation expense attributed to the Texas RE Portal for 2010, please see Fixed Asset Additions for more detail.

Indirect Expenses

- Indirect expenses are decreasing \$1,060K year-over-year, through the identification of direct expenses that were previously budgeted in administrative services.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- The majority of this capital expense is attributed to Texas RE Portal projects and enhancements in 2010, \$274K. The projects such as, Portal Project - System Management User Interfaces: Forms, Security, Notifications/Emails, Portal Switch Lookup, Master Account Summary Report (TRE Registration), CIP Forms 2010 (CIP annual update), Portal Communications GUI (allows non-developers to administer portal home page announcements), and an Audit Tracking Module (TRE Compliance Audits) will enhance Texas RE's ability to perform its delegated responsibilities by utilizing technology to enhance performance.

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	0.60	0.97	0.37
Total Direct Expenses	\$176,415	\$328,735	\$152,320
Total Indirect Expenses	\$99,243	\$69,896	(\$29,347)
Total Expenses	\$275,658	\$398,630	\$122,972

The Texas RE Training, Education, and Operator Certification program provides the education and training necessary to understand and operate the BPS, in accordance with NERC ROP Section 900. In 2010, the Texas RE Training program will develop materials for and plan to hold at least:

- Two (2) full-day Standards and Compliance workshops;
- One (1) additional workshop focusing on standards;
- Two (2) additional workshops focusing on CIP compliance.

In addition to the above workshops, Texas RE also intends to continue to coordinate and facilitate six (6) regular sessions of the ERCOT Operations Training Seminar. The purpose of this seminar is to refresh the understanding of operational fundamentals; introduce changes occurring to operational interfaces, equipment, systems, and processes; address the impact of market processes to system performance and operation; and address emerging issues in performance and system reliability. Texas RE also facilitates the ERCOT Operator Certification Program, including maintaining and updating the ERCOT Fundamentals Training Manual and administering the System Operator testing process.

The Texas RE Training staff also publishes a bi-monthly newsletter, which includes useful compliance and standards-related information, updates about Texas RE and NERC activities, training, procedures, templates, and forms, and current reliability-related topics.

Texas RE staff participates on selected industry sponsored seminars and panels to provide as much information to the industry as possible as well as to receive feedback.

Texas RE's training program continues to improve and consistently receives favorable reviews from participants. With few exceptions the Texas RE workshops and seminars are fully subscribed and support remote attendance using call-in numbers and WebEx presentations.

2010 Key Assumptions:

- Texas RE will develop and deliver two (2) Standards and Compliance workshops, two (2) CIP Compliance workshops and six sessions of the Operations Training seminar in 2010.
- Texas RE will develop and deliver one (1) Reliability Standards workshop in 2010.
- The Training, Education, and Operator Certification program will remain a Statutory function with the Operations Training Seminar revenues partially offsetting the seminar's expenses.

2010 Goals and Key Deliverables:

1. Develop two (2) full-day high quality 2010 Standards and Compliance workshops (approximately 125 stakeholders each)
2. Develop and deliver one (1) full-day Reliability Standards workshop
3. Develop and deliver two (2) full-day quality CIP workshops
4. Coordinate and host six (6) sessions of the four-day ERCOT region Operator Training seminar
5. Maintain a database for tracking seminar and workshop participants and feedback and use this feedback to continue to improve on future seminars and workshops

Funding Requirements — Explanation of Increase (Decrease)

The Training, Education and Operator Certification funding requirements reflects an increase of \$113K year-over-year because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, expenses associated with the Operations Training Seminar are increasing due to increases in the cost of the venue for the six (6) week seminar facilitated by Texas RE. The increase in costs from 2009 to 2010 for the OTS is expected to be \$110K year-over-year. This additional expense is expected to be offset by registration fees collected from OTS attendees.

Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training and Education					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 106,415	\$ 106,415	\$ -	\$ 219,355	\$ 112,940
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 106,415	\$ 106,415	\$ -	\$ 219,355	\$ 112,940
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	70,000	174,029	104,029	180,000	110,000
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 176,415	\$ 280,444	\$ 104,029	\$ 399,355	\$ 222,940
Expenses					
Personnel Expenses					
Salaries	\$ 52,608	\$ 76,339	\$ 23,731	\$ 81,122	\$ 28,514
Payroll Taxes	4,209	5,594	1,385	6,425	2,216
Benefits	5,524	7,747	2,222	8,834	3,310
Retirement Costs	7,628	9,673	2,044	11,511	3,883
Total Personnel Expenses	\$ 69,969	\$ 99,352	\$ 29,383	\$ 107,893	\$ 37,924
Meeting Expenses					
Meetings	\$ 105,000	\$ 154,928	\$ 49,928	\$ 220,000	\$ 115,000
Travel	1,446	1,700	254	-	(1,446)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 106,446	\$ 156,628	\$ 50,182	\$ 220,000	\$ 113,554
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	270	270	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	646	646	842	842
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ 916	\$ 916	\$ 842	\$ 842
Total Direct Expenses	\$ 176,415	\$ 256,896	\$ 80,481	\$ 328,735	\$ 152,320
Indirect Expenses	\$ 99,243	\$ 96,418	\$ (2,825)	\$ 69,896	\$ (29,347)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 275,658	\$ 353,314	\$ 77,656	\$ 398,630	\$ 122,972
Change in Assets	\$ (99,243)	\$ (72,870)	\$ 26,373	\$ 724	\$ 99,967
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (7,154)	\$ (7,154)	\$ -	\$ (724)	\$ -
Change in Fixed Assets	\$ (7,154)	\$ (7,154)	\$ -	\$ (724)	\$ -
TOTAL CHANGE IN ASSETS	\$ (106,397)	\$ (80,024)	\$ 26,373	\$ -	\$ 99,967

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Training, Education and Operator Certification is planned to be nearly 45% self-funded in 2010 through registration fees from attendees of the OTS. The remaining 55% of this program is funded through assessments.

Personnel Expenses

- 2010 personnel expenses are increasing to accommodate additional FTEs of work in the Training area. The primary increase is resulting from increased management, support and other staff to conduct Texas RE's training workshops and the Operations Training Seminar.

Meeting Expenses

- Meeting expenses are increasing primarily for the Operations Training Seminar. Due to a venue change to an offsite location, the costs of conducting the seminar are \$110K higher.
- Additionally, Texas RE is increasing its budget for workshops from \$35K to \$40K to allow for venue changes as needed for larger attendance.

Operating Expenses

- The primary expense budgeted in this area relates to training seminars, dues, and training in direct support for the training staff.

Indirect Expenses

- Indirect expenses are reflecting a decline of \$29K year-over-year due to reductions in the administrative costs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.20	2.44	0.24
Total Direct Expenses	\$365,180	\$ 290,095	(\$75,085)
Total Indirect Expenses	\$372,419	\$175,173	(\$197,246)
Total Expenses	\$737,599	\$465,267	(\$272,331)

Program Scope and Functional Description:

Reliability Assessment Reports

ERCOT ISO has traditionally assembled the data for an prepared all seasonal, annual long-term, and other required planning and reliability assessments for the ERCOT region, using ERCOT ISO planning staff and input from stakeholder technical experts. As the regional entity, Texas RE coordinates with ERCOT ISO regarding the timing of these assessments, and Texas RE reviews the assessments for completeness. Because Texas RE plans to continue to rely upon ERCOT ISO Planning staff for the research and preparation of these assessments, Texas RE's coordination and review of these assessments is a small portion of its 2010 budget.

Event Analysis

As Reliability Coordinator, ERCOT ISO monitors the system in real time and reports a variety of incidents and disturbances to Texas RE for its review and compliance analysis. These incidents and disturbances include Department of Energy and NERC reportable events, Emergency Electric Alert (EEA) implementation, special protection system activation, equipment outages and failures, underfrequency and undervoltage relay operation, any failure to meet NERC requirements related to frequency control or transmission security.

Texas RE reviews all reported incidents and disturbances to determine if a compliance analysis is needed. If the initial review indicates that a standard might potentially have been violated, Texas RE performs a compliance analysis and obtains more information from the registered entity, as needed. If the compliance analysis indicates that further review, such as a CIQ, Spot Check, or CVI is justified, further analysis is performed as described under the CMEP description. If the initial review indicates that any Protocol might have been violated, Texas RE performs a Non-statutory compliance analysis as part of its Non-statutory activities.

Texas RE staff also attend ERCOT ISO reliability-based stakeholder committees, such as the Reliability & Operating Subcommittee (ROS), Performance Disturbance Compliance Working Group (PDCWG), Operations Working Group (OWG) and the Wind Operations Task Force (WOTF) to better understand the reliability issues and challenges for the ERCOT region and to provide comments from the Texas RE perspective when needed. Texas RE also regularly communicates with NERC staff regarding any reliability challenges of special interest in the ERCOT region (e.g. wind generation) to keep NERC apprised of risks, improvements, and on-going strategy.

On a monthly basis, Texas RE also calculates and reports on a variety of reliability performance metrics (e.g. Regional (ERCOT Protocol) measures and NERC Reliability Standards measures) to its Board of Directors. Texas RE also uses this information, when appropriate, to identify potential standards violations or declining reliability trends that need to be investigated

2010 Key Assumptions:

- ERCOT ISO will continue to research, assemble data for, and prepare the seasonal, long-term, and other requested assessments, and Texas RE will coordinate the timing of and review such assessments (and make comments, if required) before submitting the assessments to NERC
- Review approximately 80 reports of incidents, complaints, and disturbances

2010 Goals and Key Deliverables:

1. Texas RE will increase its participation in the Regional Planning Group activities
2. Timely review and submit all required assessments to NERC (or ensure required assessments are submitted to NERC on schedule).
3. Timely review all required incidents, complaints and disturbances
4. Communicate and coordinate issues of reliability concern with NERC

Funding Requirements — Explanation of Increase (Decrease)

The Reliability Assessment and Performance Analysis program funding requirements reflects an increase of \$102K year-over-year for two (2) reasons:

1. 2009 was lowered because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and
2. In 2010, indirect program expenses are fully allocated to the direct program areas.

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 365,180	\$ 365,180	\$ -	\$ 467,083	\$ 101,903
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	<u>\$ 365,180</u>	<u>\$ 365,180</u>	<u>\$ -</u>	<u>\$ 467,083</u>	<u>\$ 101,903</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 365,180</u>	<u>\$ 365,180</u>	<u>\$ -</u>	<u>\$ 467,083</u>	<u>\$ 101,903</u>
Expenses					
Personnel Expenses					
Salaries	\$ 270,100	\$ 157,007	\$ (113,093)	\$ 217,004	\$ (53,096)
Payroll Taxes	21,608	11,922	(9,686)	17,187	(4,421)
Benefits	31,191	13,181	(18,010)	23,632	(7,559)
Retirement Costs	39,165	21,247	(17,918)	30,793	(8,372)
Total Personnel Expenses	<u>\$ 362,063</u>	<u>\$ 203,356</u>	<u>\$ (158,707)</u>	<u>\$ 288,615</u>	<u>\$ (73,448)</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	3,117	850	(2,267)	806	(2,311)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 3,117</u>	<u>\$ 850</u>	<u>\$ (2,267)</u>	<u>\$ 806</u>	<u>\$ (2,311)</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	1	1	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	136	136	673	673
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ -</u>	<u>\$ 137</u>	<u>\$ 137</u>	<u>\$ 673</u>	<u>\$ 673</u>
Total Direct Expenses	<u>\$ 365,180</u>	<u>\$ 204,343</u>	<u>\$ (160,837)</u>	<u>\$ 290,095</u>	<u>\$ (75,085)</u>
Indirect Expenses	<u>\$ 372,419</u>	<u>\$ 246,784</u>	<u>\$ (125,635)</u>	<u>\$ 175,173</u>	<u>\$ (197,246)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 737,599</u>	<u>\$ 451,127</u>	<u>\$ (286,472)</u>	<u>\$ 465,267</u>	<u>\$ (272,331)</u>
Change in Assets	<u>\$ (372,419)</u>	<u>\$ (85,947)</u>	<u>\$ 286,472</u>	<u>\$ 1,815</u>	<u>\$ 374,234</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ (26,847)	\$ (26,847)	\$ -	\$ (1,815)	\$ -
Change in Fixed Assets	<u>\$ (26,847)</u>	<u>\$ (26,847)</u>	<u>\$ -</u>	<u>\$ (1,815)</u>	<u>\$ -</u>
TOTAL CHANGE IN ASSETS	<u>\$ (399,266)</u>	<u>\$ (112,794)</u>	<u>\$ 286,472</u>	<u>\$ -</u>	<u>\$ 374,234</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- FTEs are increasing .24 FTEs in 2010 due to expected time to be spent on performance analysis and reliability assessment.
- Personnel expenses in 2010 are expected to be less than those reflected in the 2009 budget by \$73K year-over-year.

Meeting Expenses

- Meeting expenses are decreasing \$2K due to all expected travel within this program to be within driving distance of Texas RE's offices.

Operating Expenses

- Material changes to operating expenses are not planned for 2010.

Indirect Expenses

- Indirect expenses are declining \$197K year-over-year, due to a reduction in administrative services costs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Situational Awareness and Infrastructure Security Program

Situational Analysis and Infrastructure Security Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.50	3.03	1.53
Total Direct Expenses	\$159,129	\$391,907	\$232,778
Total Indirect Expenses	\$250,393	\$217,171	(\$33,222)
Total Expenses	\$409,522	\$609,078	\$199,557

Program Scope and Functional Description

This program supports two distinct functions. Situational awareness is focused on near real-time analysis of the BPS for ERCOT ISO. Infrastructure Security focuses on protecting tangible assets from a variety of threats. The majority of activity for this program in 2010 relates to Infrastructure Security, however, some resources are also planned for Situational Awareness.

Situational Awareness

Currently, Texas RE relies significantly on the ERCOT ISO to provide details on situational issues. Texas RE Staff have direct access to historical data via the data warehouse. There are two aspects of situational awareness which require Texas RE involvement in 2010:

1. Texas RE will continue to participate in the Situational Awareness for FERC, NERC, and Regional Entities (SAFNR) Project. SAFNR Project goal is to enable 100% of reliability coordinators in the United States to display interconnection system conditions to FERC, NERC, and the respective regional entities. This will be accomplished through internet-based systems that provide visual displays for FERC, NERC, and the Regional Entities (REs) while all the data resides at the reliability coordinators.

The SAFNR Project team is comprised of FERC Office of Electric Reliability staff, NERC Situational Awareness staff, designated RE staff, the Reliability Coordinators (RCs) located in the United States, and the Regional Entity managers.

2. Texas RE situational awareness and events analysis staff communicate with NERC, FERC and other regions on observed events, disturbances, or BPS condition. NERC led conference calls are held at a minimum bi-weekly. In the case of more severe events (for example: major blackout or hurricane), daily as needed.

2010 Key Assumptions

Situational Awareness

Phase 1 of the SAFNR Project will be completed by the 2009 summer. Phase 1 includes the RCs making information available for FERC, NERC, and the Regional Entities by summer 2009 via data servers at the RC location.

2010 Goals and Key Deliverables

Situational Awareness

SAFNR's subsequent goal is to provide each NERC, FERC and each RE with a common view of the interconnections. In 2010, this includes:

1. Modify existing displays or create new ones to make the visualization more consistent.
2. Assess what aspects are working well, identify areas for improvement and review cost implications.
3. Clarify what is driving the related business case and possibly build in performance metrics from previous phases to help quantify the value.

Funding Requirements — Explanation of Increase (Decrease)

The Situational Awareness and Critical Infrastructure Protection funding requirements reflects an increase of \$452K year-over-year, in part due to 2009 being lower because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, expenses associated with the program are increasing as detailed in the variances section.

Situational Awareness

Based on supporting the SAFNR Project and the regular communication of event details to NERC and FERC (and PUCT for Non-statutory reporting) as outlined in this business plan, Texas RE will require an additional 1.0 staff (.74 FTEs Statutory, .26 FTEs Non-statutory) for 2010.

Exhibit not completed due to personnel salary confidentiality as would be compared to 2009.

Critical Infrastructure Protection Resources (Included in Total Situational Awareness and Infrastructure Security) (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	n/a	n/a	n/a
Total Direct Expenses	n/a	n/a	n/a
Total Indirect Expenses	n/a	n/a	n/a
Total Expenses	n/a	n/a	n/a

Program Scope and Functional Description

Responsible entities must become compliant with Critical Infrastructure Protection (CIP) Standards based on the NERC implementation schedules. ERCOT ISO is the only designated Balancing Authority (BA), Transmission Operator (TOP), and Reliability Coordinator (RC) in the ERCOT region and was required to self-certify compliance to NERC's Urgent Action Cyber Security Standard 1200. As such, ERCOT ISO must be either auditably compliant or compliant with all of the CIP Standards requirements by the end of the second quarter 2009; and auditably compliant with all CIP Standards requirements by the end of the second quarter 2010.

All new registered entities must also become compliant with all CIP standards requirements in accordance with the CIP implementation plan.

Texas RE will continue to play an active role during the implementation of the CIP standards requirements. To provide time for Responsible Entities to examine their policies and procedures, to assemble the necessary documentation, and to meet the requirements of the CIP standards, compliance assessment began in 2007. Status reports are also being requested from Responsible Entities to verify that entities are on schedule and meeting the implementation plan. NERC expects its regional entities to provide assistance and education on the CIP standards to ease the transition. Texas RE is budgeting to provide training to registered entities and other stakeholders under the training function budget. Some of the content in this training will be related to cyber-security and will be internally developed.

This program will support activities associated with cyber security, including monitoring and enforcement of compliance with the CIP (CIP-001 thru 009) standards. The intent of the NERC CIP Standards is to ensure that all entities responsible for the reliability of the BPS identify and protect critical cyber assets that control or could impact the reliability of the BPS. The CIP Standards requirements are being communicated to all responsible entities to ensure compliance in accordance with the CIP Implementation Plan. This requires a significant amount of communication with the ERCOT ISO Security Department and entities responsible for complying with the CIP standards. Compliance Audits, self-certifications, and spot checks will be required to verify compliance.

2010 Key Assumptions

- Develop and Implement CIP audit program during 2010.
- Texas RE will only have one major CIP audit in 2010.
- Conduct all CIP Spot Checks at the Texas RE offices (no CIP audit travel will be required in 2010).
- Semi-annual CIP Self-Certifications will be required of registered entities in 2010.

- NERC will conduct CIP audits of nuclear facilities, as contemplated by NERC's draft Business Plan and Budget.
- Six (6) CIP spot checks will be done in 2010.
- NERC will review and respond to Technical Feasibility Exception (TFE) requests.

2010 Goals and Key Deliverables

1. Finalize Texas RE CIP audit procedures.
2. Complete the CIP audit of the ERCOT ISO.
3. Complete a minimum of 6 CIP spot checks.
4. Identify CIP Audit Team for 2011.
 - i. Any additional skill sets that may be needed for 2011.
5. Semi-Annual CIP Self-Certifications for 2010.
6. Develop education plan and deliver 2 CIP workshops for registered entities (see Training section).
 - i. Last CIP Workshops before entities enter audibly compliant phase and CIP audits begin.
7. Enhance the Texas RE website with CIP information and links.

Funding Requirements — Explanation of Increase (Decrease)

Critical Infrastructure Protection

The addition of one IT Security subject matter expert (SME) will provide a skill set that Texas RE currently does not possess. Specific knowledge of how to assess the security of EMS and SCADA systems, networks, and electronic security perimeters (ESP) is needed. Incorporating this knowledge into the Texas RE CIP process will be a primary deliverable for the IT Security SME in 2010, as well as participating in the 2010 CIP audit of the ERCOT ISO. The IT Security SME will be participating (and eventually leading) on CIP audits in 2011 and spot-checks in 2010. In preparation for participating in CIP audits, the IT Security SME will have to attend NERC Auditor Training and NERC CIP Auditor Training. These two training sessions will be the only required travel for this position in 2010. Based on supporting CIP business plan, Texas RE will require 1.0 additional staff position for 2010 (.98 FTEs Statutory and .02 FTEs Non-statutory) starting in the second quarter.

Situational Awareness and Infrastructure Security Program

Funding sources and related expenses for the situational awareness and infrastructure security section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situational Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 159,129	\$ 159,129	\$ -	\$ 611,329	\$ 452,200
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 159,129	\$ 159,129	\$ -	\$ 611,329	\$ 452,200
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 159,129	\$ 159,129	\$ -	\$ 611,329	\$ 452,200
Expenses					
Personnel Expenses					
Salaries	\$ 118,842	\$ 127,966	\$ 9,124	\$ 291,164	\$ 172,322
Payroll Taxes	9,507	9,142	(365)	23,060	13,553
Benefits	12,479	5,533	(6,945)	31,708	19,229
Retirement Costs	17,232	16,713	(519)	41,316	24,084
Total Personnel Expenses	\$ 158,060	\$ 159,354	\$ 1,294	\$ 387,247	\$ 229,187
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	1,069	3,597	2,528	4,260	3,191
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 1,069	\$ 3,597	\$ 2,528	\$ 4,260	\$ 3,191
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	397	397	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	400	400
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ 397	\$ 397	\$ 400	\$ 400
Total Direct Expenses	\$ 159,129	\$ 163,348	\$ 4,219	\$ 391,907	\$ 232,778
Indirect Expenses	\$ 250,393	\$ 164,140	\$ (86,253)	\$ 217,171	\$ (33,222)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 409,522	\$ 327,488	\$ (82,034)	\$ 609,078	\$ 199,557
Change in Assets	\$ (250,393)	\$ (168,359)	\$ 82,034	\$ 2,250	\$ 252,643
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (18,050)	\$ (18,050)	\$ -	\$ (2,250)	\$ -
Change in Fixed Assets	\$ (18,050)	\$ (18,050)	\$ -	\$ (2,250)	\$ -
TOTAL CHANGE IN ASSETS	\$ (268,443)	\$ (186,409)	\$ 82,034	\$ 0	\$ 252,643

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- Texas RE is adding approximately 2.0 employees (1.53 FTEs Statutory, .28 Non-statutory) to this program. In addition, there are other activities performed in Compliance, Audit, and Enforcement, the result of which is .19 FTEs and funding reflected in those activities and not in the CIP activity. The increased personnel expenses of \$229K year-over-year are a direct result of the changes in FTEs working in the Situational Awareness and Infrastructure Security Programs.

Meeting Expenses

- Meeting expenses are primarily driven by travel costs associated with CIP. The costs are increasing \$3K year-over-year for CIP related training and NERC working group meetings.

Operating Expenses

- Operating expenses are flat year-over-year.

Indirect Expenses

- Indirect expenses are declining \$33K year-over-year, due to a reduction in administrative services costs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Administrative Services

Administrative Services (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	6.80	3.76	(3.04)
Total Direct Expenses	\$2,559,847	\$1,955,485	(\$604,362)

Program Scope and Functional Description

General and Administrative

The CEO carries on the general affairs of the Texas RE. The CEO is independent of any registered entity and reports exclusively to the Texas RE Board of Directors. The CEO is responsible for:

- Overseeing and managing the activities of Texas RE.
- Making final decisions with respect to enforcement related to compliance actions for violations of reliability standards.
- Making employment-related decisions for all employees of Texas RE.
- Making an annual report and periodic reports to Texas RE's Board concerning the activities and expenditures of Texas RE.
- Ensuring that Texas RE files all required reports with NERC.
- Monitoring the expenditures of the monies received by Texas RE to ensure that such are deployed in accordance with the approved Texas RE Budget (in cooperation with the Finance Staff).
- Retaining or terminating outside counsel or other advisors as deemed appropriate.
- Performing such other duties as may be determined from time to time by Texas RE's Board, for the benefit of the Texas RE.

An Executive Assistant will be responsible for providing executive-level administrative support to the Texas RE CEO. The Executive Assistant will also perform general office manager activities and provide support to other Texas RE staff as needed.

2010 Key Assumptions

- Texas RE total staff will increase to 37 staff (31.00 FTEs Statutory, 6.00 FTEs Non-statutory).
- Texas RE will continue to operate as an independent division of ERCOT ISO.
- Where possible, all appropriate direct program expenses will be a direct cost to their respective program and function. Only corporate services expenses and personnel will remain in administrative services.
- Texas RE will establish a cash reserve of 75 days cash on hand (totaling \$1,371K, with \$855K on hand from 2009, for a difference of \$516K), or a 20% reserve for contingency planning purposes. This will not result in an increased assessment for 2010. Texas RE projects a balance of \$572K in its regulatory liability (unspent prior-year funds) that it will release in 2010. Additionally, Texas RE will reduce assessments by the difference (\$56K).

2010 Goals and Key Deliverables

1. Communicate and maintain effective relationships with the board, industry, regulators, and other stakeholders.
2. Conduct base operations with the approved budget.
3. Effectively manage the NERC Compliance Monitoring and Enforcement Program.
4. Manage Texas RE's Standards Development Process.
5. Establish Key Performance Indicators and Benchmarks for Texas RE operations.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing \$316K. Indirect programs allocate their costs to the direct programs. Additionally, Texas RE is applying \$56K in unspent funds from 2009 to reduce the assessment in 2010

General and Administrative

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
General and Administrative					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 257,531	\$ 257,531	\$ -	\$ (80,265)	\$ (337,796)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 257,531	\$ 257,531	\$ -	\$ (80,265)	\$ (337,796)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	4,125	4,125	2,000	2,000
Miscellaneous	-	-	-	-	-
Total Funding	\$ 257,531	\$ 261,656	\$ 4,125	\$ (78,265)	\$ (335,796)
Expenses					
Personnel Expenses					
Salaries	\$ 764,074	\$ 737,553	\$ (26,522)	\$ 539,855	\$ (224,219)
Payroll Taxes	61,126	55,400	(5,726)	42,598	(18,528)
Benefits	61,605	57,729	(3,876)	54,570	(7,034)
Retirement Costs	110,791	98,644	(12,147)	80,324	(30,467)
Total Personnel Expenses	\$ 997,596	\$ 949,325	\$ (48,271)	\$ 717,347	\$ (280,249)
Meeting Expenses					
Meetings	\$ -	\$ 870	\$ 870	\$ 3,600	\$ 3,600
Travel	12,820	13,404	584	17,158	4,338
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 12,820	\$ 14,274	\$ 1,454	\$ 20,758	\$ 7,938
Operating Expenses					
Consultants & Contracts	\$ 487,054	\$ 539,074	\$ 52,020	\$ 630,334	\$ 143,280
Office Rent	517,550	287,392	(230,158)	327,600	(189,950)
Office Costs	13,320	15,506	2,186	24,240	10,920
Professional Services	30,000	82,462	52,462	60,000	30,000
Miscellaneous	10,515	8,410	(2,105)	1,350	(9,165)
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 1,058,439	\$ 932,844	\$ (125,595)	\$ 1,043,524	\$ (14,915)
Total Direct Expenses	\$ 2,068,855	\$ 1,896,443	\$ (172,412)	\$ 1,781,629	\$ (287,226)
Indirect Expenses	\$ (2,923,855)	\$ (1,896,443)	\$ 1,027,412	\$ (1,781,629)	\$ 1,142,226
Other Non-Operating Expenses	\$ 855,000	\$ -	\$ (855,000)	\$ -	\$ (855,000)
Total Expenses	\$ -	\$ -	\$ -	\$ (0)	\$ (0)
Change in Assets	\$ 257,531	\$ 261,656	\$ 4,125	\$ (78,265)	\$ (335,796)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ 257,531	\$ 261,656	\$ 4,125	\$ (78,265)	\$ (335,796)

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In the 2010 budget, the funding requirement is decreasing (\$336K). Indirect programs allocate their costs to the direct programs. In 2010, Texas RE is further reducing assessments by \$78K using unspent funds from 2009.

Personnel Expenses

- The primary reason for the decrease of \$280K is resulting from increased management, legal and other direct work in Reliability Standards, Compliance Monitoring and Enforcement and Organization Registration and Certification Program, Reliability Assessment, Training, Situational Awareness, and Critical Infrastructure Protection areas. Texas RE uses time tracking to better enable the recording of direct labor expenses to the program level. Those tasks that are considered administrative services are allocated as an indirect expense to the program areas.

Meeting Expenses

- Meeting expenses are increasing primarily related to additional travel demands of the CEO and his staff. There are additional NERC, FERC and Regional meetings that are required and an increase was necessary to facilitate this. The result is an increase of \$8K year-over-year.

Operating Expenses

- Consulting and contract expenses are increasing in direct response to employee increases as well as trended actual expenses. This expense increase is related to the MOU between Texas RE and ERCOT ISO. The resulting increase is expected to be \$143K. Office costs are increasing \$11K primarily related to trends in office supply consumption as well as expected increases. There is an additional \$30K being provisioned for professional outside services as may be required by program use. Offsetting the increases are a reduction in training expenses (\$9K), these expenses are now budgeted in their respective programs, as well as a reduction in the rent expense in 2010 (\$190K). The reduction is rent reflected a lower rentable square foot rate obtained by Texas RE for its office space as well as a reduction in the facilities services expenses paid through the MOU.

Indirect Expenses

- Indirect expense is decreasing significantly \$1,142K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in G&A in the 2009 budget. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

Other Non-Operating Expenses

- Non-Operating expenses are decreasing from 2009 to 2010. Due to the change from cash-based to GAAP based budgeting; the cash reserve is no longer funded as a non-operating expense, this resulted in a decrease year-over-year of \$855K.

Fixed Asset Additions

- N/A

Legal and Regulatory

Program Scope and Functional Description

Texas RE Legal and Regulatory provides legal advice and counsel to Texas RE management, board, and staff on all legal and regulatory matters affecting Texas RE, including corporate governance, transactions, personnel, governmental relations, communications, NERC registration, standards development, compliance, enforcement, and other regulatory matters. Legal staff also retains and oversees the work of outside legal counsel as needed. Legal and Regulatory employees anticipate that the primary regulatory emphasis during 2010 will include NERC registration appeals, investigation oversight, settlement coordination, and enforcement proceedings under the CMEP. Legal and Regulatory employees will also continue to review and provide feedback to NERC regarding new and modified standards, procedures, and templates used in the CMEP process. Texas RE attorneys, or outside counsel overseen by Texas RE attorneys, will represent the Texas RE in its quasi-prosecutorial role in CMEP enforcement hearings, and in NERC, FERC, and PUCT rulemakings and other proceedings.

2010 Key Assumptions

Texas RE Legal and Regulatory has the following key assumptions:

- A. Texas RE will remain functionally separate from ERCOT ISO and will not undergo any significant board or governance changes (caused by board or membership decisions, the NERC three-year Assessment, the FERC audit of Texas RE, or otherwise).
- B. The Delegation Agreement requirements and NERC expectations will remain constant.
- C. The majority of possible violations will be handled through the settlement process.
- D. The number of contested registration and enforcement cases will remain low – one large or two small-to-mid-sized disputes per year.

2010 Goals and Key Deliverables

1. Coordinate Texas RE board information, meetings, and materials and maintain corporate bylaws and corporate procedures as required by law, the Delegation Agreement, NERC Rules, and FERC Orders.
2. Provide legal advice to the CEO and the Texas RE board, advisory committee, and departments, as needed on corporate, contract, and transactional, and other matters.
3. Represent Texas RE in all NERC, FERC, regulatory matters, and legal proceedings.
4. Prosecute CMEP hearings of contested enforcement matters.
5. Act as a resource for investigations to help ensure accurate, appropriate and complete documentation is maintained and consistent procedures are followed.
6. Communicate and maintain effective relationships with NERC, FERC, the PUCT, and other governmental authorities.
7. Manage and oversee all Texas RE registration and enforcement action appeals.
8. Review Texas RE alleged violations, penalties, and sanctions for consistency.
9. Participate in settlement processes and review all settlements for consistent application of the CMEP.
10. Review and provide input to NERC regarding new and modified standards, procedures, forms, and templates.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing (\$314K). Indirect programs allocate their costs to the direct.

Legal and Regulatory

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Legal and Regulatory					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 314,394	\$ 314,394	\$ -	\$ -	\$ (314,394)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	<u>\$ 314,394</u>	<u>\$ 314,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (314,394)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 314,394</u>	<u>\$ 314,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (314,394)</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	8,994	6,821	(2,173)	4,478	(4,516)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 8,994</u>	<u>\$ 6,821</u>	<u>\$ (2,173)</u>	<u>\$ 4,478</u>	<u>\$ (4,516)</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	2,400	6,597	4,197	5,400	3,000
Professional Services	300,000	253,538	(46,462)	48,000	(252,000)
Miscellaneous	-	2,195	2,195	6,200	6,200
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 302,400</u>	<u>\$ 262,330</u>	<u>\$ (40,070)</u>	<u>\$ 59,600</u>	<u>\$ (242,800)</u>
Total Direct Expenses	<u>\$ 311,394</u>	<u>\$ 269,151</u>	<u>\$ (42,243)</u>	<u>\$ 64,078</u>	<u>\$ (247,316)</u>
Indirect Expenses	<u>\$ (314,394)</u>	<u>\$ (269,151)</u>	<u>\$ 45,243</u>	<u>\$ (64,078)</u>	<u>\$ 250,316</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ (3,000)</u>	<u>\$ -</u>	<u>\$ 3,000</u>	<u>\$ -</u>	<u>\$ 3,000</u>
Change in Assets	<u>\$ 317,394</u>	<u>\$ 314,394</u>	<u>\$ (3,000)</u>	<u>\$ -</u>	<u>\$ (317,394)</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL CHANGE IN ASSETS	<u>\$ 317,394</u>	<u>\$ 314,394</u>	<u>\$ (3,000)</u>	<u>\$ -</u>	<u>\$ (317,394)</u>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, Texas RE's Legal and Regulatory function expenses are allocated entirely to the direct programs.

Personnel Expenses

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

Meeting Expenses

- Travel costs are decreasing approximately \$5K. This is primarily related to training expenses budgeted under travel. For 2010, all training, seminars, continuing education and professional dues are being budgeted under miscellaneous.

Operating Expenses

- Professional services (external legal) expenses are now budgeted where they are likely to be incurred \$252K, which is in support of the direct program functions. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.

Indirect Expenses

- Indirect expense is decreasing significantly \$250K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in legal and regulatory in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Information Technology

Program Scope and Functional Description

IT staff will provide a broad range of information technology support to Texas RE, including the following: strategy; research; vendor management; planning, development, and deployment of enterprise systems and computer applications/systems in support of business needs; and support, training, and maintenance for these systems and applications.

IT staff will work with Texas RE management to develop a technological strategy to reach Texas RE's long-term goals and meet immediate system and hardware needs. In addition, IT Staff will research and implement technologies for the purpose of increasing Texas RE efficiency and/or reducing workload.

In addition to its internal development efforts, IT staff will use a mix of services from external vendors and ERCOT ISO's IT department. To ensure that applications and hardware are well maintained, service levels remain high, and costs are controlled, IT staff will provide vendor management and coordinate with ERCOT ISO IT staff on day-to-day support, administration, and future requirements. For project and outsourcing agreements, IT staff will also work closely with Finance, Legal, and ERCOT ISO Procurement to provide specialized knowledge and the contractual details for the technical service to be provided.

IT staff also has the general responsibility to keep Texas RE systems up-to-date with evolving industry standards. IT staff will work with other regional entities and NERC to that end.

IT staff will manage the design, implementation, support, and maintenance of the tools and delivery mechanisms to support the communication of information to the market, specifically the Texas RE website, Texas RE e-mail boxes and lists, and Web-based training.

IT staff will also manage the design, implement, support, and maintain Texas RE data and records-management tools to support the Standards, Registration, and CMEP programs, as well as improving registered entities' ability to participate in the processes. Specifically, such tools include the Texas Regional Entity Portal and associated tools for management and tracking, the Reliability Standards tracking tool, and the electronic document management system. IT staff will also assist with the transition of Texas RE Staff's ability to receive or view necessary data in ERCOT ISO nodal systems. IT staff will also participate in the design and development of database models, web-enabled applications, data extraction and delivery methods, and data presentation.

2010 Key Assumptions

The 2010 budget assumes that Texas RE remains a division of ERCOT ISO, with the ability to purchase some key IT services (such as computers and support, email and support, phone service and support, enterprise servers, and WebEx) from ERCOT ISO.

The 2010 budget assumes that Texas RE continues to work as a member of the Consortium User Group to collaborate on and share the costs of development for the portal software with other regional entities.

2010 Goals and Key Deliverables

IT objectives for 2010 include the following:

1. Develop long-term strategy in response to business needs.
2. Research and develop and/or purchase software and hardware to respond to immediate business needs.
3. Manage vendors to ensure quality of services and applications, responsiveness to Texas RE needs, and cost controls.
4. Liaise with ERCOT ISO IT staff regarding IT systems and tools.
5. Work effectively with other regional entities and NERC to ensure that Texas RE remains consistent.
6. Assist in ensuring information systems are functional and secure, and that applications running on those systems meet business requirements for performance, availability, and security.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing (\$384K). Indirect programs allocate their costs to the direct programs.

Section A — 2010 Business Plan

Information Technology

Funding sources and related expenses for the information technology section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Information Technology					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 383,500	\$ 383,500	\$ -	\$ -	\$ (383,500)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 383,500	\$ 383,500	\$ -	\$ -	\$ (383,500)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 383,500	\$ 383,500	\$ -	\$ -	\$ (383,500)
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ -	\$ 659	\$ 659	\$ -	\$ -
Travel	-	-	-	4,057	4,057
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ -	\$ 659	\$ 659	\$ 4,057	\$ 4,057
Operating Expenses					
Consultants & Contracts	\$ 3,932	\$ -	\$ (3,932)	\$ -	\$ (3,932)
Office Rent	-	-	-	-	-
Office Costs	-	543	543	960	960
Professional Services	60,000	152,112	92,112	33,860	(26,140)
Miscellaneous	-	-	-	6,500	6,500
Depreciation	76,540	76,540	-	12,000	(64,540)
Total Operating Expenses	\$ 140,472	\$ 229,195	\$ 88,723	\$ 53,320	\$ (87,152)
Total Direct Expenses	\$ 140,472	\$ 229,854	\$ 89,382	\$ 57,377	\$ (83,095)
Indirect Expenses	\$ (137,338)	\$ (229,854)	\$ (92,516)	\$ (57,377)	\$ 79,961
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 3,134	\$ -	\$ (3,134)	\$ -	\$ (3,134)
Change in Assets	\$ 380,366	\$ 383,500	\$ 3,134	\$ -	\$ (380,366)
Fixed Assets					
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	\$ (12,000)	\$ 64,540
Computer & Software CapEx	322,702	354,202	31,500	32,263	(290,439)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (246,162)	\$ (277,662)	\$ (31,500)	\$ (20,263)	\$ 225,899
Allocation of Fixed Assets	\$ 246,162	\$ 246,162	\$ -	\$ 20,263	\$ (225,899)
Change in Fixed Assets	\$ -	\$ (31,500)	\$ (31,500)	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ 380,366	\$ 352,000	\$ (28,366)	\$ -	\$ (380,366)

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, Texas RE's IT function expenses are allocated entirely to the direct programs and as such do not have an ERO assessment.

Personnel Expenses

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

Meeting Expenses

- Travel costs are increasing approximately \$4K. This is primarily related to the need to meet with the Consortium User Group and NERC working groups.

Operating Expenses

- Professional services (hosting and professional services) expenses are now budgeted where they are likely to be incurred, which is in support of the functions and direct programs \$26K less, year-over-year. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.

Indirect Expenses

- Indirect expense is decreasing \$80K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in Information Technology in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed assets are now budgeted where they are likely to be incurred, which is in support of the functions and direct programs. The result is a net reduction in indirect allocations of \$290K. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.
- The allocation of fixed assets is also decreasing for the reason specified above. The amount of the decrease is expected to be, \$226K year-over-year.

Finance and Accounting

Program Scope and Functional Description

The Finance staff will provide a broad range of support to Texas RE management and personnel. Finance staff are required to formulate and monitor the Texas RE budget for controlling funds to implement the Texas RE's objectives and will also review and evaluate the performance of key processes for maintaining tight financial controls in a cost-effective and efficient manner. Finance staff will guide the annual budget process for the Texas RE and measure performance of all key aspects of the Texas RE to ensure performance matches or exceeds expectations, including the analysis of trends affecting budget needs and developing periodic financial reports. Finance staff will liaise with ERCOT ISO Finance staff to ensure all finance and budget-related requirements are communicated, met, and adhered to.

Texas RE's monthly general ledger close activities will be managed by Texas RE financial personnel. The Finance staff is required to ensure Texas RE appropriately accounts for all Statutory and Non-statutory expenses and revenue appropriately. This will involve generating monthly financial reports that will be communicated to the CEO, the department managers and the board.

The Finance staff is required to generate quarterly and annual financial reports to be filed with NERC as well as other ad hoc reporting that may be required.

2010 Key Assumptions

- Texas RE will remain functionally separate from ERCOT ISO and will not undergo any significant governance or Delegation Agreement changes.
- The Delegation Agreement requirements will remain consistent with the current requirements.

2010 Goals and Key Deliverables

1. Ensure that the accounting and finance functions are appropriately managed at Texas RE.
2. Keep the CEO informed of budget, expenditures, and total operational financial performance.
3. Continue to facilitate the Financial Reporting for the Board.
4. Ensure that Texas RE receives an unqualified opinion on the audit of the financial statements.
5. Continue to support NERC finance staff in coordination of quarterly and annual reporting requirements.
6. Review workflow and adjust as required to better enable Texas RE staff operational success.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing (\$39K). Indirect programs allocate their costs to the direct programs.

Finance and Accounting

Funding sources and related expenses for the accounting and finance section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Finance and Accounting					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 39,126	\$ 39,126	\$ -	\$ -	\$ (39,126)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	<u>\$ 39,126</u>	<u>\$ 39,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,126)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 39,126</u>	<u>\$ 39,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,126)</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	2,481	1,916	(565)	2,145	(336)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 2,481</u>	<u>\$ 1,916</u>	<u>\$ (565)</u>	<u>\$ 2,145</u>	<u>\$ (336)</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	180	180	880	880
Professional Services	36,000	41,976	5,976	45,281	9,281
Miscellaneous	645	1,915	1,270	4,095	3,450
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 36,645</u>	<u>\$ 44,071</u>	<u>\$ 7,426</u>	<u>\$ 50,256</u>	<u>\$ 13,611</u>
Total Direct Expenses	<u>\$ 39,126</u>	<u>\$ 45,987</u>	<u>\$ 6,861</u>	<u>\$ 52,401</u>	<u>\$ 13,275</u>
Indirect Expenses	<u>\$ (39,126)</u>	<u>\$ (45,987)</u>	<u>\$ (6,861)</u>	<u>\$ (52,401)</u>	<u>\$ (13,275)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Assets	<u>\$ 39,126</u>	<u>\$ 39,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,126)</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL CHANGE IN ASSETS	<u>\$ 39,126</u>	<u>\$ 39,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,126)</u>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, Texas RE's Finance and Accounting function expenses are allocated entirely to the direct programs and as such do not have an ERO assessment.

Personnel Expenses

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

Meeting Expenses

- Travel costs are decreasing approximately \$.3K year-over-year. The REBG has agreed to have at least one meeting via conference call or web-ex.

Operating Expenses

- Office costs are increasing by \$.9K for check stock used for Texas RE's operating account.
- The financial statement audit fees for Texas RE are expected to increase by approximately \$9K based on actual results from the 2008 financial statement audit.
- Texas RE expects bank fees in 2010 to be approximately \$3K higher year-over-year. Additionally, there are professional dues included under miscellaneous expense, \$.5K.

Indirect Expenses

- Increasing \$13K year-over-year due to increases in operating expenses.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Section B — 2010 Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 3,430,700	\$ 3,430,700	\$ -	\$ 6,260,377	\$ 2,829,676
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 3,430,700	\$ 3,430,700	\$ -	\$ 6,260,377	\$ 2,829,676
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	70,000	174,029	104,029	180,000	110,000
Interest	-	4,125	4,125	2,000	2,000
Miscellaneous	-	-	-	-	-
Total Funding	\$ 3,500,700	\$ 3,608,854	\$ 108,154	\$ 6,442,377	\$ 2,941,676
Expenses					
Personnel Expenses					
Salaries	\$ 2,496,968	\$ 2,479,855	\$ (17,114)	\$ 3,113,791	\$ 616,822
Payroll Taxes	199,757	191,667	(8,090)	246,724	46,967
Benefits	259,628	194,403	(65,225)	335,244	75,615
Retirement Costs	356,523	329,741	(26,782)	446,050	89,526
Total Personnel Expenses	\$ 3,312,878	\$ 3,195,666	\$ (117,211)	\$ 4,141,808	\$ 828,931
Meeting Expenses					
Meetings	\$ 105,000	\$ 157,394	\$ 52,394	\$ 228,000	\$ 123,000
Travel	107,470	117,528	10,057	186,819	79,348
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 212,470	\$ 274,922	\$ 62,452	\$ 414,819	\$ 202,348
Operating Expenses					
Consultants & Contracts	\$ 490,986	\$ 539,074	\$ 48,088	\$ 630,334	\$ 139,348
Office Rent	517,550	287,392	(230,158)	327,600	(189,950)
Office Costs	18,280	26,581	8,301	40,720	22,440
Professional Services	426,000	563,134	137,134	622,625	196,625
Miscellaneous	11,160	13,943	2,783	36,236	25,076
Depreciation	76,540	76,540	-	150,000	73,460
Total Operating Expenses	\$ 1,540,516	\$ 1,506,664	\$ (33,852)	\$ 1,807,515	\$ 266,999
Total Direct Expenses	\$ 5,065,864	\$ 4,977,252	\$ (88,612)	\$ 6,364,141	\$ 1,298,278
Indirect Expenses	\$ 1	\$ -	\$ (1)	\$ 0	\$ (1)
Other Non-Operating Expenses	\$ 855,000	\$ -	\$ (855,000)	\$ -	\$ (855,000)
Total Expenses	\$ 5,920,864	\$ 4,977,252	\$ (943,612)	\$ 6,364,141	\$ 443,277
Change in Assets	\$ (2,420,164)	\$ (1,368,397)	\$ 1,051,766	\$ 78,235	\$ 2,498,399
Fixed Assets					
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	\$ (150,000)	\$ (73,460)
Computer & Software CapEx	322,702	354,202	31,500	306,500	(16,202)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (246,162)	\$ (277,662)	\$ (31,500)	\$ (156,500)	\$ 89,662
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ (225,899)
Change in Fixed Assets	\$ (246,162)	\$ (277,662)	\$ (31,500)	\$ (156,500)	\$ (136,237)
TOTAL CHANGE IN ASSETS	\$ (2,666,326)	\$ (1,646,059)	\$ 1,020,266	\$ (78,265)	\$ 2,362,162

Personnel Analysis

FTEs are defined as full-time equivalent units. Fractional FTEs reflect time tracking and expected results of time-tracking.

Table 2

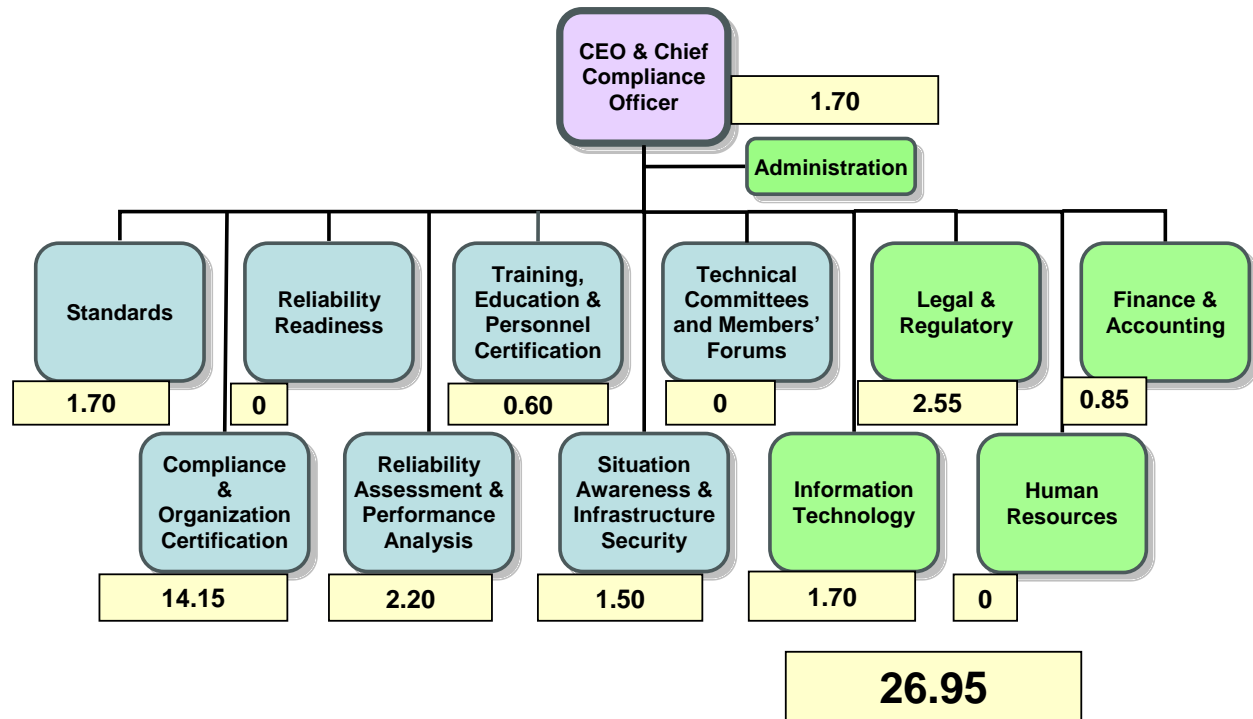
Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
STATUTORY						
Operational Programs						
Reliability Standards	1.70	1.84	0.00	2.06	2.06	0.36
Compliance and Organization Registration and Certification	14.15	15.01	0.00	18.74	18.74	4.59
Training and Education	0.60	0.84	0.00	0.97	0.97	0.37
Reliability Assessment and Performance Analysis	2.20	2.15	0.00	2.44	2.44	0.24
Situational Awareness and Infrastructure Security	1.50	1.43	0.00	3.03	3.03	1.53
Total FTEs Operational Programs	20.15	21.27	0.00	27.24	27.24	7.09
Administrative Programs ²						
General & Administrative	1.70	1.85	0.00	1.05	1.05	-0.65
Information Technology	1.70	1.29	0.00	0.69	0.69	-1.01
Legal and Regulatory	2.55	1.67	0.00	1.17	1.17	-1.38
Accounting	0.85	0.85	0.00	0.85	0.85	0.00
Total FTEs Administrative Programs	6.80	5.66	0.00	3.76	3.76	-3.04
Total FTEs	26.95	26.93	0.00	31.00	31.00	4.05

¹A shared FTE is defined as a Texas Regional Entity employee who performs both Statutory and Non-statutory activities; however none of these FTEs perform any registered functions (e.g. Reliability Coordinator).

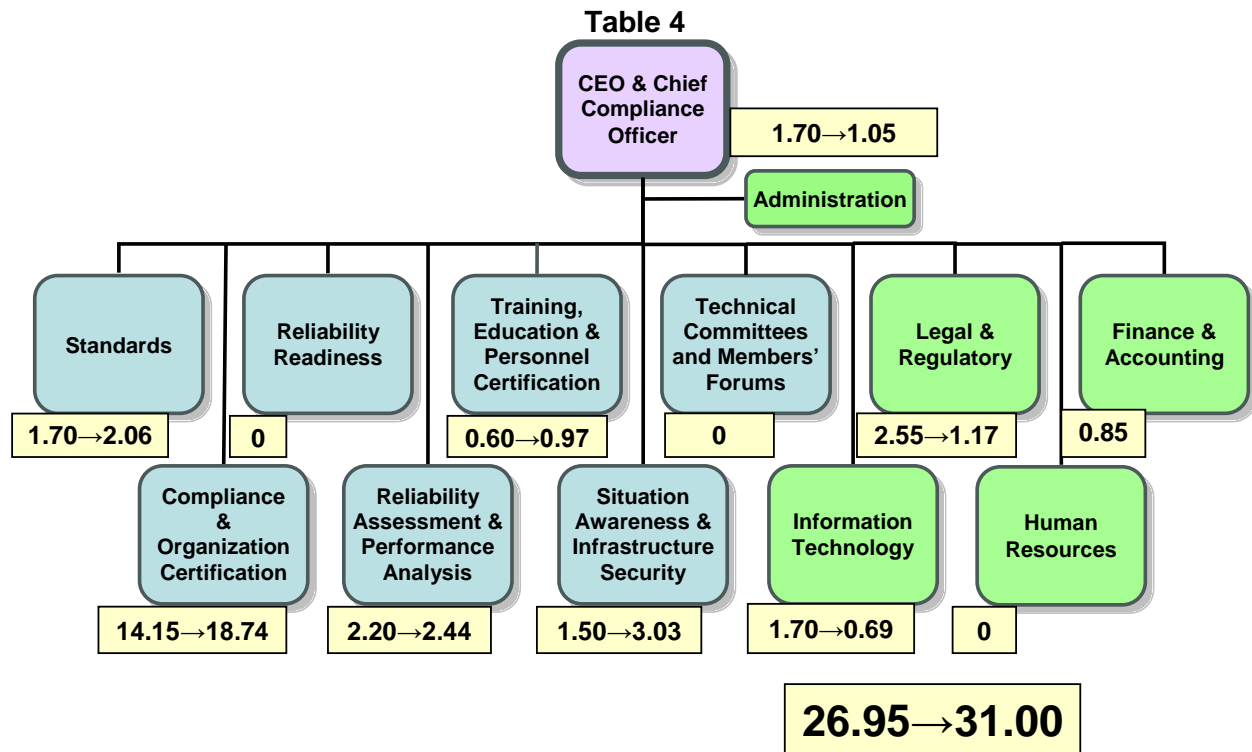
² NOTE: The FTEs for Administration Departments are reflected as staffed in this exhibit. The salary and related expenses in the statement of activities have been consolidated to ensure salary confidentiality.

2009 Organizational Chart (Statutory & Non-Statutory)

Table 3



2010 Organizational Chart (Statutory & Non-Statutory)



Reserve Balance

Table 5

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	2,666,325
Penalty sanctions to be used as offset to 2010 assessments ¹	0
Plus: 2009 ERO Funding (from LSEs or designees)	3,430,700
Plus: 2009 Other funding sources	178,154
Less: 2009 Regulatory Liability Projected	(165,266)
Less: 2009 Projected expenses & capital expenditures	(5,254,914)
Projected Working Capital Reserve (Deficit), December 31, 2009	855,000
Desired Working Capital Reserve, December 31, 2010	1,370,718
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	515,718
2010 Assessment for Expenses and Capital Expenditures	6,520,641
Less: Penalty Sanctions ¹	0
Less: Other Funding Sources	(182,000)
Less: LT Regulatory Liability Release	(593,983)
Adjustment to achieve desired Working Capital Reserve	515,718
2010 Assessment	6,260,377

¹ Represents collections prior to June 30, 2009.

Regional Entity Assessment Analysis

Assessments by Country

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	324,830,913	324,830,913			100.0%	100.0%		
2008	WECC	-							
TOTAL		324,830,913	324,830,913	-	-	100.0%	100.0%	0%	0%

Breakdown by Statement of Activity Sections

Full disclosures of all penalties received prior to July 1, 2009 are detailed below, including the Company, the amount, and the date received.

Allocation Method: Penalty sanctions received have been allocated to the following Statutory programs to reduce assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situational Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

Table B-1

Penalty Sanctions Received Prior to June 30, 2009		
	Date Receive	Amount Received
Name of Entity		
NOT APPLICABLE		
Total Penalties Received		\$ -

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Training and Education					
Operations Training Seminar	\$ 70,000	\$ 174,029	\$ 180,000	\$ 110,000	157.14%
Total	<u>\$ 70,000</u>	<u>\$ 174,029</u>	<u>\$ 180,000</u>	<u>\$ 110,000</u>	<u>157.14%</u>
General and Administrative					
Interest Income	\$ -	\$ 4,125	\$ 2,000	\$ 2,000	0.00%
Total	<u>\$ -</u>	<u>\$ 4,125</u>	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>0.00%</u>
Total Outside Funding	<u>\$ 70,000</u>	<u>\$ 178,154</u>	<u>\$ 182,000</u>	<u>\$ 112,000</u>	<u>160.00%</u>

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The most significant increase is resulting from the change in venue for the Operations Training Seminar to an offsite location. The 2009 budget assumed that Texas RE could use ERCOT ISO facilities for the OTS; however due to space constraints, Texas RE secured an alternate venue in 2009. Texas RE collected increased registration fees to fund the increased Operations Training Seminar expenses. In 2010, the year-over-year budget increase reflects that continuing assumption and the resulting expense increase will be funded by registration fees from attendees. The increase is expected to be \$110K.
- There is approximately \$2K of interest income budgeted in 2010. The assumption used to budget the interest income was based on Texas RE's current interest income rate applied to the budgeted cash balance for 2010.

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary	\$ 2,496,968	\$ 2,479,855	\$ 3,113,791	\$ 616,822	24.7%
Total Salaries	\$ 2,496,968	\$ 2,479,855	\$ 3,113,791	\$ 616,822	24.7%
Total Payroll Taxes	\$ 199,757	\$ 191,667	\$ 246,724	\$ 46,967	23.5%
Benefits					
Life, Health, Vision, etc.	\$ 259,628	\$ 194,403	\$ 335,244	\$ 75,615	29.1%
Total Benefits	\$ 259,628	\$ 194,403	\$ 335,244	\$ 75,615	29.1%
Retirement					
401(k) Contr. & Employee Matching	\$ 356,523	\$ 329,741	\$ 446,050	\$ 89,526	25.1%
Total Retirement	\$ 356,523	\$ 329,741	\$ 446,050	\$ 89,526	25.1%
Total Personnel Costs	\$ 3,312,878	\$ 3,195,666	\$ 4,141,808	\$ 828,931	25.0%
FTEs	26.95	26.93	31.00	4.07	15.0%
Cost per FTE					
Salaries	\$ 92,652	\$ 92,085	\$ 100,438	7,786	8.4%
Payroll Taxes	7,412	7,117	7,958	546	7.4%
Benefits	9,634	7,219	10,814	1,180	12.2%
Retirement	13,229	12,244	14,388	1,159	8.8%
Total Cost per FTE	\$ 122,927	\$ 118,666	\$ 133,598	\$ 10,671	8.7%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

The most significant increase is related to the hiring of 5 additional staff (4.05 FTEs Statutory, .95 FTEs Non-statutory) in the compliance, situational awareness and CIP areas. Additionally, there are merits, promotion and market adjustments budgeted in 2010 for existing Texas RE personnel. The budget assumed 3% merit, 1% promotion and 2% for market adjustments.

Consultants and Contracts

Table B-4

Section B — 2010 Regional Entity Budget

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Consultants					
Recruitment	\$ 6,000	\$ -	\$ -	\$ (6,000)	-100.00%
Consultants Total	\$ 6,000	\$ -	\$ -	\$ (6,000)	

Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Contracts					
Corporate Support Allocation	\$ 280,654	\$ 330,946	\$ 361,803	\$ 81,149	28.91%
IT Services & Other (under professional services in 2009 Forecast & 2010 Budget)	3,932	-	-	(3,932)	-100.00%
IT Administration	200,400	208,128	268,531	68,131	34.00%
Contracts Total	\$ 484,986	\$ 539,075	\$ 630,334	\$ 145,348	29.97%
Total Consulting and Contracts	\$ 490,986	\$ 539,075	\$ 630,334	\$ 139,348	28.38%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The most significant increase is related to the corporate support (Memorandum of Understanding) allocation and IT administration per the MOU between Texas RE and ERCOT ISO. There is a cost adjustment year-over-year to reflect increasing prices; however the largest component of the increase is directly attributed to increasing FTEs.

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent & Facilities	\$ 517,550	\$ 287,392	\$ 327,600	\$ (189,950)	-36.70%
Total Office Rent	\$ 517,550	\$ 287,392	\$ 327,600	\$ (189,950)	-36.70%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Office rent is decreasing year-over-year. This is the result of negotiations on the lease for the premises occupied by Texas RE to obtain a lower cost per rentable square foot rate than planned. Additionally, as a result of the lower rate, the common area maintenance is lower than expected.
- Additionally, Texas RE is reflecting a reduction of approximately \$40K for services no longer provided by ERCOT ISO's facilities department. These services have been absorbed internally.

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Supplies	\$ 8,400	\$ 13,333	\$ 12,700	\$ 4,300	51.19%
Cellular Phones	5,080	6,137	14,040	8,960	176.38%
Postage	1,200	1,500	1,800	600	50.00%
Express Shipping	1,200	4,811	7,980	6,780	565.00%
Stationary Forms	1,200	400	3,000	1,800	150.00%
Reports - Graphics	1,200	400	1,200	-	0.00%
Total Office Costs	\$ 18,280	\$ 26,581	\$ 40,720	\$ 22,440	122.76%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Texas RE is also projecting a significant increase in office supplies to accommodate new employees and additional materials for Texas RE's deliverables \$4K.
- Express shipping is expected to be significantly higher in 2010 due to the need to send additional materials via FedEx \$7K.
- Texas RE is also projecting a significant increase in report printing that will require additional report printing services \$2K.
- Adding cell phones for all audit lead, senior level, managers and above, resulting in a \$9K increase year-over-year.

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Outside Legal	\$ 300,000	\$ 300,000	\$ 300,000	\$ -	0.00%
Accounting & Auditing Fees	36,000	41,976	45,281	9,281	25.78%
IT Professional Services	50,000	152,112	207,344	157,344	314.69%
RSVP Hosting	10,000	10,000	10,000	-	0.00%
Professional Engineering Services	-	23,046	-	-	0.00%
Other Professional Services	30,000	36,000	60,000	30,000	100.00%
Total Services	\$ 426,000	\$ 563,134	\$ 622,625	\$ 196,625	10.56%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Audit fees are increasing in 2010 by \$9K related to the financial statement audit.
- IT professional services are increasing \$157K year-over-year related to web-hosting redundancy that will ensure Texas RE's web presence and portal tools remain safe, secure and operational with a full backup hosting solution.
- Texas RE will be provisioning an additional \$30K for professional services under the G&A department. This will be used for any technical advice and counsel required by any program within Texas RE on an as needed basis.

Table B-8

Other Non-Operating Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Interest Expense	\$ 855,000	\$ -	\$ -	\$ (855,000)	-100.00%
Total Non-Operating Expenses	\$ 855,000	\$ -	\$ -	\$ (855,000)	-100.00%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Due to change in budgeting from a cash-based budget to a GAAP based budget, Texas RE no longer needs to budget for a cash reserve through non-operating expenses. Texas RE will adjust cash reserves through normal profit & loss activities.

Section C — 2009 RE Non-statutory Business Plan and Budget

(in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	5.05	6.00	.95
Total Direct Expenses	\$871,997	\$1,086,772	\$214,775
Total Indirect Expenses			
Total Expenses	\$871,997	\$1,153,772	\$281,775

Non-statutory Functional Scope

In addition to the Statutory functions, Texas RE also provides compliance support to the Public Utility Commission of Texas (PUCT). These services include auditing, event analysis, complaint investigations and monthly metric monitoring to identify violations of protocols. In addition, Texas RE is also monitors the stakeholder process and comments on proposed changes to the protocols that affect reliability. Texas RE also works closely with the PUCT to identify new risks to the BPS and craft strategies to address these risks from the regulatory perspective.

Texas RE does not perform any enforcement activities for the PUCT. Once a potential violation is identified by Texas RE it is reported to the PUCT and they follow up with all enforcement activities. Texas RE may be required to assist the PUCT with analysis of our findings and will support the PUCT in their enforcement processes, if need, however, all enforcement is at the sole discretion of the PUCT.

In 2009 there has been a significant increase in workload related to the monitoring of ERCOT ISO committees and changes in market rules due to the upcoming transition to the Nodal market. The change in markets has required Texas RE to work closely with the PUCT to oversee the stakeholder process being used to create the new market rules. The PUCT and Texas RE have put in place a project management plan to ensure adequate regulatory oversight is in place prior to the market transition in late 2010. Significant work is expected to be needed in 2010 to create and test reports, assist with the Nodal trials, analyze the nodal protocols as they are put into use, and communicate with the stakeholders to help them understand the expectations. The workload is anticipated to increase in 2010 to prepare for the Nodal market going live.

Texas RE added one FTE to support the Non-statutory work in 2009. It is anticipated that the work related to the transition to the Nodal market will be higher in 2010 by approximately 1 FTE.

Texas RE estimates approximately (15%) percent of Texas RE staff time will be dedicated to monitoring, auditing, assessing, investigating, and reporting on compliance with the ERCOT Protocols and commenting on ERCOT Protocol revision requests. Funding for these Non-statutory activities is provided through the ERCOT System Administration Fee, which is based upon the fee factor approved by the ERCOT Board and the PUCT to support ERCOT activities and Texas RE Non-statutory activities which are subject to PUCT oversight.

Major 2010 Assumptions and Cost Impacts

Funding Sources

- Funding is received only through ERCOT ISO to pay for these expenses.

- Texas RE will prepare for the Nodal market conversion.

Personnel Expenses

- Personnel expenses are increasing primarily due to adding .95 FTEs of labor to the Non-statutory function. Additionally, the budget assumes 3% merit, 1% promotion and 2% for market adjustments.

Meeting Expenses

- Expenses are lower reflecting a reduction attributed to lower utilization in the prior year.

Operating Expenses

- Texas RE is estimating an increase in the MOU related expenses incurred for support services and IT administration of \$84K for 2010. This is based primarily on the increased FTEs and the associated expenses.
- Rent and facilities services expenses are expected to decrease \$56K for 2010, due to a lower rentable square foot rate we obtained in 2009 for rent and facilities.
- Professional services are being budgeted to decrease \$32K.
- Finally, depreciation is being budgeted in 2010 to reflect the depreciable assets that are held by Texas RE (software).

2010 Primary Goals and Objectives —

1. Implement the 2010 protocol audit plan per the posted schedule and with a high level of quality and consistency.
2. Maintain high quality and effective organization of all audit and investigation work papers, audit reports and potential violation findings.
3. Review and assess system disturbances for potential violations of the ERCOT Protocols and report all findings to the PUCT.
4. Meet with the PUCT monthly to provide a complete report on work in progress as well as all audit reports and potential violation files.
5. Support the PUCT efforts to ensure adequate regulatory oversight in place for the Nodal Market.
6. Create and provide Nodal training for Texas RE staff and the PUCT.
7. Provide a workshop to educate stakeholders on compliance issues related to the Nodal Market transition and implementation. Continue to monitor and participate in the ERCOT ISO committee process.

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

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)
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -		\$ -	\$ -
Penalty Sanctions ⁽¹⁾	-	-	-		-	-
Total ERO Funding	\$ -	\$ -	\$ -		\$ -	\$ -
Membership Dues	-	-	-		-	-
Testing Fees	-	-	-		-	-
Services & Software	871,997	788,005	(83,993)	-9.6%	1,153,772	281,775
Workshops	-	-	-		-	-
Interest	-	-	-		-	-
Miscellaneous	-	-	-		-	-
Total Funding	\$ 871,997	\$ 788,005	\$ (83,993)	-9.6%	\$ 1,153,772	\$ 281,775
Expenses						
Personnel Expenses						
Salaries	\$ 448,080	\$ 430,398	\$ (17,682)	-3.9%	\$ 608,104	\$ 160,025
Payroll Taxes	35,846	33,612	(2,234)	-6.2%	48,059	12,212
Benefits	45,942	37,197	(8,745)	-19.0%	66,079	20,137
Retirement Costs	64,972	59,284	(5,687)	-8.8%	86,102	21,131
Total Personnel Expenses	\$ 594,840	\$ 560,492	\$ (34,348)	-5.8%	\$ 808,345	\$ 213,505
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -		\$ 5,600	\$ 5,600
Travel	2,181	4,500	2,319	106.3%	624	(1,557)
Conference Calls	-	-	-		-	-
Total Meeting Expenses	\$ 2,181	\$ 4,500	\$ 2,319	106.3%	\$ 6,224	\$ 4,043
Operating Expenses						
Consultants & Contracts	\$ 36,396	\$ 97,700	\$ 61,303	168.4%	\$ 120,064	\$ 83,667
Office Rent	118,200	52,972	(65,228)	-55.2%	62,400	(55,800)
Office Costs	480	594	114	23.8%	-	(480)
Professional Services	89,900	71,497	(18,403)	-20.5%	57,875	(32,025)
Miscellaneous	-	250	250	100.0%	1,865	1,865
Depreciation	-	29,706	29,706	100.0%	30,000	30,000
Total Operating Expenses	\$ 244,976	\$ 252,720	\$ 7,743	3.2%	\$ 272,203	\$ 27,227
Total Direct Expenses	\$ 841,997	\$ 817,711	\$ (24,286)	-2.9%	\$ 1,086,772	\$ 244,775
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -
Other Non-Operating Expenses	\$ 30,000	\$ -	\$ (30,000)	-100.0%	\$ -	\$ (30,000)
Total Expenses	\$ 871,997	\$ 817,711	\$ (54,286)	-6.2%	\$ 1,086,772	\$ 214,775
Change in Assets	\$ -	\$ (29,706)	\$ (29,706)	100.0%	\$ 67,000	\$ 67,000
Fixed Assets						
Depreciation	\$ -	\$ (29,706)	\$ (29,706)	0.0%	\$ (30,000)	\$ (30,000)
Computer & Software CapEx	-	-	-		67,000	67,000
Furniture & Fixtures CapEx	-	-	-		-	-
Equipment CapEx	-	-	-		-	-
Leasehold Improvements	-	-	-		-	-
Change in Fixed Assets	\$ -	\$ 29,706	\$ 29,706	100.0%	\$ (37,000)	\$ (37,000)
Allocation of Fixed Assets	\$ -	\$ -	\$ -		\$ -	\$ -
Change in Fixed Assets	\$ -	\$ 29,706	\$ 29,706	100.0%	\$ (37,000)	\$ (37,000)
TOTAL CHANGE IN ASSETS	\$ -	\$ (0)	\$ (0)	0.0%	\$ 30,000	\$ 30,000

Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or employees who worked in fewer than all four quarters of the year.

Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
NON-STATUTORY						
Operational Programs						
Protocol	3.85	4.05	0.00	5.04	5.04	1.19
Total FTEs Operational Programs	3.85	4.05	0.00	5.04	5.04	1.19
Administrative Programs						
General & Administrative	1.20	1.02	0.00	0.96	0.96	-0.24
Total FTEs Administrative Programs	1.20	1.02	0.00	0.96	0.96	-0.24
Total FTEs	5.05	5.07	0.00	6.00	6.00	0.95

¹A shared FTE is defined as a Texas Regional Entity employee who performs both Statutory and Non-statutory activities; however none of these FTEs perform any registered functions (e.g. Reliability Coordinator).

Section D

2010 Consolidated Statement of Activities by Program, Statutory and Non-statutory

Statement of Financial Position

As of December 31, 2008, unaudited

As of December 31, 2009, projected

As of December 31, 2010, as budgeted

Statement of Financial Position			
2008 Audited, 2009 Projection, and 2010 Budget			
STATUTORY and NON-STATUTORY			
	In-Balance	In-Balance	In-Balance
	Unaudited 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
ASSETS			
Cash	3,959,463	1,714,097	1,665,832
Trade Accounts receivable, net of allowance for uncollectible accounts of \$137,600	-	-	-
Other Receivables	270,609	-	-
Prepaid expenses and other current assets	-	-	-
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment	297,195	545,150	775,650
Total Assets	4,527,267	2,259,247	2,441,482
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	265,115	265,115	265,115
Regulatory Liability	3,095,041	593,983	-
Other Liabilities	869,916	-	-
Deferred compensation	-	-	-
Accrued retirement liabilities	-	-	-
Total Liabilities	4,230,072	859,097	265,115
Net Assets - unrestricted	297,195	1,400,150	2,176,367
Total Liabilities and Net Assets	4,527,267	2,259,247	2,441,482



2010 Business Plan and Budget
DRAFT Version ~~2.0~~3.0

Texas Regional Entity

Approved by:

Submitted:

~~May 29~~June 15, 2009

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Introduction

Total Texas RE Resources (in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	31.00			
Non-statutory FTEs	6.00			
Total FTEs	37.00			
Statutory Expenses	\$6,520,641 \$6,303,912	\$6,520,641 \$6,303,912		
Non-statutory Expenses	\$1,123,772 \$1,077,084	\$1,123,772 \$1,077,084		
Total Expenses	\$7,644,413 \$7,380,997	\$7,644,413 \$7,380,997		
Statutory Funding	\$6,442,377 \$6,357,704	\$6,442,377 \$6,357,704		
Non-statutory(Member) Funding	\$1,153,772 \$1,144,084	\$1,153,772 \$1,144,084		
Total Funding	\$7,596,148 \$7,501,785	\$7,596,148 \$7,501,785		
NEL	324,830,913	324,830,913		
NEL %	100%	100%		

Organizational Overview

Texas Regional Entity (Texas RE) is an independent and functionally separate division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), a Texas non-profit corporation. The vision and 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 Bulk-Power System (BPS).

The ERCOT region is the geographic area located within the State of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 200,000 square miles and 85% of Texas load.

In May 2007, Texas RE executed a Delegation Agreement with 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 Commission, Texas RE and NERC signed Amended and Restated Delegation Agreements on March 28, 2008 and January 3, 2009.

In the May 2007 Delegation Agreement and the March 28, 2008 and January 3, 2009 Amended and Restated Delegation Agreements (collectively “the Delegation Agreement”), NERC delegates to Texas RE certain responsibilities and authorities of a regional entity as defined in the FPA, regulations adopted by the Commission (including but not limited to Order Nos. 672 and 672-A in Docket No. RM05-30-000), and other directives of the Commission, including the authority to propose, develop, monitor, assess, and enforce reliability standards and regional standards and variances within the ERCOT region, in accordance with the NERC Rules of Procedure (ROP). Texas RE’s activities under the Delegation Agreement are referred to herein as Statutory activities.

In addition to Texas RE's Statutory activities, Texas RE monitors, investigates, audits, and reports on compliance with the ERCOT region reliability-based Protocols and Operating Guides (Protocols) for the PUCT, pursuant to the PUCT-approved ERCOT Compliance Process. Texas RE's Protocol compliance activities are referred to herein as Non-Statutory activities. Texas RE coordinates with PUCT staff regarding enforcement of potential Protocol violations, but the PUCT prosecutes any Protocol violations that result in enforcement actions. Due process is provided to any entity that is reported to have violated a Protocol, pursuant to state law, and the PUCT makes all final decisions regarding Protocol violations.

Membership and Governance

Because Texas RE is an independent division of ERCOT ISO, members of ERCOT ISO are also members of Texas RE. These members can be from any ERCOT ISO Segment (as listed below), and, except for the Consumer Segment, must have an actual financial interest in the retail or wholesale electric market in the ERCOT region and be able to do business in one of these markets. ERCOT ISO charges a nominal fee for membership, but the membership fee can be waived upon good cause shown. Any person or entity that has a direct and material interest in the BPS has a right to participate in the Texas RE Standards Development Process, even if not a Texas RE member.

In order to maintain clear independence from and not be unduly influenced by the owners, operators, and users of the BPS being monitored, Texas RE operates as a functionally separate division of ERCOT ISO. Texas RE is led by a chief executive officer with the title Chief Executive Officer and Chief Compliance Officer (CEO) who manages the general affairs of Texas RE as its chief executive officer and reports to the Board of Directors or a subcommittee thereof for administrative purposes. Texas RE maintains office space that is separate from the ERCOT ISO office space. Texas RE and its employees function independently of the ERCOT ISO and its officers, and Texas RE creates, monitors, and operates under an independent budget and maintains separate books and records from ERCOT ISO. Texas RE contracts for certain administrative services by ERCOT ISO at a rate agreed to in a Memorandum of Understanding which was executed in 2008.

Texas RE's board is comprised of the sixteen (16) directors of the ERCOT ISO board, including the Chair of the PUCT, as an ex officio non-voting member, the ERCOT ISO CEO as an ex-officio voting member, five (5) Unaffiliated Directors (not affiliated with any ERCOT ISO market participant), and directors from the following market Segments:

- Three (3) Consumers:
 - Texas Public Utility Counsel (representing residential consumers and small commercial consumers, as an ex officio voting member)
 - Large Commercial Consumer (peak demand >1000 kilowatts)
 - Industrial Consumer
- One (1) Independent Retail Electric Provider (and one segment alternate)
- One (1) Generator (and one segment alternate)
- One (1) Independent Power Marketer (and one segment alternate)
- One (1) Investor Owned Utility (and one segment alternate)
- One (1) Municipal (and one segment alternate)
- One (1) Cooperative (and one segment alternate)

The Texas RE directors maintain independence from their role as ERCOT ISO directors by holding board and committee meetings separately from ERCOT ISO meetings and by not

having any role regarding Texas RE's Statutory compliance and enforcement activities (as described below).

Statutory Functional Scope

In accordance with the Delegation Agreement and in compliance with the NERC ROP, Texas RE performs the following Statutory Functions:

- Propose and participate in the development of reliability standards, or modifications thereof and propose and develop needed regional standards or variances through Texas RE's Standards Development Process.
- Monitor and enforce approved reliability standards, including the registration of responsible entities and, as needed, the certification of such entities within the ERCOT region, through the Compliance Monitoring and Enforcement Program (CMEP).
- Perform other delegation-related services on behalf of NERC, in furtherance of NERC's responsibilities as the ERO under the FPA, including:
 - Assessment and performance analysis of the present and future reliability, adequacy, and security of the BPS.
 - Promote effective training and education of reliability personnel and assist in the certification of operating personnel.
 - Promote situational awareness and the security and protection of critical infrastructure.

2010 Key Assumptions

The key assumptions for Texas RE's 2010 Budget include the following:

- 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 still possesses unspent funds that will offset this amount.
- 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 Texas RE FERC audit.
- Texas RE will use any surplus funds from the prior year and any penalty funds received prior to July 1, 2009, to offset 2010 funding requirements.
- 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 per year.
- 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 for coordination and review of such assessments.
- NERC, Texas RE, and the other regional entities will continue to invest in technology improvements and process automation to improve efficiency and increase national consistency.

- Texas RE will lead the audits & other compliance monitoring processes of ERCOT ISO. Although NERC will participate, NERC will not charge Texas RE a fee for NERC's participation.
- NERC will conduct CIP audits of nuclear facilities with Texas RE participation. No funding has been included for NERC to conduct these audits.
- NERC will review and respond to Technical Feasibility Exception (TFE) requests.

2010 Goals and Key Deliverables

Texas RE's Goals and Key Deliverables for 2010 are as follows:

1. Improve reliability through rigorous monitoring and enforcement of compliance with mandatory standards, in accordance with the Delegation Agreement and the CMEP
 - a. Maintain registrations for responsible entities.
 - b. Monitor compliance of registered entities in the ERCOT region with mandatory standards, while adopting risk-based methodologies to optimize reliability benefits and improving quality and timeliness.
 - c. Ensure timely and thorough mitigation of all violations of mandatory reliability standards.
 - d. Enforce registered entities' compliance with the mandatory standards, while improving timeliness.
 - e. Promote a strong culture of compliance excellence, reliability improvement, and risk-based methods among registered entities in the ERCOT region.
2. Effectively communicate with NERC, other regional entities, regulators, and industry stakeholders as follows:
 - a. Continue to build and improve cooperative relationships with other registered entities, industry stakeholders, and regulators through regular, consistent messaging regarding all of Texas RE's program areas.
 - b. Deliver a consistent message through the new Texas RE website and a variety of electronic media (including the bi-monthly newsletter) as a timely and efficient means of providing important information to the industry and the public.
3. Maintain effective financial controls and conduct Texas RE operations within the approved budget.
4. Effectively manage the Texas RE Standards Development Process
 - a. Participate in and encourage stakeholder participation in the development of national standards, in support of the NERC three-year plan
 - b. Propose and facilitate development of regional standards or variances that are needed to comply with NERC's three-year plan, FERC directives, and any ERCOT region-wide physical differences.
5. Continue to increase situational awareness and event analysis capabilities, to improve timeliness of root cause analyses and lessons learned and strengthen overall reliability.
6. Work with NERC and the other regional entities to develop appropriate procedures for auditing and monitoring cyber and physical security of critical infrastructure.
7. Efficiently adopt appropriate technology to increase efficiency and productivity.

8. Establish Key Performance Indicators and Benchmarks for Texas RE operations.

Overview of Cost Impacts

In 2010, total direct Statutory expenses, plus Statutory capital expenses are increasing by ~~22.723.8%~~ or ~~\$1,2261.282K~~ from the 2009 budget. This increase is primarily being driven by the following items:

1. Increased personnel expenses resulting from adding five (5) additional staff (4.05 FTEs Statutory, .95 FTEs Non-statutory) and salary and benefit increases for existing staff. The total increase for personnel expenses is approximately \$769K.
2. Increased technology and capital expenditures, including the Texas Regional Entity Compliance Portal projects, document management system project, and other management and reporting tools to improve quality, efficiency and consistency of reporting total \$158K
3. Increased cash reserves total ~~\$491K-516K~~ which in 2010, does not impact expenses. This cash reserve is being funded through unspent funds from prior years (Texas RE's regulatory liability) appearing on Texas RE's balance sheet and does not appear on the statement of activities. We are listing it for disclosure purposes.
4. Increased travel costs associated with NERC and Regional Entity meetings and compliance audits total \$79K.
5. Increased cost of administrative services received from ERCOT ISO through the MOU total \$139K, offset by reductions in rent expense and facilities services year-over-year of \$190K.
6. The Operations Training Seminar is budgeted in 2010 to accommodate a venue change that occurred in 2009. This resulted in increased costs; however those costs were funded by seminar attendees through the registration fee. For 2010, the expected increase year-over-year is approximately \$110K. This amount is also expected to be similarly funded through the seminar registration fees attendees pay.

Detailed Business Plans and Budgets by Program

Details of the planning, operation, review, and adjustment for each program area are included in Section A. The corresponding budget details are shown in Section B.

Section A — 2010 Business Plan

Reliability Standards Program

Reliability Standards Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.70	2.06	0.36
Total Direct Expenses	\$176,491	\$273,959 \$264,734	\$97,468 \$88,243
Total Indirect Expenses ¹	\$287,778	\$147,954 \$146,230	(\$139,824) (\$141,548)
Total Expenses	\$464,269	\$421,913 \$410,964	(\$42,356) (\$53,305)

Texas RE Standards staff facilitates the development of regional standards and variances, in accordance with the Texas RE Standards Development Process, which was approved as Exhibit C to the Delegation Agreement. Texas RE standards staff coordinates and publicly posts information regarding the activities of the Reliability Standards Committee (RSC) and all standards drafting teams (SDTs).

The Texas RE Standards Development Process is open to all organizations that are materially affected by the ERCOT region BPS, with no undue financial barriers. Any such entity has the right to participate by expressing an opinion, having its opinion considered, and having the right to appeal. Notice of all meetings of the Texas RE RSC and all drafting teams are provided on the Texas RE website and are open to the public.

The Texas RE Standards Development Process provides for a balance of interests, containing seven market segments and a requirement of a vote of at least two-thirds of the segments for approval of any regional standard. The first Texas RE Standard Authorization Request (SAR), SAR-001, proposed to add an additional market segment, with a ¼ vote, for ERCOT ISO and has been approved by NERC for filing with FERC. No two segments can dominate, and no single segment can defeat any matter. In addition, each of the current seven segments has at least two representatives on the RSC. Currently, 47 entities have joined the RBB, representing about 25% of all Texas RE members.

Texas RE's Standards Development Process provides for fair and due process by providing sufficient public notice of the intent to develop a regional standard. In addition, all proposed standards are posted on the Texas RE Reliability Standards Tracking site for public comments. The site allows all interested parties to submit comments during the commenting period. This process also provides an appeals process.

The RSC meets once a month. The SDTs meet as necessary and include WebEx participation. In addition to facilitating all meetings, Texas RE Standards employees are directly involved in the non-technical aspects of the drafting of the standards. Texas RE Compliance employees also provide technical support, as requested. To promote wider awareness of and participation in the reliability standards process throughout the ERCOT region, Texas RE launched the Reliability Standards Tracking site in 2008. The tool allows all registered parties to efficiently

¹ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

submit comments on SARs and draft standards during commenting periods and allows members of the Registered Ballot Body (RBB) to vote online.

Texas RE staff supports and participates in the NERC Standards Committee and Regional Reliability Standards Working Group and has contributed to the 2009-2011 NERC Work Plan. The Texas RE Manager of Standards was nominated and accepted into the NERC Communications and Planning Subcommittee of the NERC Standards Committee. In addition, the Texas RE staff review draft reliability standards from other regions, and staff from other regional entities review draft Texas RE regional standards.

Texas RE informs stakeholders of the impact and requirements of emerging NERC standards through training at the Texas RE workshops. In general, Texas RE works to ensure that stakeholders have the most current and accurate information on reliability standards. procedures, forms, meetings, minutes, notes, agendas, drafts, etc., for all regional activities associated with standards are posted in a timely fashion on the Texas RE website. Market notices on major topics and upcoming meetings are sent regularly to Texas RE email lists. Articles on reliability standards topics are included in the bi-monthly Texas RE newsletter.

2010 Key Assumptions

- Standards workflow remains constant, with no more than four (4) new SARs being developed during 2010.
- Standards program staffing is complete with two full time equivalent employees (FTEs) to maintain the continuation of existing SARs and development of potential new ones.
- Travel will increase in 2010 to meet goals of increasing participation in NERC and other regional committees and subcommittees.

2010 Goals and Key Deliverables

The goals of the Reliability Standards Program for 2010 are as follows:

1. Meet all FERC and NERC directives with regard to regional standards development and procedures and maintain effective relationships and communications with the standards staff at NERC and the other regional entities.
2. Develop regional standards program communications that educate and inform stakeholders and support the Texas RE Standards Development program objectives.
3. Work closely with NERC and registered entities within the Texas RE footprint to develop regional standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain a regional variance; or otherwise address issues that are not addressed in NERC Reliability Standards.
4. Ensure consistency and quality of regional standards without causing undue restrictions or adverse impacts on competitive electricity markets.
5. Ensure Texas RE Reliability Standards development process is aligned to meet agreed-upon expectations.
6. Streamline and improve the Texas RE's Standards Development Process and associated tools.
7. Participate and be actively involved in various NERC reliability standards program and related functions.

8. Continue to educate and inform the market participants to ensure adequate representation on the Registered Ballot Body.

To implement these goals Texas RE Standards staff is leading the RSC in developing a scope of work for the RSC to include more comprehensive review and comment to the existing and proposed NERC standards under development for tracking of possible regional variances that may be necessary with the associated continent-wide efforts. Texas RE Standards staff presented the RSC with the 39 standards development projects in the current NERC workplan and asked the RSC to rank them in importance. Ten projects emerged as most important to the ERCOT region. The RSC plans to have subject matter experts (SMEs) make one presentation each month on the 10 projects for evaluation as to any potential regional standard that may be necessary. A presentation on NERC Project 2006-03 System Restoration and Blackstart (EOP-005, 006, 007 and 009) was made at the March RSC meeting.

Certain stakeholders submitted comments requesting improvements to the Texas RE website. The new Texas RE website (which is expected to launch by the end of the second Quarter 2009) will have a Standards section that is intended to have improved clarity and navigation.

Texas RE Standards staff is considering having a regional standards workshop (a longer and more detailed presentation than the normal standards presentation made during the Compliance workshop), to allow ERCOT region stakeholders to learn about standards in general and the process for developing new regional and national standards. If this workshop is warranted, it would occur in the latter half of 2009. Otherwise, Texas RE Standards staff will continue to include a standards section in the Compliance Workshop.

Stakeholders also submitted comments indicating that the NERC Fill-in-the-Blank standards have caused confusion. Texas RE supports the concept of revising the standards to remove the Fill-in-the-Blank components. Texas RE will develop (as necessary) any regional standards that are subsequently required.

A regional-wide announcement was sent out in December 2008 to update and solicit more RBB registrations, to ensure wider participation by all segments. This announcement was part of the ballot pool solicitation and formation efforts for SAR-001. This resulted in the 47 RBB members as of February 28, 2009,

Texas RE Standards staff will increase its participation in NERC Standards Committee meetings to stay current on all NERC Standards under development for presentation to the ERCOT ISO stakeholders, and Texas RE will continue participating in the NERC Communication and Planning Subcommittee.

Funding Requirements — Explanation of Increase (Decrease)

| The Reliability Standards funding requirements reflects an increase of ~~\$236K~~247K year-over-year for two (2) reasons:

1. 2009 was lowered because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and
2. In 2010, indirect program expenses are fully allocated to the direct program areas.

Reliability Standards Program

Funding sources and related expenses for the reliability standards section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Standards					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 176,491	\$ 176,491	\$ -	\$ 423,446	\$ 246,955
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 176,491	\$ 176,491	\$ -	\$ 423,446	\$ 246,955
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 176,491	\$ 176,491	\$ -	\$ 423,446	\$ 246,955
Expenses					
Personnel Expenses					
Salaries	\$ 127,238	\$ 159,073	\$ 31,835	\$ 184,729	\$ 57,491
Payroll Taxes	10,179	11,949	1,770	14,901	4,722
Benefits	14,320	10,126	(4,194)	20,489	6,169
Retirement Costs	18,450	21,800	3,350	26,697	8,248
Total Personnel Expenses	\$ 170,187	\$ 202,948	\$ 32,762	\$ 246,816	\$ 76,629
Meeting Expenses					
Meetings	\$ -	\$ 304	\$ 304	\$ 400	\$ 400
Travel	4,344	3,389	(955)	6,824	2,480
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 4,344	\$ 3,693	\$ (651)	\$ 7,224	\$ 2,880
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	1,960	456	(1,504)	480	(1,480)
Professional Services	-	10,938	10,938	18,824	18,824
Miscellaneous	-	470	470	615	615
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 1,960	\$ 11,864	\$ 9,904	\$ 19,919	\$ 17,959
Total Direct Expenses	\$ 176,491	\$ 218,506	\$ 42,015	\$ 273,959	\$ 97,468
Indirect Expenses	\$ 287,778	\$ 211,201	\$ (76,578)	\$ 147,954	\$ (139,824)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 464,269	\$ 429,707	\$ (34,562)	\$ 421,913	\$ (42,356)
Change in Assets	\$ (287,778)	\$ (253,216)	\$ 34,562	\$ 1,533	\$ 289,312
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (20,746)	\$ (20,746)	\$ -	\$ (1,533)	\$ -
Change in Fixed Assets	\$ (20,746)	\$ (20,746)	\$ -	\$ (1,533)	\$ -
TOTAL CHANGE IN ASSETS	\$ (308,524)	\$ (273,962)	\$ 34,562	\$ 0	\$ 289,312

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- 2010 personnel expenses are increasing to accommodate additional FTEs of work in the Reliability Standards area. The primary increase is resulting from increased management, IT, Compliance, and other personnel working on Reliability Standards activities ~~\$67K~~\$77K.

Meeting Expenses

- The \$3K increase in meeting expenses is primarily driven by increases in travel. Reliability Standards expects to attend at least 3 additional standards workgroup meetings in the coming year.

Operating Expenses

- The \$18K increase in operating expenses is attributed to expenses associated with the Texas Regional Entity Portal, the Reliability Standards Tracking site that relate to Reliability Standards and the Texas RE Website. These types of expenses were budgeted in administrative services last year; however, these are more appropriately direct costs to this program.

Indirect Expenses

- Indirect expenses are decreasing by ~~\$142K~~\$140K year-over-year, through the identification of direct expenses that were previously budgeted in administrative services.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	14.15	18.74	4.59
Total Direct Expenses	\$1,628,802	\$3,123,961 \$3,104,550	\$1,495,159 \$1,475,748
Total Indirect Expenses	\$2,404,881	\$1,345,291 \$1,329,617	(\$1,059,590) (\$1,075,264)
Total Expenses	\$4,033,683	\$4,469,253 \$4,434,167	\$435,569 \$400,483

The purpose of Texas RE's Compliance Monitoring and Enforcement Program (CMEP) is to protect the reliability of the ERCOT region's Bulk-Power System (BPS) through our interactions with and oversight of the registered entities in the region. Texas RE is responsible for monitoring, assessing, and enforcing compliance with NERC Reliability Standards and regional standards for all registered entities in the ERCOT region. The CMEP activities make up the majority of the work currently done by Texas RE although Non-statutory work continues to be an important aspect of overall compliance in the ERCOT region.

The CMEP focuses on four primary areas: properly registering organizations responsible for complying with reliability standards (Organization Registration and Certification), monitoring the registered entities for compliance with reliability standards (Compliance Monitoring), determining and reporting to NERC violations of reliability standards by registered entities (Enforcement), and ensuring correction of non-compliance and violations (Mitigation of Violations). Texas RE maintains processes and procedures for data gathering, reporting, investigating, auditing, assessing, penalizing and sanctioning violators, and mitigating non-compliance.

Because the CMEP is still a relatively new program, Texas RE continues to develop policies and procedures to support the evolving requirements that are developed at the national level. Texas RE will continue to review its organizational structure, processes, procedures and document management with the intent to continuously improve the quality and timeliness of its work while also addressing the cost of compliance whenever possible. The reliability of the BPS always remains the unquestionable number one priority of the organization.

Organization Registration and Certification Program Description and Functions

Texas RE is responsible for identifying and registering the owners, operators, and users of the BPS as registered entities in the ERCOT region per Section 500 of the NERC ROP. These registered entities are responsible for complying with all applicable reliability standards. Texas RE must maintain an accurate registration list of all entities, their contact personnel and the business relationships, as well as managing the Joint Registered Organization agreement process.

Texas RE has 216 registered entities representing 334 functions as of May 15, 2009. The list of registered entities in the ERCOT region continues to evolve and currently includes:

- 112 Generator Owners
- 77 Generator Operators
- 24 Transmission Planners
- 29 Transmission Owners
- 43 Distribution Providers
- 42 Purchasing Selling Entities
- 1 ISO with seven (7) registrations: Transmission Operator, Reliability Coordinator, Balancing Authority, Planning Authority, Resource Planner, Transmission Service Provider, and Interchange Authority (ERCOT ISO)

Texas RE created the Stakeholder Management Department in 2008 as the primary organization in Texas RE with responsibility for registration, certification, training, communications, reporting, document management and reliability assessments (discussed later). The plan was to provide organizational focus for Stakeholder management and services. In practice in 2009, staffing levels have not been adequate to properly manage registration and certification in a timely fashion and some dissatisfaction was expressed by registered entities with in the 2009 NERC survey.

In December 2008, Texas RE launched its portal. The portal allows registered entities to update or modify contact information and to submit self-certification response electronically. However, extracting data from the portal for submission to NERC continues to require manual intervention and quality control to validate entity changes. Texas RE has planned improvements for the portal to address issues such as reporting, and NERC is working toward completing its portal to allow a more efficient submission of this information. The updated Texas RE and NERC portals should reduce some of the administrative burdens on this program.

The management of Joint Registration Organizations (JRO) agreements adversely impacted work load in 2009 as this work has taken significant attention from staff to coordinate and approve. In addition, the implementation of the modified LSE registration criteria resulted in significant challenges in the ERCOT region due to the unique market design of the ERCOT region (including competitive markets and a single Balancing Authority). To avoid gaps, overlaps and registration appeals, Texas RE has spent approximately six (6) months working with stakeholders to obtain stakeholder feedback and facilitate a JRO design for LSE registration that eliminates all gaps, minimizes overlap, and reduces potential registration appeals. This process has been extremely beneficial with respect to improved communications and coordination with registered entities and is planned to be used again should a similar problem arise. Texas RE anticipates that the LSE JRO will result in a small increase in newly registered entities and a more significant increase in registered functions for existing entities.

Registration work is expected to remain at the current level (which is higher than anticipated for 2009) through 2010 due to on-going registered entity changes (changes in business names, mergers, acquisitions, asset sales, and reorganizations) and a possible JRO for the Transmission Operator (TOP) function (which could require TOP certification audits), and anticipated participation in national discussions regarding modifications or additions to the Statement of Registry Criteria (such as LSE) and registered entity functions or responsibilities, to ensure that the issues unique to the ERCOT region are properly considered.

Registration disputes also have the potential to adversely impact work load in the registration area. Texas RE should finalize its second significant registration dispute in 2009. The time

expended on each registration appeal has been significant. Texas RE anticipates that registration disputes should reduce over time once the NERC functions and registration criteria stabilize. This budget anticipates no significant changes in registration criteria in 2010. Stakeholder Management has remained relatively constant in 2009 and is adequately staffed. Stakeholder Management has a records coordinator who is helping to organize and maintain the records and procedures that are important to Texas RE's internal compliance and enforcement case management. Texas RE plans to install document management software in late 2009, which will require transitioning of existing files and revisions to internal procedures but is expected to enable Texas RE to more efficiently manage documents and evidence, even as the volume of evidence maintained increases.

The extensive reporting requirements for NERC, FERC, and the Texas RE board continue to remain higher and more challenging than expected. Texas RE anticipates that this could reduce somewhat, but, as a fairly new enterprise that is trying to achieve consistency among eight regional entities and NERC, Texas RE anticipates that it will need to continue to expect extensive reporting obligations through 2010.

To improve the organization's ability to address the dissatisfaction with timely registration responses, the ongoing support of the registration and certification process, including JROs, appeals and coordination with NERC and the other regions, Texas RE is planning to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) to Stakeholder Management in 2010.

Compliance Monitoring and Enforcement Program Description and Functions

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 strives to maintain a high level of reliable operation of the ERCOT region BPS. Ensuring the reliable operation of the BPS benefits all owners, operators, and users of the BPS in the ERCOT region.

In 2008, Texas RE divided its compliance staff into a Compliance Audit group and a Compliance Enforcement group in order to provide separation between the audit the other compliance and enforcement processes.

Texas RE uses a total of eight (8) monitoring and investigation processes to collect information to confirm compliance or a violation with NERC Reliability Standards:

1. Compliance Audits,
2. Self-Certifications,
3. Spot Checking,
4. Compliance Violation Investigations (CVI),
5. Self-Reporting,
6. Periodic Data Submittals,
7. Exception Reporting,
8. Complaints.

Compliance Audit

Texas RE audits the reliability standards on a recurring basis using an approved audit plan coordinated with NERC and the other regions. Texas RE also augments the audit schedule

based on regional needs. The Compliance Audit schedule follows a three or six-year cycle, depending on the entity's registration, and an audit report is issued for each audit.

In any year that a registered entity does not receive a Compliance Audit, Texas RE requires the entity to complete a compliance Self-Certification using electronic forms developed in coordination with NERC and distributed by Texas RE. The entity must certify its compliance or non-compliance with each designated measure and submit the Self-Certification form to the Texas RE by the date specified in Texas RE's request. Texas RE may require registered entities to also self-certify their compliance with reliability standards at other times as well.

Texas RE's Compliance Audit group performs Spot Checks of registered entities to 1) confirm compliance certified on Self-Certifications, 2) follow up on Self Reports and Periodic Data Submittals, and 3) follow up on complaints, events, or other indications of non-compliance. Texas RE may perform Spot Checks by telephone, site visit, or a data or document request. Deficiencies found in Self-Certifications and Spot Checks are treated as if they were audit findings of violations.

Prior to 2009, most on-site audits took two days at the registered entity's site. In 2009, these audits have been extended to three days due to the increase in work brought about by the need to verify completion of past mitigation plans and to investigate potential issues of reliability concern, including recent violations or events. The growth in the audit duration directly impacts audit staffing and travel costs.

The current plan for Texas RE is to support the 2010 Critical Infrastructure Protection (CIP) audit with the Compliance Audit staff. CIP experts will be staffed in the CIP budget; however, Texas RE intends to augment the CIP audit team with experienced auditors from the Compliance audit team in 2010. Texas RE has only one (1) registered entity that is required to be auditably compliant with CIP 002 – 009 prior to January 1, 2011, but Texas RE plans to perform 2010 validation and testing of CIP methodologies for CIP 002 via a minimum of six (6) CIP Spot Checks of the 41 requirements contained in the reliability standards CIP 002 – 009. (The CIP FTEs are discussed in the Critical Infrastructure Information section.)

Texas RE plans to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) auditor to the Compliance Auditing department to address the increase in audit work load from the organic growth in regular audits and to support CIP audits and spot checks in 2010. This is in addition to the additional CIP expert discussed in a later section.

Compliance Enforcement

Texas RE has implemented a separate Compliance Enforcement group that processes alleged violations originating from audits, spot-checks, self-certifications, complaints, self reports, CIQs and CVIs. The Compliance Enforcement program activities include reviewing all potential alleged violations from any of the eight (8) defined processes, preparing and submitting notices of alleged violations, preparing Notices of Confirmed Violations, assisting NERC with Notices of Penalties, and managing settlement negotiations and hearings associated with contested violations. This group also reviews all mitigation plans and must confirm completion of all mitigation plans not verified during audit, using Spot Checks, when necessary.

Once a potential alleged violation is identified from any compliance monitoring process, the Compliance Enforcement group may begin a Compliance Inquiry (CIQ), Compliance Violation

Investigation (CVI), or perform a Spot Check to gather additional information to assist with the final determination of a potential violation. A CIQ is initiated as an informal, non-public review of facts, circumstances, and information that is conducted to determine if a more formal CMEP activity (such as a Spot Check or CVI) should be initiated. The CVI process is a detailed and lengthy process used for the more serious or complicated potential violations. The Spot Check is a very efficient process to gather information to reach a final determination of a potential violation.

Documentation requirements for all Compliance Enforcement program activities and processes increased during 2009 to support due process and to address all NERC and FERC-required improvements. Texas RE expects the Compliance Enforcement program activities to continue to increase in 2010 due to the level of complexity to reach violation determination and penalty calculation.

Texas RE also anticipates additional work to support enforcement appeals. Since no significant penalties have yet been approved, there have not been any significant appeals in the ERCOT region. Texas RE is staffing to ensure that it will be prepared for 1 large or 2 smaller enforcement appeals.

Texas RE plans to add an additional 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) in 2010 to accommodate the work load in Compliance Enforcement.

2010 Key Assumptions

Organization Registration and Certification

- Additional JRO workload due to LSE and possible TOP registrations.
- Certification audit for a maximum of 4 TOPs (registered by JRO) might be performed.
- No additional NERC functions will be added or substantially modified by or during 2010.
- The Texas RE and NERC Portals will be fully functional and supporting electronic reporting of registration information to NERC by late 2010.
- Document management software will be installed in 2009 and fully operational in 2010.

Compliance Audit

- Audits will require three (3) full days for the team to conduct the audit, with additional time required for preparation of audit notification, review of submitted responses prior to the audit and completion of the audit reports, similarly to 2009.
- Spot checks of requirements will be incorporated in the audit team schedule based on system events, self-certification results and complaints. A maximum of 20 entities will have a spot check, (including the six (6) Spot checks of CIP 002 – 009 standards listed below) conducted in the second half of the year.

Compliance Enforcement

- The number of alleged violations will remain fairly constant in 2010.
- Have one (1) large or two (2) small-to-medium contested enforcement cases.
- Conduct 2 Compliance Violation Investigations.

- Conduct 20 detailed analyses of incidents, system disturbances, and events.
- Analyze and investigate 10 Complaints.
- Continue to work with NERC and other regional entities to improve consistency in processing violations and applying penalties for Registered Entities with operations in multiple regions.

2010 Goals and Key Deliverables

Organization Registration and Certification

1. Maintain an accurate registration list of all owners, operators, and users of the BPS by establishing a schedule to verify entity registration and contact information.
2. Provide updated registered entity information to NERC and appropriate government authorities.
3. Participate in development of registration criteria, procedures, policies and databases with NERC and FERC, and implement and communicate changes as necessary.
4. Provide support for all registration appeals.
5. Implement organization certification in accordance with NERC processes, some of which are still under development – conduct required certification audits, if necessary.
6. Maintain processes and procedures for registration and certification activities that are required by the certification standards.
7. Review and improve procedures to improve communications with registered entities
8. Achieve significant improvement in responsiveness and add more focus on regional consistency.
9. Respond to requests and special reports from NERC/FERC and the board.
10. Continue to improve the Portal to facilitate automated communications with registered entities.
11. Maintain the document management system to preserve work papers and evidence.

Compliance Enforcement

1. Review and process or dismiss all alleged violations in a more timely fashion.
2. Manage all settlements and contested cases to completion, as efficiently as possible.
3. Coordinate with and provide assistance to the Legal Department on settlements, appeals and contested cases.
4. Conduct required Compliance Violation Investigations.
5. Conduct compliance analysis of all significant events and other system disturbances.
6. Analyze and investigate all Complaints.
7. Achieve reasonable timelines in performing each of the compliance monitoring and enforcement processes.
8. Achieve reasonable timelines in processing violations, penalties and settlement agreements (less than 100 days).

Audits

1. Conduct approximately 52 audits, 18 at the entity's site and the remaining 34 at TRE's offices, per the 2010 schedule, Texas RE procedures and the provisions of the NERC CMEP.
2. Perform Spot Checks, including a sample of entities for spot checks of the CIP standards.
3. Continue to work with other Regional Entities to improve auditing consistency and reduce the cost of audits for Registered Entities with operations in multiple regions.
4. Complete a review of policies and procedures with the goal of improving the clarity of communications with Registered Entities, to determine how to mitigate the cost of compliance without impacting reliability, and meeting compliance with NERC ROP modifications and NERC guidance.
5. Prepare an overall CMEP implementation plan for the 2011 program by November 1, 2010, including recommendations from the FERC and upcoming NERC audit of Texas RE.

Funding Requirements — Explanation of Increase (Decrease)

The Compliance funding requirements reflects an increase of ~~\$2,9552,990~~K year-over-year due to 2009 being lower because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, there are personnel increases proposed for 2010 as detailed below.

Compliance will have increased personnel expenses as a result of adding three (3) staff (2.55 FTEs Statutory, .45 FTEs Non-statutory) and additional management, legal, IT, and other personnel work on compliance activities.

Organization Registration and Certification

Staffing levels are inadequate to provide reasonable response times on registration and certification issues including JRO activity. The department only has one professional staff (currently vacant) member to address all work in this area, which has proven to be inadequate. Adding one professional level staff member will help correct uneven response times in this area. More focus on regional consistency will be made possible by shifting registration duties away from the manager. In addition, the new staff member will effectively address special requests for data and reports from NERC/FERC. Based on the supporting Registration and Certification business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, .15 Non-statutory) for 2010 to be hired at the beginning of the 2nd quarter.

Compliance Enforcement

Current staff levels and workload don't allow for timely completion of the tasks associated with the required CMEP processes. Documentation requirements for each of these processes continue to increase. Adding one additional staff will allow the organization to reduce enforcement processing delays to more reasonable durations. Based on supporting the Compliance Enforcement business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, and .15 Non-statutory) for 2010 to be hired in the middle of the first quarter.

Audits

The audit team is requesting the addition of a ninth staff member in 2010 due to the required increases in audit time. Typical on-site audits are requiring a third day, and the overall time for an audit is increasing commensurately. The audit team will also be supporting spot checks of

the CIP 002-009 standards during the second half of 2010. These CIP spot checks are also anticipated to require significant additional effort. Based on supporting the Audit business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, and .15 Non-statutory) for 2010 to be hired in the middle of the first quarter.

In addition to the headcount additions, direct legal expenses are increasing \$257K. The Texas RE Compliance Portal hosting expenses are increasing \$160K. Both of these expenses were recognized under administrative services in prior years, but are more appropriately reflected in 2010 as direct costs.

Compliance Enforcement and Organization Registration and Certification Program

Funding sources and related expenses for the compliance enforcement and organization registration and certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance and Organization Registration and Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 4,619,430	\$ 2,990,495
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 4,619,430	\$ 2,990,495
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 4,619,430	\$ 2,990,495
Expenses					
Personnel Expenses					
Salaries	\$ 1,164,106	\$ 1,221,917	\$ 57,811	\$ 1,799,918	\$ 635,812
Payroll Taxes	93,128	97,661	4,532	142,553	49,425
Benefits	134,510	100,088	(34,422)	196,011	61,501
Retirement Costs	163,258	161,664	(1,594)	255,408	92,150
Total Personnel Expenses	\$ 1,555,003	\$ 1,581,331	\$ 26,327	\$ 2,393,890	\$ 838,887
Meeting Expenses					
Meetings	\$ -	\$ 634	\$ 634	\$ 4,000	\$ 4,000
Travel	73,199	85,850	12,651	147,091	73,892
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 73,199	\$ 86,484	\$ 13,285	\$ 151,091	\$ 77,892
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	600	2,630	2,030	8,760	8,160
Professional Services	-	22,108	22,108	416,660	416,660
Miscellaneous	-	171	171	15,561	15,561
Depreciation	-	-	-	138,000	138,000
Total Operating Expenses	\$ 600	\$ 24,909	\$ 24,309	\$ 578,980	\$ 578,380
Total Direct Expenses	\$ 1,628,802	\$ 1,692,723	\$ 63,921	\$ 3,123,961	\$ 1,495,159
Indirect Expenses	\$ 2,404,881	\$ 1,722,893	\$ (681,988)	\$ 1,345,291	\$ (1,059,590)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 4,033,683	\$ 3,415,617	\$ (618,067)	\$ 4,469,253	\$ 435,569
Change in Assets	\$ (2,404,749)	\$ (1,786,682)	\$ 618,067	\$ 150,177	\$ 2,554,926
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ (138,000)	\$ (138,000)
Computer & Software CapEx	-	-	-	274,237	274,237
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (136,237)	\$ (136,237)
Allocation of Fixed Assets	\$ (173,365)	\$ (173,365)	\$ -	\$ (13,940)	\$ -
Change in Fixed Assets	\$ (173,365)	\$ (173,365)	\$ -	\$ (150,177)	\$ (136,237)
TOTAL CHANGE IN ASSETS	\$ (2,578,113)	\$ (1,960,047)	\$ 618,067	\$ -	\$ 2,418,689

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- The Compliance, Organization Registration & Certification program is proposing to add 3.0 staff (2.55 FTEs Statutory, .45 FTEs Non-statutory) to this area to enhance functional performance (improved response times and increased effectiveness) \$300K. There are additional management, legal and project personnel that are directly working in these functions that are also reflected in the total FTEs (as reported on table 2 of Section B) for these programs.

Meeting Expenses

- Meeting expenses are increasing year-over-year primarily related to travel expenses. The length of audits has been extended resulting in a 16% increase in travel \$15K. Additionally, there are a significant number of NERC working group meetings that are planned based on the 2009 meeting -schedule, expected increase \$59K. The additional working group meetings are expected to result in a more consistent compliance implementation across the regions.

Operating Expenses

- Professional services expenses are increasing in 2010 due to the direct costing of external legal (for enforcement hearings and registration appeals - \$257K) and other professional service expenses directly attributed to hosting Texas RE's portal \$160K for the benefit of the program.
- Additionally, there is approximately \$138K in depreciation expense attributed to the Texas RE Portal for 2010, please see Fixed Asset Additions for more detail.

Indirect Expenses

- Indirect expenses are decreasing \$1,0751,060K year-over-year, through the identification of direct expenses that were previously budgeted in administrative services.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- The majority of this capital expense is attributed to Texas RE Portal projects and enhancements in 2010, \$274K. The projects such as, Portal Project - System Management User Interfaces: Forms, Security, Notifications/Emails, Portal Switch Lookup, Master Account Summary Report (TRE Registration), CIP Forms 2010 (CIP annual update), Portal Communications GUI (allows non-developers to administer portal home page announcements), and an Audit Tracking Module (TRE Compliance Audits) will enhance Texas RE's ability to perform its delegated responsibilities by utilizing technology to enhance performance.

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	0.60	0.97	0.37
Total Direct Expenses	\$176,415	\$328,735 \$327,669	\$152,320 \$151,254
Total Indirect Expenses	\$99,243	\$69,896 \$69,081	(\$29,347) (\$30,161)
Total Expenses	\$275,658	\$398,630 \$396,751	\$122,972 \$121,093

The Texas RE Training, Education, and Operator Certification program provides the education and training necessary to understand and operate the BPS, in accordance with NERC ROP Section 900. In 2010, the Texas RE Training program will develop materials for and plan to hold at least:

- Two (2) full-day Standards and Compliance workshops;
- One (1) additional workshop focusing on standards;
- Two (2) additional workshops focusing on CIP compliance.

In addition to the above workshops, Texas RE also intends to continue to coordinate and facilitate six (6) regular sessions of the ERCOT Operations Training Seminar. The purpose of this seminar is to refresh the understanding of operational fundamentals; introduce changes occurring to operational interfaces, equipment, systems, and processes; address the impact of market processes to system performance and operation; and address emerging issues in performance and system reliability. Texas RE also facilitates the ERCOT Operator Certification Program, including maintaining and updating the ERCOT Fundamentals Training Manual and administering the System Operator testing process.

The Texas RE Training staff also publishes a bi-monthly newsletter, which includes useful compliance and standards-related information, updates about Texas RE and NERC activities, training, procedures, templates, and forms, and current reliability-related topics.

Texas RE staff participates on selected industry sponsored seminars and panels to provide as much information to the industry as possible as well as to receive feedback.

Texas RE's training program continues to improve and consistently receives favorable reviews from participants. With few exceptions the Texas RE workshops and seminars are fully subscribed and support remote attendance using call-in numbers and WebEx presentations.

2010 Key Assumptions:

- Texas RE will develop and deliver two (2) Standards and Compliance workshops, two (2) CIP Compliance workshops and six sessions of the Operations Training seminar in 2010.
- Texas RE will develop and deliver one (1) Reliability Standards workshop in 2010.

- The Training, Education, and Operator Certification program will remain a Statutory function with the Operations Training Seminar revenues partially offsetting the seminar's expenses.

2010 Goals and Key Deliverables:

1. Develop two (2) full-day high quality 2010 Standards and Compliance workshops (approximately 125 stakeholders each)
2. Develop and deliver one (1) full-day Reliability Standards workshop
3. Develop and deliver two (2) full-day quality CIP workshops
4. Coordinate and host six (6) sessions of the four-day ERCOT region Operator Training seminar
5. Maintain a database for tracking seminar and workshop participants and feedback and use this feedback to continue to improve on future seminars and workshops

Funding Requirements — Explanation of Increase (Decrease)

The Training, Education and Operator Certification funding requirements reflects an increase of ~~\$111K~~-113K year-over-year because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, expenses associated with the Operations Training Seminar are increasing due to increases in the cost of the venue for the six (6) week seminar facilitated by Texas RE. The increase in costs from 2009 to 2010 for the OTS is expected to be \$110K year-over-year. This additional expense is expected to be offset by registration fees collected from OTS attendees.

Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training and Education					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 106,415	\$ 106,415	\$ -	\$ 219,355	\$ 112,940
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 106,415	\$ 106,415	\$ -	\$ 219,355	\$ 112,940
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	70,000	174,029	104,029	180,000	110,000
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 176,415	\$ 280,444	\$ 104,029	\$ 399,355	\$ 222,940
Expenses					
Personnel Expenses					
Salaries	\$ 52,608	\$ 76,339	\$ 23,731	\$ 81,122	\$ 28,514
Payroll Taxes	4,209	5,594	1,385	6,425	2,216
Benefits	5,524	7,747	2,222	8,834	3,310
Retirement Costs	7,628	9,673	2,044	11,511	3,883
Total Personnel Expenses	\$ 69,969	\$ 99,352	\$ 29,383	\$ 107,893	\$ 37,924
Meeting Expenses					
Meetings	\$ 105,000	\$ 154,928	\$ 49,928	\$ 220,000	\$ 115,000
Travel	1,446	1,700	254	-	(1,446)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 106,446	\$ 156,628	\$ 50,182	\$ 220,000	\$ 113,554
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	270	270	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	646	646	842	842
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ 916	\$ 916	\$ 842	\$ 842
Total Direct Expenses	\$ 176,415	\$ 256,896	\$ 80,481	\$ 328,735	\$ 152,320
Indirect Expenses	\$ 99,243	\$ 96,418	\$ (2,825)	\$ 69,896	\$ (29,347)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 275,658	\$ 353,314	\$ 77,656	\$ 398,630	\$ 122,972
Change in Assets	\$ (99,243)	\$ (72,870)	\$ 26,373	\$ 724	\$ 99,967
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (7,154)	\$ (7,154)	\$ -	\$ (724)	\$ -
Change in Fixed Assets	\$ (7,154)	\$ (7,154)	\$ -	\$ (724)	\$ -
TOTAL CHANGE IN ASSETS	\$ (106,397)	\$ (80,024)	\$ 26,373	\$ -	\$ 99,967

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Training, Education and Operator Certification is planned to be nearly 45% self-funded in 2010 through registration fees from attendees of the OTS. The remaining 55% of this program is funded through assessments.

Personnel Expenses

- 2010 personnel expenses are increasing to accommodate additional FTEs of work in the Training area. The primary increase is resulting from increased management, support and other staff to conduct Texas RE's training workshops and the Operations Training Seminar.

Meeting Expenses

- Meeting expenses are increasing primarily for the Operations Training Seminar. Due to a venue change to an offsite location, the costs of conducting the seminar are \$110K higher.
- Additionally, Texas RE is increasing its budget for workshops from \$35K to \$40K to allow for venue changes as needed for larger attendance.

Operating Expenses

- The primary expense budgeted in this area relates to training seminars, dues, and training in direct support for the training staff.

Indirect Expenses

- Indirect expenses are reflecting a ~~slight~~ decline of \$29K year-over-year due to reductions in the administrative costs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.20	2.44	0.24
Total Direct Expenses	\$365,180	\$290,095 \$287,422	(\$75,085) (\$77,758)
Total Indirect Expenses	\$372,419	\$175,173 \$173,432	(\$197,246) (\$199,287)
Total Expenses	\$737,599	\$465,267 \$460,553	(\$272,331) (\$277,045)

Program Scope and Functional Description:

Reliability Assessment Reports

ERCOT ISO has traditionally assembled the data for an prepared all seasonal, annual long-term, and other required planning and reliability assessments for the ERCOT region, using ERCOT ISO planning staff and input from stakeholder technical experts. As the regional entity, Texas RE coordinates with ERCOT ISO regarding the timing of these assessments, and Texas RE reviews the assessments for completeness. Because Texas RE plans to continue to rely upon ERCOT ISO Planning staff for the research and preparation of these assessments, Texas RE's coordination and review of these assessments is a small portion of its 2010 budget.

Event Analysis

As Reliability Coordinator, ERCOT ISO monitors the system in real time and reports a variety of incidents and disturbances to Texas RE for its review and compliance analysis. These incidents and disturbances include Department of Energy and NERC reportable events, Emergency Electric Alert (EEA) implementation, special protection system activation, equipment outages and failures, underfrequency and undervoltage relay operation, any failure to meet NERC requirements related to frequency control or transmission security.

Texas RE reviews all reported incidents and disturbances to determine if a compliance analysis is needed. If the initial review indicates that a standard might potentially have been violated, Texas RE performs a compliance analysis and obtains more information from the registered entity, as needed. If the compliance analysis indicates that further review, such as a CIQ, Spot Check, or CVI is justified, further analysis is performed as described under the CMEP description. If the initial review indicates that any Protocol might have been violated, Texas RE performs a Non-statutory compliance analysis as part of its Non-statutory activities.

Texas RE staff also attend ERCOT ISO reliability-based stakeholder committees, such as the Reliability & Operating Subcommittee (ROS), Performance Disturbance Compliance Working Group (PDCWG), Operations Working Group (OWG) and the Wind Operations Task Force (WOTF) to better understand the reliability issues and challenges for the ERCOT region and to provide comments from the Texas RE perspective when needed. Texas RE also regularly communicates with NERC staff regarding any reliability challenges of special interest in the ERCOT region (e.g. wind generation) to keep NERC apprised of risks, improvements, and on-going strategy.

On a monthly basis, Texas RE also calculates and reports on a variety of reliability performance metrics (e.g. Regional (ERCOT Protocol) measures and NERC Reliability Standards measures) to its Board of Directors. Texas RE also uses this information, when appropriate, to identify potential standards violations or declining reliability trends that need to be investigated

2010 Key Assumptions:

- ERCOT ISO will continue to research, assemble data for, and prepare the seasonal, long-term, and other requested assessments, and Texas RE will coordinate the timing of and review such assessments (and make comments, if required) before submitting the assessments to NERC
- Review approximately 80 reports of incidents, complaints, and disturbances

2010 Goals and Key Deliverables:

1. Texas RE will increase its participation in the Regional Planning Group activities
2. Timely review and submit all required assessments to NERC (or ensure required assessments are submitted to NERC on schedule).
3. Timely review all required incidents, complaints and disturbances
4. Communicate and coordinate issues of reliability concern with NERC

Funding Requirements — Explanation of Increase (Decrease)

The Reliability Assessment and Performance Analysis program funding requirements reflects an increase of \$~~97K~~102K year-over-year for two (2) reasons:

1. 2009 was lowered because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and
2. In 2010, indirect program expenses are fully allocated to the direct program areas.

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 365,180	\$ 365,180	\$ -	\$ 467,083	\$ 101,903
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 365,180	\$ 365,180	\$ -	\$ 467,083	\$ 101,903
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 365,180	\$ 365,180	\$ -	\$ 467,083	\$ 101,903
Expenses					
Personnel Expenses					
Salaries	\$ 270,100	\$ 157,007	\$ (113,093)	\$ 217,004	\$ (53,096)
Payroll Taxes	21,608	11,922	(9,686)	17,187	(4,421)
Benefits	31,191	13,181	(18,010)	23,632	(7,559)
Retirement Costs	39,165	21,247	(17,918)	30,793	(8,372)
Total Personnel Expenses	\$ 362,063	\$ 203,356	\$ (158,707)	\$ 288,615	\$ (73,448)
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	3,117	850	(2,267)	806	(2,311)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 3,117	\$ 850	\$ (2,267)	\$ 806	\$ (2,311)
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	1	1	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	136	136	673	673
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ 137	\$ 137	\$ 673	\$ 673
Total Direct Expenses	\$ 365,180	\$ 204,343	\$ (160,837)	\$ 290,095	\$ (75,085)
Indirect Expenses	\$ 372,419	\$ 246,784	\$ (125,635)	\$ 175,173	\$ (197,246)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 737,599	\$ 451,127	\$ (286,472)	\$ 465,267	\$ (272,331)
Change in Assets	\$ (372,419)	\$ (85,947)	\$ 286,472	\$ 1,815	\$ 374,234
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (26,847)	\$ (26,847)	\$ -	\$ (1,815)	\$ -
Change in Fixed Assets	\$ (26,847)	\$ (26,847)	\$ -	\$ (1,815)	\$ -
TOTAL CHANGE IN ASSETS	\$ (399,266)	\$ (112,794)	\$ 286,472	\$ -	\$ 374,234

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- FTEs are increasing .24 FTEs in 2010 due to expected time to be spent on performance analysis and reliability assessment.
- Personnel expenses in 2010 are expected to be less than those reflected in the 2009 budget by ~~\$76K~~ 73K year-over-year.

Meeting Expenses

- Meeting expenses are decreasing \$2K due to all expected travel within this program to be within driving distance of Texas RE's offices.

Operating Expenses

- Material changes to operating expenses are not planned for 2010.

Indirect Expenses

- Indirect expenses are declining ~~\$199K~~ 197K year-over-year, due to a reduction in administrative services costs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Situational Awareness and Infrastructure Security Program

Situational Analysis and Infrastructure Security Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.50	3.03	1.53
Total Direct Expenses	\$159,129	\$391,907 \$386,837	\$232,778 \$227,708
Total Indirect Expenses	\$250,393	\$217,171 \$214,644	(\$33,222) (\$35,752)
Total Expenses	\$409,522	\$609,078 \$601,478	\$199,557 \$191,956

Program Scope and Functional Description

This program supports two distinct functions. Situational awareness is focused on near real-time analysis of the BPS for ERCOT ISO. Infrastructure Security focuses on protecting tangible assets from a variety of threats. The majority of activity for this program in 2010 relates to Infrastructure Security, however, some resources are also planned for Situational Awareness.

Situational Awareness

Currently, Texas RE relies significantly on the ERCOT ISO to provide details on situational issues. Texas RE Staff have direct access to historical data via the data warehouse. There are two aspects of situational awareness which require Texas RE involvement in 2010:

1. Texas RE will continue to participate in the Situational Awareness for FERC, NERC, and Regional Entities (SAFNR) Project. SAFNR Project goal is to enable 100% of reliability coordinators in the United States to display interconnection system conditions to FERC, NERC, and the respective regional entities. This will be accomplished through internet-based systems that provide visual displays for FERC, NERC, and the Regional Entities (REs) while all the data resides at the reliability coordinators.

The SAFNR Project team is comprised of FERC Office of Electric Reliability staff, NERC Situational Awareness staff, designated RE staff, the Reliability Coordinators (RCs) located in the United States, and the Regional Entity managers.

2. Texas RE situational awareness and events analysis staff communicate with NERC, FERC and other regions on observed events, disturbances, or BPS condition. NERC led conference calls are held at a minimum bi-weekly. In the case of more severe events (for example: major blackout or hurricane), daily as needed.

2010 Key Assumptions

Situational Awareness

Phase 1 of the SAFNR Project will be completed by the 2009 summer. Phase 1 includes the RCs making information available for FERC, NERC, and the Regional Entities by summer 2009 via data servers at the RC location.

2010 Goals and Key Deliverables

Situational Awareness

SAFNR's subsequent goal is to provide each NERC, FERC and each RE with a common view of the interconnections. In 2010, this includes:

1. Modify existing displays or create new ones to make the visualization more consistent.
2. Assess what aspects are working well, identify areas for improvement and review cost implications.
3. Clarify what is driving the related business case and possibly build in performance metrics from previous phases to help quantify the value.

Funding Requirements — Explanation of Increase (Decrease)

The Situational Awareness and Critical Infrastructure Protection funding requirements reflects an increase of ~~\$445K~~ 452K year-over-year, in part due to 2009 being lower because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, expenses associated with the program are increasing as detailed in the variances section.

Situational Awareness

Based on supporting the SAFNR Project and the regular communication of event details to NERC and FERC (and PUCT for Non-statutory reporting) as outlined in this business plan, Texas RE will require an additional 1.0 staff (.74 FTEs Statutory, .26 FTEs Non-statutory) for 2010.

Exhibit not completed due to personnel salary confidentiality as would be compared to 2009.

Critical Infrastructure Protection Resources (Included in Total Situational Awareness and Infrastructure Security) (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	n/a	n/a	n/a
Total Direct Expenses	n/a	n/a	n/a
Total Indirect Expenses	n/a	n/a	n/a
Total Expenses	n/a	n/a	n/a

Program Scope and Functional Description

Responsible entities must become compliant with Critical Infrastructure Protection (CIP) Standards based on the NERC implementation schedules. ERCOT ISO is the only designated Balancing Authority (BA), Transmission Operator (TOP), and Reliability Coordinator (RC) in the ERCOT region and was required to self-certify compliance to NERC's Urgent Action Cyber Security Standard 1200. As such, ERCOT ISO must be either auditably compliant or compliant with all of the CIP Standards requirements by the end of the second quarter 2009; and auditably compliant with all CIP Standards requirements by the end of the second quarter 2010.

All new registered entities must also become compliant with all CIP standards requirements in accordance with the CIP implementation plan.

Texas RE will continue to play an active role during the implementation of the CIP standards requirements. To provide time for Responsible Entities to examine their policies and procedures, to assemble the necessary documentation, and to meet the requirements of the CIP standards, compliance assessment began in 2007. Status reports are also being requested from Responsible Entities to verify that entities are on schedule and meeting the implementation plan. NERC expects its regional entities to provide assistance and education on the CIP standards to ease the transition. Texas RE is budgeting to provide training to registered entities and other stakeholders under the training function budget. Some of the content in this training will be related to cyber-security and will be internally developed.

This program will support activities associated with cyber security, including monitoring and enforcement of compliance with the CIP (CIP-001 thru 009) standards. The intent of the NERC CIP Standards is to ensure that all entities responsible for the reliability of the BPS identify and protect critical cyber assets that control or could impact the reliability of the BPS. The CIP Standards requirements are being communicated to all responsible entities to ensure compliance in accordance with the CIP Implementation Plan. This requires a significant amount of communication with the ERCOT ISO Security Department and entities responsible for complying with the CIP standards. Compliance Audits, self-certifications, and spot checks will be required to verify compliance.

2010 Key Assumptions

- Develop and Implement CIP audit program during 2010.
- Texas RE will only have one major CIP audit in 2010.
- Conduct all CIP Spot Checks at the Texas RE offices (no CIP audit travel will be required in 2010).
- Semi-annual CIP Self-Certifications will be required of registered entities in 2010.

- NERC will conduct CIP audits of nuclear facilities, as contemplated by NERC's draft Business Plan and Budget.
- Six (6) CIP spot checks will be done in 2010.
- NERC will review and respond to Technical Feasibility Exception (TFE) requests.

2010 Goals and Key Deliverables

1. Finalize Texas RE CIP audit procedures.
2. Complete the CIP audit of the ERCOT ISO.
3. Complete a minimum of 6 CIP spot checks.
4. Identify CIP Audit Team for 2011.
 - i. Any additional skill sets that may be needed for 2011.
5. Semi-Annual CIP Self-Certifications for 2010.
6. Develop education plan and deliver 2 CIP workshops for registered entities (see Training section).
 - i. Last CIP Workshops before entities enter audibly compliant phase and CIP audits begin.
7. Enhance the Texas RE website with CIP information and links.

Funding Requirements — Explanation of Increase (Decrease)

Critical Infrastructure Protection

The addition of one IT Security subject matter expert (SME) will provide a skill set that Texas RE currently does not possess. Specific knowledge of how to assess the security of EMS and SCADA systems, networks, and electronic security perimeters (ESP) is needed. Incorporating this knowledge into the Texas RE CIP process will be a primary deliverable for the IT Security SME in 2010, as well as participating in the 2010 CIP audit of the ERCOT ISO. The IT Security SME will be participating (and eventually leading) on CIP audits in 2011 and spot-checks in 2010. In preparation for participating in CIP audits, the IT Security SME will have to attend NERC Auditor Training and NERC CIP Auditor Training. These two training sessions will be the only required travel for this position in 2010. Based on supporting CIP business plan, Texas RE will require 1.0 additional staff position for 2010 (.98 FTEs Statutory and .02 FTEs Non-statutory) starting in the second quarter.

Situational Awareness and Infrastructure Security Program

Funding sources and related expenses for the situational awareness and infrastructure security section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situational Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 159,129	\$ 159,129	\$ -	\$ 611,329	\$ 452,200
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 159,129	\$ 159,129	\$ -	\$ 611,329	\$ 452,200
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 159,129	\$ 159,129	\$ -	\$ 611,329	\$ 452,200
Expenses					
Personnel Expenses					
Salaries	\$ 118,842	\$ 127,966	\$ 9,124	\$ 291,164	\$ 172,322
Payroll Taxes	9,507	9,142	(365)	23,060	13,553
Benefits	12,479	5,533	(6,945)	31,708	19,229
Retirement Costs	17,232	16,713	(519)	41,316	24,084
Total Personnel Expenses	\$ 158,060	\$ 159,354	\$ 1,294	\$ 387,247	\$ 229,187
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	1,069	3,597	2,528	4,260	3,191
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 1,069	\$ 3,597	\$ 2,528	\$ 4,260	\$ 3,191
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	397	397	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	400	400
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ 397	\$ 397	\$ 400	\$ 400
Total Direct Expenses	\$ 159,129	\$ 163,348	\$ 4,219	\$ 391,907	\$ 232,778
Indirect Expenses	\$ 250,393	\$ 164,140	\$ (86,253)	\$ 217,171	\$ (33,222)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 409,522	\$ 327,488	\$ (82,034)	\$ 609,078	\$ 199,557
Change in Assets	\$ (250,393)	\$ (168,359)	\$ 82,034	\$ 2,250	\$ 252,643
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (18,050)	\$ (18,050)	\$ -	\$ (2,250)	\$ -
Change in Fixed Assets	\$ (18,050)	\$ (18,050)	\$ -	\$ (2,250)	\$ -
TOTAL CHANGE IN ASSETS	\$ (268,443)	\$ (186,409)	\$ 82,034	\$ 0	\$ 252,643

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- Texas RE is adding approximately 2.0 employees (1.53 FTEs Statutory, .28 Non-statutory) to this program. In addition, there are other activities performed in Compliance, Audit, and Enforcement, the result of which is .19 FTEs and funding reflected in those activities and not in the CIP activity. The increased personnel expenses of ~~\$224K~~229K year-over-year are a direct result of the changes in FTEs working in the Situational Awareness and Infrastructure Security Programs.

Meeting Expenses

- Meeting expenses are primarily driven by travel costs associated with CIP. The costs are increasing \$3K year-over-year for CIP related training and NERC working group meetings.

Operating Expenses

- Operating expenses are flat year-over-year.

Indirect Expenses

- Indirect expenses are declining ~~\$36K~~33K year-over-year, due to a reduction in administrative services costs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Administrative Services

Administrative Services (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	6.80	3.76	(3.04)
Total Direct Expenses	\$2,559,847	\$1,955,485 \$1,932,701	(\$604,362) (\$627,146)

Program Scope and Functional Description

General and Administrative

The CEO carries on the general affairs of the Texas RE. The CEO is independent of any registered entity and reports exclusively to the Texas RE Board of Directors. The CEO is responsible for:

- Overseeing and managing the activities of Texas RE.
- Making final decisions with respect to enforcement related to compliance actions for violations of reliability standards.
- Making employment-related decisions for all employees of Texas RE.
- Making an annual report and periodic reports to Texas RE's Board concerning the activities and expenditures of Texas RE.
- Ensuring that Texas RE files all required reports with NERC.
- Monitoring the expenditures of the monies received by Texas RE to ensure that such are deployed in accordance with the approved Texas RE Budget (in cooperation with the Finance Staff).
- Retaining or terminating outside counsel or other advisors as deemed appropriate.
- Performing such other duties as may be determined from time to time by Texas RE's Board, for the benefit of the Texas RE.

An Executive Assistant will be responsible for providing executive-level administrative support to the Texas RE CEO. The Executive Assistant will also perform general office manager activities and provide support to other Texas RE staff as needed.

2010 Key Assumptions

- Texas RE total staff will increase to 37 staff (31.00 FTEs Statutory, 6.00 FTEs Non-statutory).
- Texas RE will continue to operate as an independent division of ERCOT ISO.
- Where possible, all appropriate direct program expenses will be a direct cost to their respective program and function. Only corporate services expenses and personnel will remain in administrative services.
- Texas RE will establish a cash reserve of 75 days cash on hand (totaling ~~\$1,346~~\$1,371K, with \$855K on hand from 2009, for a difference of ~~\$491~~\$516K), or a 20% reserve for contingency planning purposes. This will not result in an increased assessment for 2010. Texas RE projects a balance of ~~\$594~~\$572K in its regulatory liability (unspent prior-year funds) that it will release in 2010. Additionally, Texas RE will reduce assessments by the difference (~~\$103~~\$56K).

2010 Goals and Key Deliverables

1. Communicate and maintain effective relationships with the board, industry, regulators, and other stakeholders.
2. Conduct base operations with the approved budget.
3. Effectively manage the NERC Compliance Monitoring and Enforcement Program.
4. Manage Texas RE's Standards Development Process.
5. Establish Key Performance Indicators and Benchmarks for Texas RE operations.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing \$~~360~~316K. Indirect programs allocate their costs to the direct programs. Additionally, Texas RE is applying \$~~103~~56K in unspent funds from 2009 to reduce the assessment in 2010

General and Administrative

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
General and Administrative					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 257,531	\$ 257,531	\$ -	\$ (80,265)	\$ (337,796)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 257,531	\$ 257,531	\$ -	\$ (80,265)	\$ (337,796)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	4,125	4,125	2,000	2,000
Miscellaneous	-	-	-	-	-
Total Funding	\$ 257,531	\$ 261,656	\$ 4,125	\$ (78,265)	\$ (335,796)
Expenses					
Personnel Expenses					
Salaries	\$ 764,074	\$ 737,553	\$ (26,522)	\$ 539,855	\$ (224,219)
Payroll Taxes	61,126	55,400	(5,726)	42,598	(18,528)
Benefits	61,605	57,729	(3,876)	54,570	(7,034)
Retirement Costs	110,791	98,644	(12,147)	80,324	(30,467)
Total Personnel Expenses	\$ 997,596	\$ 949,325	\$ (48,271)	\$ 717,347	\$ (280,249)
Meeting Expenses					
Meetings	\$ -	\$ 870	\$ 870	\$ 3,600	\$ 3,600
Travel	12,820	13,404	584	17,158	4,338
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 12,820	\$ 14,274	\$ 1,454	\$ 20,758	\$ 7,938
Operating Expenses					
Consultants & Contracts	\$ 487,054	\$ 539,074	\$ 52,020	\$ 630,334	\$ 143,280
Office Rent	517,550	287,392	(230,158)	327,600	(189,950)
Office Costs	13,320	15,506	2,186	24,240	10,920
Professional Services	30,000	82,462	52,462	60,000	30,000
Miscellaneous	10,515	8,410	(2,105)	1,350	(9,165)
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 1,058,439	\$ 932,844	\$ (125,595)	\$ 1,043,524	\$ (14,915)
Total Direct Expenses	\$ 2,068,855	\$ 1,896,443	\$ (172,412)	\$ 1,781,629	\$ (287,226)
Indirect Expenses	\$ (2,923,855)	\$ (1,896,443)	\$ 1,027,412	\$ (1,781,629)	\$ 1,142,226
Other Non-Operating Expenses	\$ 855,000	\$ -	\$ (855,000)	\$ -	\$ (855,000)
Total Expenses	\$ -	\$ -	\$ -	\$ (0)	\$ (0)
Change in Assets	\$ 257,531	\$ 261,656	\$ 4,125	\$ (78,265)	\$ (335,796)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ 257,531	\$ 261,656	\$ 4,125	\$ (78,265)	\$ (335,796)

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In the 2010 budget, the funding requirement is decreasing (~~\$362K~~336K). Indirect programs allocate their costs to the direct programs. In 2010, Texas RE is further reducing assessments by ~~\$103K~~78K using unspent funds from 2009.

Personnel Expenses

- The primary reason for the decrease of ~~\$303K~~280K is resulting from increased management, legal and other direct work in Reliability Standards, Compliance Monitoring and Enforcement and Organization Registration and Certification Program, Reliability Assessment, Training, Situational Awareness, and Critical Infrastructure Protection areas. Texas RE uses time tracking to better enable the recording of direct labor expenses to the program level. Those tasks that are considered administrative services are allocated as an indirect expense to the program areas.

Meeting Expenses

- Meeting expenses are increasing primarily related to additional travel demands of the CEO and his staff. There are additional NERC, FERC and Regional meetings that are required and an increase was necessary to facilitate this. The result is an increase of \$8K year-over-year.

Operating Expenses

- Consulting and contract expenses are increasing in direct response to employee increases as well as trended actual expenses. This expense increase is related to the MOU between Texas RE and ERCOT ISO. The resulting increase is expected to be \$143K. Office costs are increasing \$11K primarily related to trends in office supply consumption as well as expected increases. There is an additional \$30K being provisioned for professional outside services as may be required by program use. Offsetting the increases are a reduction in training expenses (\$9K), these expenses are now budgeted in their respective programs, as well as a reduction in the rent expense in 2010 (\$190K). The reduction is rent reflected a lower rentable square foot rate obtained by Texas RE for its office space as well as a reduction in the facilities services expenses paid through the MOU.

Indirect Expenses

- Indirect expense is decreasing significantly ~~\$1,165~~1,142K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in G&A in the 2009 budget. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

Other Non-Operating Expenses

- Non-Operating expenses are decreasing from 2009 to 2010. Due to the change from cash-based to GAAP based budgeting; the cash reserve is no longer funded as a non-operating expense, this resulted in a decrease year-over-year of \$855K.

Fixed Asset Additions

- N/A

Legal and Regulatory

Program Scope and Functional Description

Texas RE Legal and Regulatory provides legal advice and counsel to Texas RE management, board, and staff on all legal and regulatory matters affecting Texas RE, including corporate governance, transactions, personnel, governmental relations, communications, NERC registration, standards development, compliance, enforcement, and other regulatory matters. Legal staff also retains and oversees the work of outside legal counsel as needed. Legal and Regulatory employees anticipate that the primary regulatory emphasis during 2010 will include NERC registration appeals, investigation oversight, settlement coordination, and enforcement proceedings under the CMEP. Legal and Regulatory employees will also continue to review and provide feedback to NERC regarding new and modified standards, procedures, and templates used in the CMEP process. Texas RE attorneys, or outside counsel overseen by Texas RE attorneys, will represent the Texas RE in its quasi-prosecutorial role in CMEP enforcement hearings, and in NERC, FERC, and PUCT rulemakings and other proceedings.

2010 Key Assumptions

Texas RE Legal and Regulatory has the following key assumptions:

- A. Texas RE will remain functionally separate from ERCOT ISO and will not undergo any significant board or governance changes (caused by board or membership decisions, the NERC three-year Assessment, the FERC audit of Texas RE, or otherwise).
- B. The Delegation Agreement requirements and NERC expectations will remain constant.
- C. The majority of possible violations will be handled through the settlement process.
- D. The number of contested registration and enforcement cases will remain low – one large or two small-to-mid-sized disputes per year.

2010 Goals and Key Deliverables

1. Coordinate Texas RE board information, meetings, and materials and maintain corporate bylaws and corporate procedures as required by law, the Delegation Agreement, NERC Rules, and FERC Orders.
2. Provide legal advice to the CEO and the Texas RE board, advisory committee, and departments, as needed on corporate, contract, and transactional, and other matters.
3. Represent Texas RE in all NERC, FERC, regulatory matters, and legal proceedings.
4. Prosecute CMEP hearings of contested enforcement matters.
5. Act as a resource for investigations to help ensure accurate, appropriate and complete documentation is maintained and consistent procedures are followed.
6. Communicate and maintain effective relationships with NERC, FERC, the PUCT, and other governmental authorities.
7. Manage and oversee all Texas RE registration and enforcement action appeals.
8. Review Texas RE alleged violations, penalties, and sanctions for consistency.
9. Participate in settlement processes and review all settlements for consistent application of the CMEP.
10. Review and provide input to NERC regarding new and modified standards, procedures, forms, and templates.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing (\$314K). Indirect programs allocate their costs to the direct.

Legal and Regulatory

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Legal and Regulatory					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 314,394	\$ 314,394	\$ -	\$ -	\$ (314,394)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	<u>\$ 314,394</u>	<u>\$ 314,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (314,394)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 314,394</u>	<u>\$ 314,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (314,394)</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	8,994	6,821	(2,173)	4,478	(4,516)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 8,994</u>	<u>\$ 6,821</u>	<u>\$ (2,173)</u>	<u>\$ 4,478</u>	<u>\$ (4,516)</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	2,400	6,597	4,197	5,400	3,000
Professional Services	300,000	253,538	(46,462)	48,000	(252,000)
Miscellaneous	-	2,195	2,195	6,200	6,200
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 302,400</u>	<u>\$ 262,330</u>	<u>\$ (40,070)</u>	<u>\$ 59,600</u>	<u>\$ (242,800)</u>
Total Direct Expenses	<u>\$ 311,394</u>	<u>\$ 269,151</u>	<u>\$ (42,243)</u>	<u>\$ 64,078</u>	<u>\$ (247,316)</u>
Indirect Expenses	<u>\$ (314,394)</u>	<u>\$ (269,151)</u>	<u>\$ 45,243</u>	<u>\$ (64,078)</u>	<u>\$ 250,316</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ (3,000)</u>	<u>\$ -</u>	<u>\$ 3,000</u>	<u>\$ -</u>	<u>\$ 3,000</u>
Change in Assets	<u>\$ 317,394</u>	<u>\$ 314,394</u>	<u>\$ (3,000)</u>	<u>\$ -</u>	<u>\$ (317,394)</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL CHANGE IN ASSETS	<u>\$ 317,394</u>	<u>\$ 314,394</u>	<u>\$ (3,000)</u>	<u>\$ -</u>	<u>\$ (317,394)</u>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, Texas RE's Legal and Regulatory function expenses are allocated entirely to the direct programs.

Personnel Expenses

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

Meeting Expenses

- Travel costs are decreasing approximately \$5K. This is primarily related to training expenses budgeted under travel. For 2010, all training, seminars, continuing education and professional dues are being budgeted under miscellaneous.

Operating Expenses

- Professional services (external legal) expenses are now budgeted where they are likely to be incurred \$252K, which is in support of the direct program functions. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.

Indirect Expenses

- Indirect expense is decreasing significantly \$250K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in legal and regulatory in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Information Technology

Program Scope and Functional Description

IT staff will provide a broad range of information technology support to Texas RE, including the following: strategy; research; vendor management; planning, development, and deployment of enterprise systems and computer applications/systems in support of business needs; and support, training, and maintenance for these systems and applications.

IT staff will work with Texas RE management to develop a technological strategy to reach Texas RE's long-term goals and meet immediate system and hardware needs. In addition, IT Staff will research and implement technologies for the purpose of increasing Texas RE efficiency and/or reducing workload.

In addition to its internal development efforts, IT staff will use a mix of services from external vendors and ERCOT ISO's IT department. To ensure that applications and hardware are well maintained, service levels remain high, and costs are controlled, IT staff will provide vendor management and coordinate with ERCOT ISO IT staff on day-to-day support, administration, and future requirements. For project and outsourcing agreements, IT staff will also work closely with Finance, Legal, and ERCOT ISO Procurement to provide specialized knowledge and the contractual details for the technical service to be provided.

IT staff also has the general responsibility to keep Texas RE systems up-to-date with evolving industry standards. IT staff will work with other regional entities and NERC to that end.

IT staff will manage the design, implementation, support, and maintenance of the tools and delivery mechanisms to support the communication of information to the market, specifically the Texas RE website, Texas RE e-mail boxes and lists, and Web-based training.

IT staff will also manage the design, implement, support, and maintain Texas RE data and records-management tools to support the Standards, Registration, and CMEP programs, as well as improving registered entities' ability to participate in the processes. Specifically, such tools include the Texas Regional Entity Portal and associated tools for management and tracking, the Reliability Standards tracking tool, and the electronic document management system. IT staff will also assist with the transition of Texas RE Staff's ability to receive or view necessary data in ERCOT ISO nodal systems. IT staff will also participate in the design and development of database models, web-enabled applications, data extraction and delivery methods, and data presentation.

2010 Key Assumptions

The 2010 budget assumes that Texas RE remains a division of ERCOT ISO, with the ability to purchase some key IT services (such as computers and support, email and support, phone service and support, enterprise servers, and WebEx) from ERCOT ISO.

The 2010 budget assumes that Texas RE continues to work as a member of the Consortium User Group to collaborate on and share the costs of development for the portal software with other regional entities.

2010 Goals and Key Deliverables

IT objectives for 2010 include the following:

1. Develop long-term strategy in response to business needs.
2. Research and develop and/or purchase software and hardware to respond to immediate business needs.
3. Manage vendors to ensure quality of services and applications, responsiveness to Texas RE needs, and cost controls.
4. Liaise with ERCOT ISO IT staff regarding IT systems and tools.
5. Work effectively with other regional entities and NERC to ensure that Texas RE remains consistent.
6. Assist in ensuring information systems are functional and secure, and that applications running on those systems meet business requirements for performance, availability, and security.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing (\$384K). Indirect programs allocate their costs to the direct programs.

Information Technology

Funding sources and related expenses for the information technology section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Information Technology					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 383,500	\$ 383,500	\$ -	\$ -	\$ (383,500)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 383,500	\$ 383,500	\$ -	\$ -	\$ (383,500)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 383,500	\$ 383,500	\$ -	\$ -	\$ (383,500)
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ -	\$ 659	\$ 659	\$ -	\$ -
Travel	-	-	-	4,057	4,057
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ -	\$ 659	\$ 659	\$ 4,057	\$ 4,057
Operating Expenses					
Consultants & Contracts	\$ 3,932	\$ -	\$ (3,932)	\$ -	\$ (3,932)
Office Rent	-	-	-	-	-
Office Costs	-	543	543	960	960
Professional Services	60,000	152,112	92,112	33,860	(26,140)
Miscellaneous	-	-	-	6,500	6,500
Depreciation	76,540	76,540	-	12,000	(64,540)
Total Operating Expenses	\$ 140,472	\$ 229,195	\$ 88,723	\$ 53,320	\$ (87,152)
Total Direct Expenses	\$ 140,472	\$ 229,854	\$ 89,382	\$ 57,377	\$ (83,095)
Indirect Expenses	\$ (137,338)	\$ (229,854)	\$ (92,516)	\$ (57,377)	\$ 79,961
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 3,134	\$ -	\$ (3,134)	\$ -	\$ (3,134)
Change in Assets	\$ 380,366	\$ 383,500	\$ 3,134	\$ -	\$ (380,366)
Fixed Assets					
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	\$ (12,000)	\$ 64,540
Computer & Software CapEx	322,702	354,202	31,500	32,263	(290,439)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (246,162)	\$ (277,662)	\$ (31,500)	\$ (20,263)	\$ 225,899
Allocation of Fixed Assets	\$ 246,162	\$ 246,162	\$ -	\$ 20,263	\$ (225,899)
Change in Fixed Assets	\$ -	\$ (31,500)	\$ (31,500)	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ 380,366	\$ 352,000	\$ (28,366)	\$ -	\$ (380,366)

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, Texas RE's IT function expenses are allocated entirely to the direct programs and as such do not have an ERO assessment.

Personnel Expenses

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

Meeting Expenses

- Travel costs are increasing approximately \$4K. This is primarily related to the need to meet with the Consortium User Group and NERC working groups.

Operating Expenses

- Professional services (hosting and professional services) expenses are now budgeted where they are likely to be incurred, which is in support of the functions and direct programs \$26K less, year-over-year. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.

Indirect Expenses

- Indirect expense is decreasing \$80K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in Information Technology in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed assets are now budgeted where they are likely to be incurred, which is in support of the functions and direct programs. The result is a net reduction in indirect allocations of \$290K. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.
- The allocation of fixed assets is also decreasing for the reason specified above. The amount of the decrease is expected to be, \$226K year-over-year.

Finance and Accounting

Program Scope and Functional Description

The Finance staff will provide a broad range of support to Texas RE management and personnel. Finance staff are required to formulate and monitor the Texas RE budget for controlling funds to implement the Texas RE's objectives and will also review and evaluate the performance of key processes for maintaining tight financial controls in a cost-effective and efficient manner. Finance staff will guide the annual budget process for the Texas RE and measure performance of all key aspects of the Texas RE to ensure performance matches or exceeds expectations, including the analysis of trends affecting budget needs and developing periodic financial reports. Finance staff will liaise with ERCOT ISO Finance staff to ensure all finance and budget-related requirements are communicated, met, and adhered to.

Texas RE's monthly general ledger close activities will be managed by Texas RE financial personnel. The Finance staff is required to ensure Texas RE appropriately accounts for all Statutory and Non-statutory expenses and revenue appropriately. This will involve generating monthly financial reports that will be communicated to the CEO, the department managers and the board.

The Finance staff is required to generate quarterly and annual financial reports to be filed with NERC as well as other ad hoc reporting that may be required.

2010 Key Assumptions

- Texas RE will remain functionally separate from ERCOT ISO and will not undergo any significant governance or Delegation Agreement changes.
- The Delegation Agreement requirements will remain consistent with the current requirements.

2010 Goals and Key Deliverables

1. Ensure that the accounting and finance functions are appropriately managed at Texas RE.
2. Keep the CEO informed of budget, expenditures, and total operational financial performance.
3. Continue to facilitate the Financial Reporting for the Board.
4. Ensure that Texas RE receives an unqualified opinion on the audit of the financial statements.
5. Continue to support NERC finance staff in coordination of quarterly and annual reporting requirements.
6. Review workflow and adjust as required to better enable Texas RE staff operational success.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing (\$39K). Indirect programs allocate their costs to the direct programs.

Finance and Accounting

Funding sources and related expenses for the accounting and finance section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Finance and Accounting					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 39,126	\$ 39,126	\$ -	\$ -	\$ (39,126)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	<u>\$ 39,126</u>	<u>\$ 39,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,126)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 39,126</u>	<u>\$ 39,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,126)</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	2,481	1,916	(565)	2,145	(336)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 2,481</u>	<u>\$ 1,916</u>	<u>\$ (565)</u>	<u>\$ 2,145</u>	<u>\$ (336)</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	180	180	880	880
Professional Services	36,000	41,976	5,976	45,281	9,281
Miscellaneous	645	1,915	1,270	4,095	3,450
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 36,645</u>	<u>\$ 44,071</u>	<u>\$ 7,426</u>	<u>\$ 50,256</u>	<u>\$ 13,611</u>
Total Direct Expenses	<u>\$ 39,126</u>	<u>\$ 45,987</u>	<u>\$ 6,861</u>	<u>\$ 52,401</u>	<u>\$ 13,275</u>
Indirect Expenses	<u>\$ (39,126)</u>	<u>\$ (45,987)</u>	<u>\$ (6,861)</u>	<u>\$ (52,401)</u>	<u>\$ (13,275)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Assets	<u>\$ 39,126</u>	<u>\$ 39,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,126)</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL CHANGE IN ASSETS	<u>\$ 39,126</u>	<u>\$ 39,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,126)</u>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, Texas RE's Finance and Accounting function expenses are allocated entirely to the direct programs and as such do not have an ERO assessment.

Personnel Expenses

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

Meeting Expenses

- Travel costs are decreasing approximately \$.3K year-over-year. The REBG has agreed to have at least one meeting via conference call or web-ex.

Operating Expenses

- Office costs are increasing by \$.9K for check stock used for Texas RE's operating account.
- The financial statement audit fees for Texas RE are expected to increase by approximately \$9K based on actual results from the 2008 financial statement audit.
- Texas RE expects bank fees in 2010 to be approximately \$3K higher year-over-year. Additionally, there are professional dues included under miscellaneous expense, \$.5K.

Indirect Expenses

- Increasing \$13K year-over-year due to increases in operating expenses.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Section B — 2010 Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 3,430,700	\$ 3,430,700	\$ -	\$ 6,260,377	\$ 2,829,676
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 3,430,700	\$ 3,430,700	\$ -	\$ 6,260,377	\$ 2,829,676
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	70,000	174,029	104,029	180,000	110,000
Interest	-	4,125	4,125	2,000	2,000
Miscellaneous	-	-	-	-	-
Total Funding	\$ 3,500,700	\$ 3,608,854	\$ 108,154	\$ 6,442,377	\$ 2,941,676
Expenses					
Personnel Expenses					
Salaries	\$ 2,496,968	\$ 2,479,855	\$ (17,114)	\$ 3,113,791	\$ 616,822
Payroll Taxes	199,757	191,667	(8,090)	246,724	46,967
Benefits	259,628	194,403	(65,225)	335,244	75,615
Retirement Costs	356,523	329,741	(26,782)	446,050	89,526
Total Personnel Expenses	\$ 3,312,878	\$ 3,195,666	\$ (117,211)	\$ 4,141,808	\$ 828,931
Meeting Expenses					
Meetings	\$ 105,000	\$ 157,394	\$ 52,394	\$ 228,000	\$ 123,000
Travel	107,470	117,528	10,057	186,819	79,348
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 212,470	\$ 274,922	\$ 62,452	\$ 414,819	\$ 202,348
Operating Expenses					
Consultants & Contracts	\$ 490,986	\$ 539,074	\$ 48,088	\$ 630,334	\$ 139,348
Office Rent	517,550	287,392	(230,158)	327,600	(189,950)
Office Costs	18,280	26,581	8,301	40,720	22,440
Professional Services	426,000	563,134	137,134	622,625	196,625
Miscellaneous	11,160	13,943	2,783	36,236	25,076
Depreciation	76,540	76,540	-	150,000	73,460
Total Operating Expenses	\$ 1,540,516	\$ 1,506,664	\$ (33,852)	\$ 1,807,515	\$ 266,999
Total Direct Expenses	\$ 5,065,864	\$ 4,977,252	\$ (88,612)	\$ 6,364,141	\$ 1,298,278
Indirect Expenses	\$ 1	\$ -	\$ (1)	\$ 0	\$ (1)
Other Non-Operating Expenses	\$ 855,000	\$ -	\$ (855,000)	\$ -	\$ (855,000)
Total Expenses	\$ 5,920,864	\$ 4,977,252	\$ (943,612)	\$ 6,364,141	\$ 443,277
Change in Assets	\$ (2,420,164)	\$ (1,368,397)	\$ 1,051,766	\$ 78,235	\$ 2,498,399
Fixed Assets					
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	\$ (150,000)	\$ (73,460)
Computer & Software CapEx	322,702	354,202	31,500	306,500	(16,202)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (246,162)	\$ (277,662)	\$ (31,500)	\$ (156,500)	\$ 89,662
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ (225,899)
Change in Fixed Assets	\$ (246,162)	\$ (277,662)	\$ (31,500)	\$ (156,500)	\$ (136,237)
TOTAL CHANGE IN ASSETS	\$ (2,666,326)	\$ (1,646,059)	\$ 1,020,266	\$ (78,265)	\$ 2,362,162

Personnel Analysis

FTEs are defined as full-time equivalent units. Fractional FTEs reflect time tracking and expected results of time-tracking.

Table 2

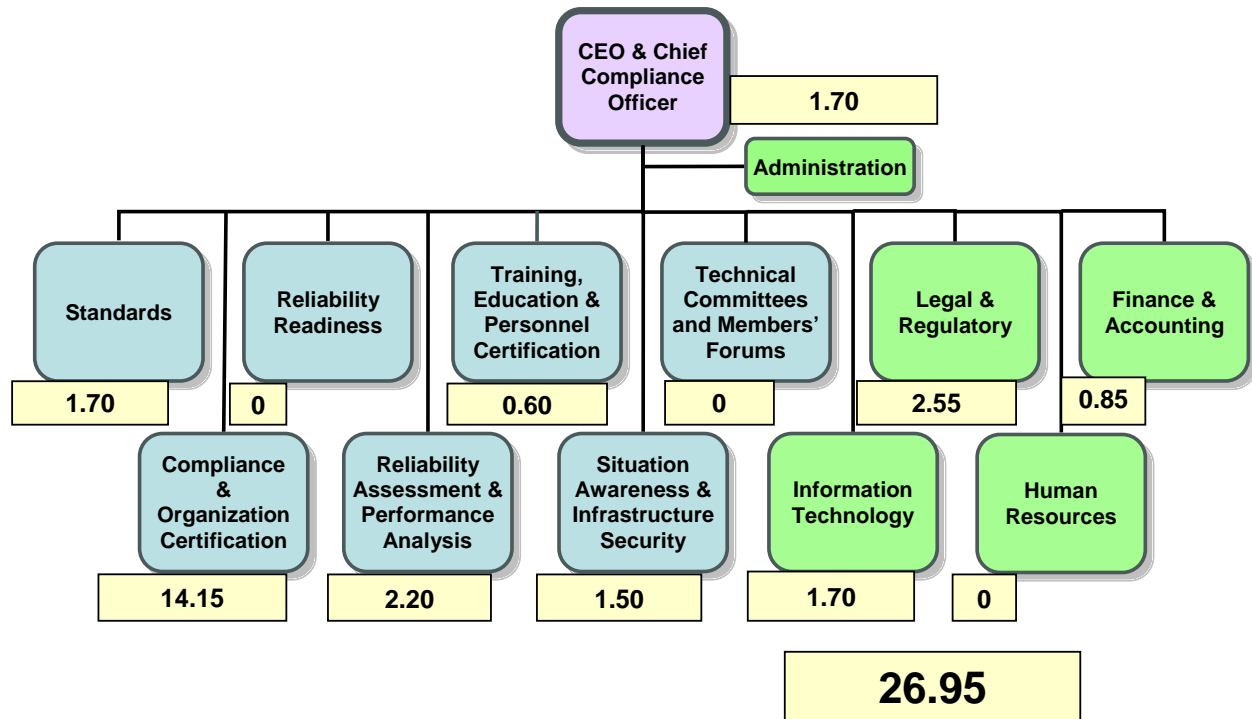
Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
STATUTORY						
Operational Programs						
Reliability Standards	1.70	1.84	0.00	2.06	2.06	0.36
Compliance and Organization Registration and Certification	14.15	15.01	0.00	18.74	18.74	4.59
Training and Education	0.60	0.84	0.00	0.97	0.97	0.37
Reliability Assessment and Performance Analysis	2.20	2.15	0.00	2.44	2.44	0.24
Situational Awareness and Infrastructure Security	1.50	1.43	0.00	3.03	3.03	1.53
Total FTEs Operational Programs	20.15	21.27	0.00	27.24	27.24	7.09
Administrative Programs ²						
General & Administrative	1.70	1.85	0.00	1.05	1.05	-0.65
Information Technology	1.70	1.29	0.00	0.69	0.69	-1.01
Legal and Regulatory	2.55	1.67	0.00	1.17	1.17	-1.38
Accounting	0.85	0.85	0.00	0.85	0.85	0.00
Total FTEs Administrative Programs	6.80	5.66	0.00	3.76	3.76	-3.04
Total FTEs	26.95	26.93	0.00	31.00	31.00	4.05

¹A shared FTE is defined as a Texas Regional Entity employee who performs both Statutory and Non-statutory activities; however none of these FTEs perform any registered functions (e.g. Reliability Coordinator).

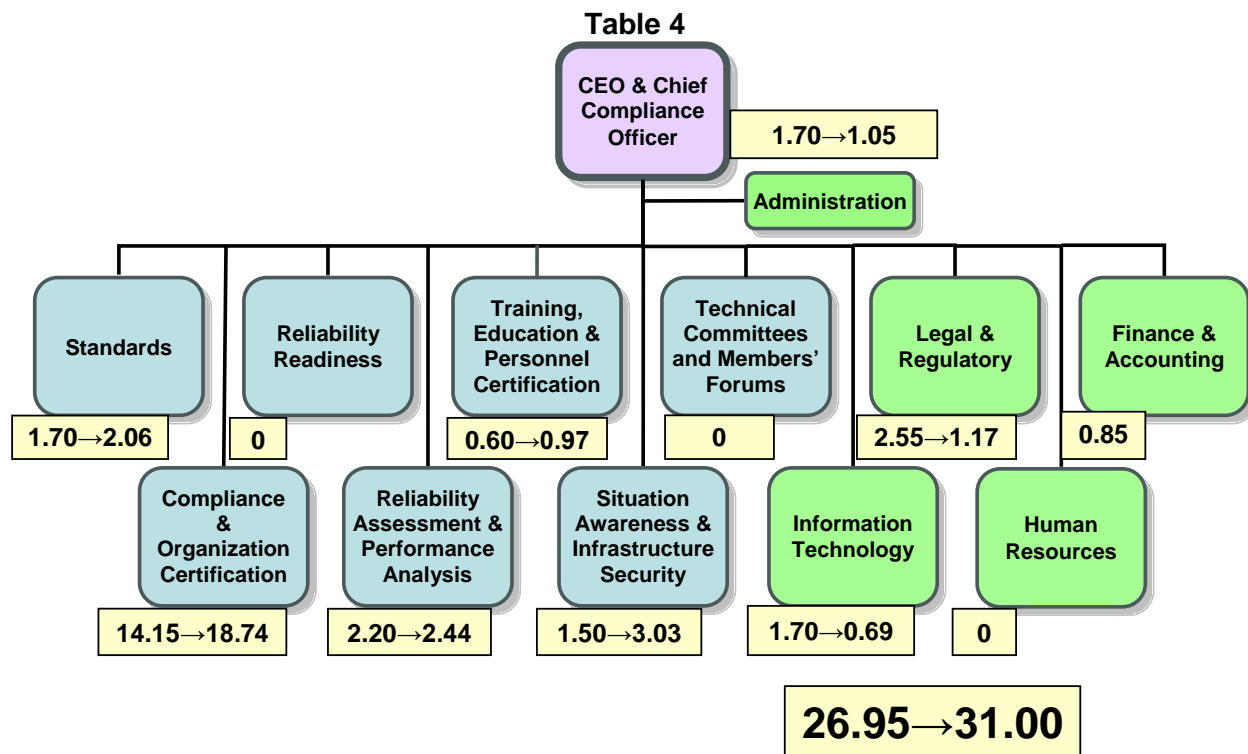
² NOTE: The FTEs for Administration Departments are reflected as staffed in this exhibit. The salary and related expenses in the statement of activities have been consolidated to ensure salary confidentiality.

2009 Organizational Chart (Statutory & Non-Statutory)

Table 3



2010 Organizational Chart (Statutory & Non-Statutory)



Reserve Balance

Table 5

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	2,666,325
Penalty sanctions to be used as offset to 2010 assessments ¹	0
Plus: 2009 ERO Funding (from LSEs or designees)	3,430,700
Plus: 2009 Other funding sources	178,154
Less: 2009 Regulatory Liability Projected	(165,266)
Less: 2009 Projected expenses & capital expenditures	(5,254,914)
Projected Working Capital Reserve (Deficit), December 31, 2009	855,000
Desired Working Capital Reserve, December 31, 2010	1,370,718
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	515,718
2010 Assessment for Expenses and Capital Expenditures	6,520,641
Less: Penalty Sanctions ¹	0
Less: Other Funding Sources	(182,000)
Less: LT Regulatory Liability Release	(593,983)
Adjustment to achieve desired Working Capital Reserve	515,718
2010 Assessment	6,260,377

¹ Represents collections prior to June 30, 2009.

Regional Entity Assessment Analysis

Assessments by Country

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	324,830,913	324,830,913			100.0%	100.0%		
2008	WECC	-							
TOTAL		324,830,913	324,830,913	-	-	100.0%	100.0%	0%	0%

Breakdown by Statement of Activity Sections

Full disclosures of all penalties received prior to July 1, 2009 are detailed below, including the Company, the amount, and the date received.

Allocation Method: Penalty sanctions received have been allocated to the following Statutory programs to reduce assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situational Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

Table B-1

Penalty Sanctions Received Prior to June 30, 2009		
	Date Receive	Amount Received
Name of Entity		
NOT APPLICABLE		
Total Penalties Received		\$ -

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Training and Education					
Operations Training Seminar	\$ 70,000	\$ 174,029	\$ 180,000	\$ 110,000	157.14%
Total	<u>\$ 70,000</u>	<u>\$ 174,029</u>	<u>\$ 180,000</u>	<u>\$ 110,000</u>	<u>157.14%</u>
General and Administrative					
Interest Income	\$ -	\$ 4,125	\$ 2,000	\$ 2,000	0.00%
Total	<u>\$ -</u>	<u>\$ 4,125</u>	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>0.00%</u>
Total Outside Funding	<u>\$ 70,000</u>	<u>\$ 178,154</u>	<u>\$ 182,000</u>	<u>\$ 112,000</u>	<u>160.00%</u>

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The most significant increase is resulting from the change in venue for the Operations Training Seminar to an offsite location. The 2009 budget assumed that Texas RE could use ERCOT ISO facilities for the OTS; however due to space constraints, Texas RE secured an alternate venue in 2009. Texas RE collected increased registration fees to fund the increased Operations Training Seminar expenses. In 2010, the year-over-year budget increase reflects that continuing assumption and the resulting expense increase will be funded by registration fees from attendees. The increase is expected to be \$110K.
- There is approximately \$2K of interest income budgeted in 2010. The assumption used to budget the interest income was based on Texas RE's current interest income rate applied to the budgeted cash balance for 2010.

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary	\$ 2,496,968	\$ 2,479,855	\$ 3,113,791	\$ 616,822	24.7%
Total Salaries	\$ 2,496,968	\$ 2,479,855	\$ 3,113,791	\$ 616,822	24.7%
Total Payroll Taxes	\$ 199,757	\$ 191,667	\$ 246,724	\$ 46,967	23.5%
Benefits					
Life, Health, Vision, etc.	\$ 259,628	\$ 194,403	\$ 335,244	\$ 75,615	29.1%
Total Benefits	\$ 259,628	\$ 194,403	\$ 335,244	\$ 75,615	29.1%
Retirement					
401(k) Contr. & Employee Matching	\$ 356,523	\$ 329,741	\$ 446,050	\$ 89,526	25.1%
Total Retirement	\$ 356,523	\$ 329,741	\$ 446,050	\$ 89,526	25.1%
Total Personnel Costs	\$ 3,312,878	\$ 3,195,666	\$ 4,141,808	\$ 828,931	25.0%
FTEs	26.95	26.93	31.00	4.07	15.0%
Cost per FTE					
Salaries	\$ 92,652	\$ 92,085	\$ 100,438	7,786	8.4%
Payroll Taxes	7,412	7,117	7,958	546	7.4%
Benefits	9,634	7,219	10,814	1,180	12.2%
Retirement	13,229	12,244	14,388	1,159	8.8%
Total Cost per FTE	\$ 122,927	\$ 118,666	\$ 133,598	\$ 10,671	8.7%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The most significant increase is related to the hiring of 5 additional staff (4.05 FTEs Statutory, .95 FTEs Non-statutory) in the compliance, situational awareness and CIP areas. Additionally, there are merits, promotion and market adjustments budgeted in 2010 for existing Texas RE personnel. The budget assumed 3% merit, 1% promotion and 2% for market adjustments. ~~The results of which reflect an increase in salary expense of \$212K. The increase in benefits is \$77K.~~

Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Consultants					
Recruitment	\$ 6,000	\$ -	\$ -	\$ (6,000)	-100.00%
Consultants Total	\$ 6,000	\$ -	\$ -	\$ (6,000)	

Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Contracts					
Corporate Support Allocation	\$ 280,654	\$ 330,946	\$ 361,803	\$ 81,149	28.91%
IT Services & Other (under professional services in 2009 Forecast & 2010 Budget)	3,932	-	-	(3,932)	-100.00%
IT Administration	200,400	208,128	268,531	68,131	34.00%
Contracts Total	\$ 484,986	\$ 539,075	\$ 630,334	\$ 145,348	29.97%
Total Consulting and Contracts	\$ 490,986	\$ 539,075	\$ 630,334	\$ 139,348	28.38%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The most significant increase is related to the corporate support (Memorandum of Understanding) allocation and IT administration per the MOU between Texas RE and ERCOT ISO. There is a cost adjustment year-over-year to reflect increasing prices; however the largest component of the increase is directly attributed to increasing FTEs.

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent & Facilities	\$ 517,550	\$ 287,392	\$ 327,600	\$ (189,950)	-36.70%
Total Office Rent	\$ 517,550	\$ 287,392	\$ 327,600	\$ (189,950)	-36.70%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Office rent is decreasing year-over-year. This is the result of negotiations on the lease for the premises occupied by Texas RE to obtain a lower cost per rentable square foot rate than planned. Additionally, as a result of the lower rate, the common area maintenance is lower than expected.
- Additionally, Texas RE is reflecting a reduction of approximately \$40K for services no longer provided by ERCOT ISO's facilities department. These services have been absorbed internally.

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Supplies	\$ 8,400	\$ 13,333	\$ 12,700	\$ 4,300	51.19%
Cellular Phones	5,080	6,137	14,040	8,960	176.38%
Postage	1,200	1,500	1,800	600	50.00%
Express Shipping	1,200	4,811	7,980	6,780	565.00%
Stationary Forms	1,200	400	3,000	1,800	150.00%
Reports - Graphics	1,200	400	1,200	-	0.00%
Total Office Costs	\$ 18,280	\$ 26,581	\$ 40,720	\$ 22,440	122.76%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Texas RE is also projecting a significant increase in office supplies to accommodate new employees and additional materials for Texas RE's deliverables \$4K.
- Express shipping is expected to be significantly higher in 2010 due to the need to send additional materials via FedEx \$7K.
- Texas RE is also projecting a significant increase in report printing that will require additional report printing services \$2K.
- Adding cell phones for all audit lead, senior level, managers and above, resulting in a \$9K increase year-over-year.

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Outside Legal	\$ 300,000	\$ 300,000	\$ 300,000	\$ -	0.00%
Accounting & Auditing Fees	36,000	41,976	45,281	9,281	25.78%
IT Professional Services	50,000	152,112	207,344	157,344	314.69%
RSVP Hosting	10,000	10,000	10,000	-	0.00%
Professional Engineering Services	-	23,046	-	-	0.00%
Other Professional Services	30,000	36,000	60,000	30,000	100.00%
Total Services	\$ 426,000	\$ 563,134	\$ 622,625	\$ 196,625	10.56%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Audit fees are increasing in 2010 by \$9K related to the financial statement audit.
- IT professional services are increasing \$157K year-over-year related to web-hosting redundancy that will ensure Texas RE's web presence and portal tools remain safe, secure and operational with a full backup hosting solution.
- Texas RE will be provisioning an additional \$30K for professional services under the G&A department. This will be used for any technical advice and counsel required by any program within Texas RE on an as needed basis.

Table B-8

Other Non-Operating Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Interest Expense	\$ 855,000	\$ -	\$ -	\$ (855,000)	-100.00%
Total Non-Operating Expenses	\$ 855,000	\$ -	\$ -	\$ (855,000)	-100.00%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Due to change in budgeting from a cash-based budget to a GAAP based budget, Texas RE no longer needs to budget for a cash reserve through non-operating expenses. Texas RE will adjust cash reserves through normal profit & loss activities.

Section C — 2009 RE Non-statutory Business Plan and Budget

(in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	5.05	6.00	.95
Total Direct Expenses	\$871,997	\$1,086,772 \$1,077,084	\$214,775 \$205,087
Total Indirect Expenses			
Total Expenses	\$871,997	\$1,153,772 \$1,144,084	\$281,775 \$272,087

Non-statutory Functional Scope

In addition to the Statutory functions, Texas RE also provides compliance support to the Public Utility Commission of Texas (PUCT). These services include auditing, event analysis, complaint investigations and monthly metric monitoring to identify violations of protocols. In addition, Texas RE is also monitors the stakeholder process and comments on proposed changes to the protocols that affect reliability. Texas RE also works closely with the PUCT to identify new risks to the BPS and craft strategies to address these risks from the regulatory perspective.

Texas RE does not perform any enforcement activities for the PUCT. Once a potential violation is identified by Texas RE it is reported to the PUCT and they follow up with all enforcement activities. Texas RE may be required to assist the PUCT with analysis of our findings and will support the PUCT in their enforcement processes, if need, however, all enforcement is at the sole discretion of the PUCT.

In 2009 there has been a significant increase in workload related to the monitoring of ERCOT ISO committees and changes in market rules due to the upcoming transition to the Nodal market. The change in markets has required Texas RE to work closely with the PUCT to oversee the stakeholder process being used to create the new market rules. The PUCT and Texas RE have put in place a project management plan to ensure adequate regulatory oversight is in place prior to the market transition in late 2010. Significant work is expected to be needed in 2010 to create and test reports, assist with the Nodal trials, analyze the nodal protocols as they are put into use, and communicate with the stakeholders to help them understand the expectations. The workload is anticipated to increase in 2010 to prepare for the Nodal market going live.

Texas RE added one FTE to support the Non-statutory work in 2009. It is anticipated that the work related to the transition to the Nodal market will be higher in 2010 by approximately 1 FTE.

Texas RE estimates approximately (15%) percent of Texas RE staff time will be dedicated to monitoring, auditing, assessing, investigating, and reporting on compliance with the ERCOT Protocols and commenting on ERCOT Protocol revision requests. Funding for these Non-statutory activities is provided through the ERCOT System Administration Fee, which is based upon the fee factor approved by the ERCOT Board and the PUCT to support ERCOT activities and Texas RE Non-statutory activities which are subject to PUCT oversight.

Major 2010 Assumptions and Cost Impacts

Funding Sources

- Funding is received only through ERCOT ISO to pay for these expenses.

- Texas RE will prepare for the Nodal market conversion.

Personnel Expenses

- Personnel expenses are increasing primarily due to adding .95 FTEs of labor to the Non-statutory function. Additionally, the budget assumes 3% merit, 1% promotion and 2% for market adjustments.

Meeting Expenses

- Expenses are lower reflecting a reduction attributed to lower utilization in the prior year.

Operating Expenses

- Texas RE is estimating an increase in the MOU related expenses incurred for support services and IT administration of \$84K for 2010. This is based primarily on the increased FTEs and the associated expenses.
- Rent and facilities services expenses are expected to decrease \$56K for 2010, due to a lower rentable square foot rate we obtained in 2009 for rent and facilities.
- Professional services are being budgeted to decrease \$32K.
- Finally, depreciation is being budgeted in 2010 to reflect the depreciable assets that are held by Texas RE (software).

2010 Primary Goals and Objectives —

1. Implement the 2010 protocol audit plan per the posted schedule and with a high level of quality and consistency.
2. Maintain high quality and effective organization of all audit and investigation work papers, audit reports and potential violation findings.
3. Review and assess system disturbances for potential violations of the ERCOT Protocols and report all findings to the PUCT.
4. Meet with the PUCT monthly to provide a complete report on work in progress as well as all audit reports and potential violation files.
5. Support the PUCT efforts to ensure adequate regulatory oversight in place for the Nodal Market.
6. Create and provide Nodal training for Texas RE staff and the PUCT.
7. Provide a workshop to educate stakeholders on compliance issues related to the Nodal Market transition and implementation. Continue to monitor and participate in the ERCOT ISO committee process.

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

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)
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -		\$ -	\$ -
Penalty Sanctions ⁽¹⁾	-	-	-		-	-
Total ERO Funding	\$ -	\$ -	\$ -		\$ -	\$ -
Membership Dues	-	-	-		-	-
Testing Fees	-	-	-		-	-
Services & Software	871,997	788,005	(83,993)	-9.6%	1,153,772	281,775
Workshops	-	-	-		-	-
Interest	-	-	-		-	-
Miscellaneous	-	-	-		-	-
Total Funding	\$ 871,997	\$ 788,005	\$ (83,993)	-9.6%	\$ 1,153,772	\$ 281,775
Expenses						
Personnel Expenses						
Salaries	\$ 448,080	\$ 430,398	\$ (17,682)	-3.9%	\$ 608,104	\$ 160,025
Payroll Taxes	35,846	33,612	(2,234)	-6.2%	48,059	12,212
Benefits	45,942	37,197	(8,745)	-19.0%	66,079	20,137
Retirement Costs	64,972	59,284	(5,687)	-8.8%	86,102	21,131
Total Personnel Expenses	\$ 594,840	\$ 560,492	\$ (34,348)	-5.8%	\$ 808,345	\$ 213,505
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -		\$ 5,600	\$ 5,600
Travel	2,181	4,500	2,319	106.3%	624	(1,557)
Conference Calls	-	-	-		-	-
Total Meeting Expenses	\$ 2,181	\$ 4,500	\$ 2,319	106.3%	\$ 6,224	\$ 4,043
Operating Expenses						
Consultants & Contracts	\$ 36,396	\$ 97,700	\$ 61,303	168.4%	\$ 120,064	\$ 83,667
Office Rent	118,200	52,972	(65,228)	-55.2%	62,400	(55,800)
Office Costs	480	594	114	23.8%	-	(480)
Professional Services	89,900	71,497	(18,403)	-20.5%	57,875	(32,025)
Miscellaneous	-	250	250	100.0%	1,865	1,865
Depreciation	-	29,706	29,706	100.0%	30,000	30,000
Total Operating Expenses	\$ 244,976	\$ 252,720	\$ 7,743	3.2%	\$ 272,203	\$ 27,227
Total Direct Expenses	\$ 841,997	\$ 817,711	\$ (24,286)	-2.9%	\$ 1,086,772	\$ 244,775
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -
Other Non-Operating Expenses	\$ 30,000	\$ -	\$ (30,000)	-100.0%	\$ -	\$ (30,000)
Total Expenses	\$ 871,997	\$ 817,711	\$ (54,286)	-6.2%	\$ 1,086,772	\$ 214,775
Change in Assets	\$ -	\$ (29,706)	\$ (29,706)	100.0%	\$ 67,000	\$ 67,000
Fixed Assets						
Depreciation	\$ -	\$ (29,706)	\$ (29,706)	0.0%	\$ (30,000)	\$ (30,000)
Computer & Software CapEx	-	-	-		67,000	67,000
Furniture & Fixtures CapEx	-	-	-		-	-
Equipment CapEx	-	-	-		-	-
Leasehold Improvements	-	-	-		-	-
Change in Fixed Assets	\$ -	\$ 29,706	\$ 29,706	100.0%	\$ (37,000)	\$ (37,000)
Allocation of Fixed Assets	\$ -	\$ -	\$ -		\$ -	\$ -
Change in Fixed Assets	\$ -	\$ 29,706	\$ 29,706	100.0%	\$ (37,000)	\$ (37,000)
TOTAL CHANGE IN ASSETS	\$ -	\$ (0)	\$ (0)	0.0%	\$ 30,000	\$ 30,000

Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or employees who worked in fewer than all four quarters of the year.

Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
NON-STATUTORY						
Operational Programs						
Protocol	3.85	4.05	0.00	5.04	5.04	1.19
Total FTEs Operational Programs	3.85	4.05	0.00	5.04	5.04	1.19
Administrative Programs						
General & Administrative	1.20	1.02	0.00	0.96	0.96	-0.24
Total FTEs Administrative Programs	1.20	1.02	0.00	0.96	0.96	-0.24
Total FTEs	5.05	5.07	0.00	6.00	6.00	0.95

¹ A shared FTE is defined as a Texas Regional Entity employee who performs both Statutory and Non-statutory activities; however none of these FTEs perform any registered functions (e.g. Reliability Coordinator).

Section D

2010 Consolidated Statement of Activities by Program, Statutory and Non-statutory

Statement of Financial Position

As of December 31, 2008, unaudited

As of December 31, 2009, projected

As of December 31, 2010, as budgeted

Statement of Financial Position			
2008 Audited, 2009 Projection, and 2010 Budget			
STATUTORY and NON-STATUTORY			
	In-Balance	In-Balance	In-Balance
	Unaudited 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
ASSETS			
Cash	3,959,463	1,714,097	1,665,832
Trade Accounts receivable, net of allowance for uncollectible accounts of \$137,600	-	-	-
Other Receivables	270,609	-	-
Prepaid expenses and other current assets	-	-	-
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment	297,195	545,150	775,650
Total Assets	4,527,267	2,259,247	2,441,482
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	265,115	265,115	265,115
Regulatory Liability	3,095,041	593,983	-
Other Liabilities	869,916	-	-
Deferred compensation	-	-	-
Accrued retirement liabilities	-	-	-
Total Liabilities	4,230,072	859,097	265,115
Net Assets - unrestricted	297,195	1,400,150	2,176,367
Total Liabilities and Net Assets	4,527,267	2,259,247	2,441,482

Date: June 8, 2009
To: Board of Directors
From: Larry Grimm, CEO & Chief Compliance Officer
Subject: Approval of Memorandum of Understanding (MOU)

ERCOT Board of Directors Meeting Date: June 15, 2009

Agenda Item No.: 5b

Issue:

Approval of the Amended Memorandum of Understanding between Texas Regional Entity (Texas RE) and Electric Reliability Council of Texas, Inc. (ERCOT).

Background/History:

Some of the administrative services provided by ERCOT to Texas RE have changed in 2009, primarily because of Texas RE's move to a separate office space. Due to these changes, Texas RE and ERCOT have negotiated amendments to the January 1, 2008 Memorandum of Understanding (MOU), which Texas RE and ERCOT propose be effective as of February 16, 2009 (Texas RE's move occurred in mid-February). The proposed Amended Memorandum of Understanding (Amended MOU), with redlines showing the proposed changes, is attached hereto as Exhibit A and is incorporated herein for all purposes. Texas RE and ERCOT believe that the rates and amounts that Texas RE has agreed to pay ERCOT under the Amended MOU are reasonable.

If the Amended MOU is approved by the Board, Texas RE requests that Larry Grimm be authorized to sign the Amended MOU, and Texas RE and ERCOT will proceed under this Amended MOU, with an effective date of February 16, 2009 (for accounting purposes). Texas RE and ERCOT anticipate Texas RE will pay ERCOT approximately **\$936,625** for the period February 16 – December 31, 2009 (for 32 employees) under the Amended MOU, including **\$262,000** for the Terrace office space.

Texas RE must identify and describe in its 2010 Business Plan and Budget (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 the costs paid to ERCOT and confirm Texas RE's independence from ERCOT, since ERCOT is a registered entity. Texas RE intends to include the Amended MOU (or a summary thereof) in its 2010 Business Plan and Budget. Texas RE anticipates the Advisory Committee will recommend the Board approve this Amended MOU.

Key Factors Influencing Issue:

- The need to document the agreements between ERCOT and Texas RE for the provision of and payment for services and the NERC and FERC requirement that Texas RE justify the cost of goods, leases, or services obtained from ERCOT
-

Alternatives:

- Approve the Amended MOU
- Modify Amended MOU

Conclusion/Recommendation:

Texas RE respectfully requests the Board approve the Amended MOU as negotiated by Texas RE and ERCOT staff, with no material changes, and requests that Larry Grimm, Texas RE CEO, be authorized to sign the Amended MOU, with no material changes.

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 of Texas Regional Entity, a division of the Electric Reliability Council of Texas, Inc., a Texas non-profit corporation ("Board") has reviewed the Amended Memorandum of Understanding negotiated by Texas Regional Entity and Electric Reliability Council of Texas, Inc. with effective date January 1, 2009, 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 Amended Memorandum of Understanding between Texas Regional Entity and Electric Reliability Council of Texas, Inc., subject to approval by NERC;

THEREFORE be it RESOLVED, that the Board hereby approves the Amended Memorandum of Understanding which is attached hereto as Exhibit A and incorporated herein for all purposes;

Be it FURTHER RESOLVED that Larry Grimm is authorized to sign this Amended Memorandum of Understanding with Electric Reliability Council of Texas, Inc. and to include a copy of the Amended Memorandum of Understanding in its filing(s) with North American Electric Reliability Corporation and the Federal Energy Regulatory Commission.

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

Texas Regional Entity 2010 Supplemental Budget Presentation & Approval

Texas RE Board of Directors
June 15, 2009

2010 Budget for Structural Separation

Non-Financial Considerations for Separation

- ERCOT ISO and Texas RE Directors have a conflict of interest that is difficult to manage
 - As the regional entity, Texas RE determines ERCOT ISO's compliance with NERC standards and prosecutes enforcement actions against ERCOT ISO for violations that ERCOT ISO might dispute
 - As the regional entity, Texas RE makes registration decisions that ERCOT ISO might dispute
 - Because the Texas RE and ERCOT ISO Boards of Directors are identical, for any disputed violations, penalties, or registrations, the Directors have fiduciary duties to both parties
- The ERCOT Bylaws and Budget are reviewed by FERC and substantial portions of the Bylaws cannot be modified without approval by FERC
- Texas RE is not allowed to vote on NERC matters as a regional entity (only one of the affiliated entities may have a vote and ERCOT ISO votes in the NERC ISO/RTO Sector) – sometimes the ERCOT region has issues that are unique from the other regions
- FERC has questioned Texas RE's affiliation with ERCOT ISO

Non-Financial Considerations for Separation

- NERC leads audits and other compliance activities of and any enforcement actions against affiliated entities – Texas RE participation is limited
 - If Texas RE remains affiliated, NERC (or a different regional entity) would need to perform compliance monitoring of and enforcement actions against ERCOT ISO (this will defeat the purpose of having a Texas-based regional entity that is familiar with the operations that are unique to the ERCOT bulk power system)
 - It is not clear whether enforcement actions against ERCOT ISO would be heard by the PUCT or by the other regional entity or NERC hearing body
 - The ERCOT region (through an increased Texas RE fee) will be required to pay the cost for NERC (or the other regional entity) to travel to and audit ERCOT ISO
- Any penalties paid by ERCOT ISO must go to NERC instead of Texas RE

2010 Separation Budget – Stat & Non-Stat

Description	Total Current Annual Cost (per MOU w/ERCOT ISO)	Total Projected Annual Cost	Projected Start-Up Cost
Board of Directors (full retainer; lower meeting fees) – 5 Independent Directors	\$184,363	\$291,000	\$250,000
Human Resources & Benefits	\$454,588	\$389,318	
HR FTE*		\$99,750	
Accounting, Budget & Payroll, & Treasury Services	\$82,086	\$172,700	\$57,500
Finance FTE*		\$119,700	
Risk Management & Insurance	\$95,665	\$75,250	
Information Technology	\$351,948	\$285,628	\$527,395
IT FTEs* (2)		\$199,500	
Facilities & Physical Security	\$385,003	\$351,000	\$308,391
Stakeholder support FTE*		\$86,450	
Legal FTE*		\$151,620	
Total	\$1,553,653	\$2,221,916	\$1,143,286

NOTE: All estimates are based on 43 FTEs.

2010 Structural Separation + Base Budget Recap

Total Supplemental Structural Separation Budget

	<u>Statutory</u>	<u>Non-statutory</u>	<u>Combined</u>
• Operating Expense Budget	\$1,888,629	\$333,287	\$2,221,916
• Start Up Budget	\$ 971,793	\$171,493	\$1,143,286
• Cash Reserve	<u>\$ 183,800</u>	<u>\$ 32,400</u>	<u>\$ 216,200</u>
• Subtotal Budget Requirements	\$3,044,222	\$537,180	\$3,581,402
• Less: MOU Expenses in Base	(\$ 969,337)	(\$171,060)	(\$1,140,397)
• Less: Depreciation	<u>(\$ 151,127)</u>	<u>(\$ 26,669)</u>	<u>(\$ 177,796)</u>
• Funding Requirements	\$1,923,758	\$339,451	\$2,263,209
• Funding per Mwh*	\$ 0.0060	\$ 0.0010	\$ 0.0070
• Staffing (Full Time Equivalents)	5.10	0.90	6.00
• Request Texas RE Board approve the 2010 Texas RE Supplemental Structural Separation Budget			

* Funding is received at the budgeted level and charged-out based on 2008's NEL (Net Energy for Load). We are presenting the cost per Mega Watt Hour (Mwh) for comparison purposes only.

2010 Structural Separation + Base Budget Recap

Total Base + Supplemental Structural Separation Budget

	<u>Statutory</u>	<u>Non-statutory</u>	<u>Combined</u>
• Operating Expense Budget	\$ 8,252,770	\$1,420,059	\$ 9,672,829
• Capital Budget	\$ 306,500	\$ 67,000	\$ 373,500
• Start Up Budget	\$ 971,793	\$ 171,493	\$ 1,143,286
• Cash Reserve	<u>\$ 1,554,518</u>	<u>\$ 62,400</u>	<u>\$ 1,616,918</u>
• Subtotal Budget Requirements	\$11,085,581	\$1,720,952	\$12,806,533
• Less: MOU Expenses in Base	(\$ 969,337)	(\$171,060)	(\$ 1,140,397)
• Less: Unspent Funds (prior years)	(\$ 593,982)		(\$ 593,982)
• Less: Cash Reserves on Hand	(\$ 855,000)		(\$ 855,000)
• Less: Depreciation Expense	<u>(\$ 301,127)</u>	<u>(\$ 56,669)</u>	<u>(\$ 357,796)</u>
• Funding Requirements	\$ 8,366,135	\$ 1,493,223	\$ 9,859,358
• Funding per Mwh*	\$ 0.0258	\$ 0.0046	\$ 0.0304
• Staffing (Full Time Equivalents)	36.10	6.90	43.00

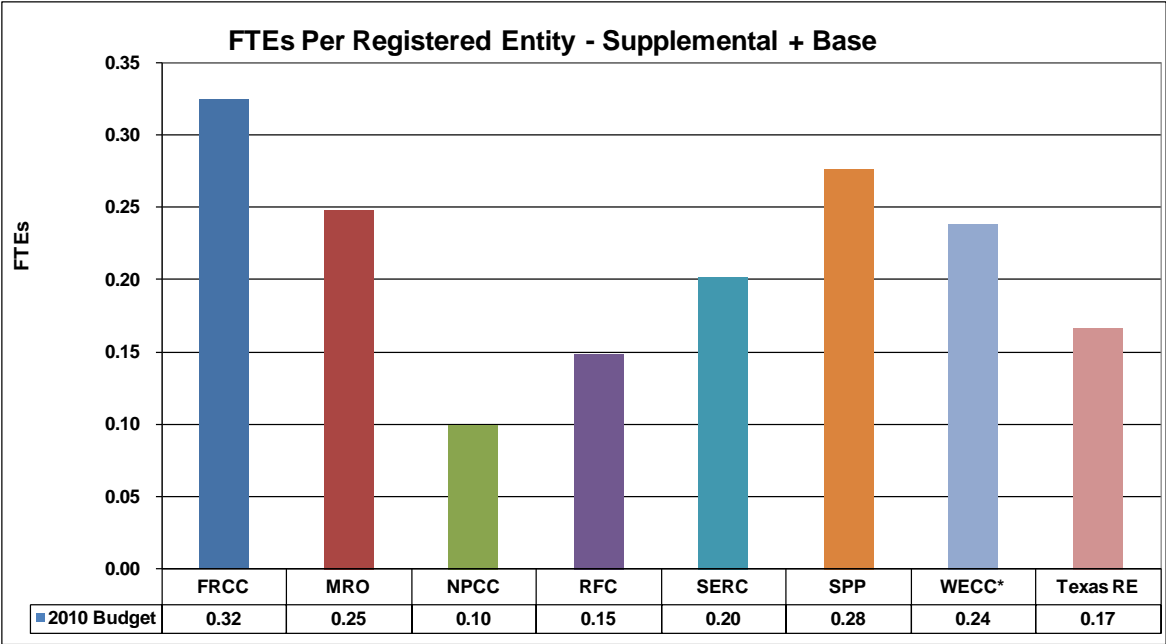
*

Funding is received at the budgeted level and charged-out based on 2008's NEL (Net Energy for Load). We are presenting the cost per Mega Watt Hour (Mwh) for comparison purposes only.

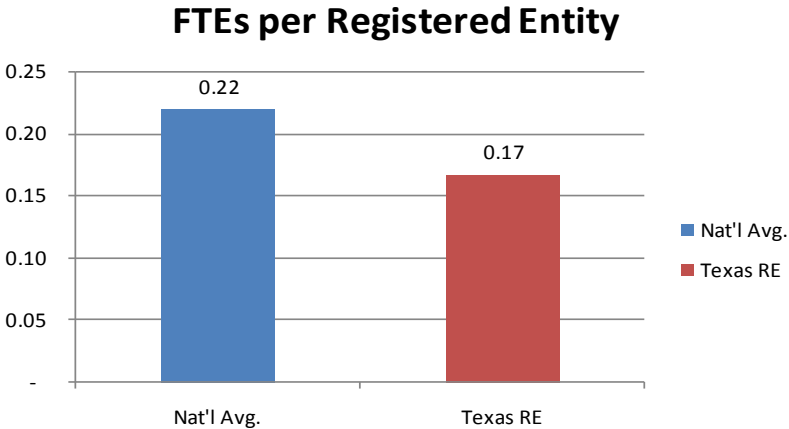
2010 FTEs by Function – Base + Supplemental

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	18.74	0.00	18.74	0.00
Training and Education	0.97	0.00	0.97	0.00
Reliability Assessment and Performance Analysis	2.44	0.00	2.44	0.00
Situational Awareness and Infrastructure Security	3.03	0.00	3.03	0.00
Protocol Compliance	5.04	0.00	5.04	0.00
Total FTEs Operational Programs	32.28	0.00	32.28	0.00
Administrative Programs				
Members Forums & Technical Committees	0.00	0.85	0.85	0.85
General & Administrative	1.05	0.00	1.05	0.00
Information Technology	0.69	1.70	2.39	1.70
Legal and Regulatory	1.17	0.85	2.02	0.85
Human Resources	0.00	0.85	0.85	0.85
Finance & Accounting	0.85	0.85	1.70	0.85
Protocol General & Administrative	0.96	0.90	1.86	0.90
Total FTEs Administrative Programs	4.72	6.00	10.72	6.00
Total FTEs	37.00	6.00	43.00	6.00

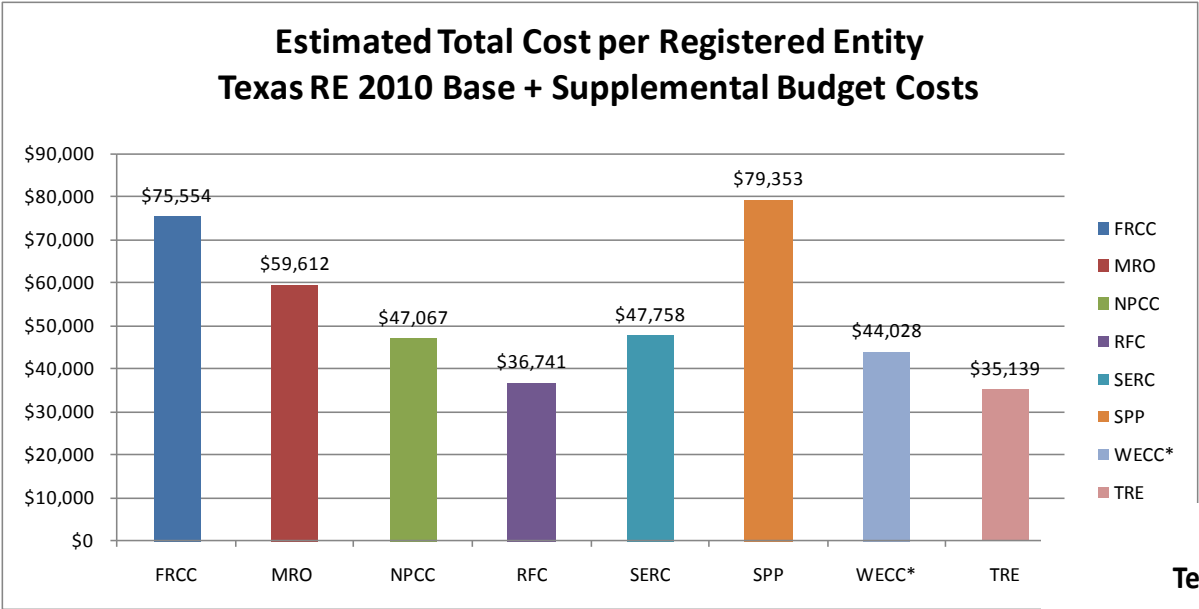
FTEs per Registered Entity-Base + Supplemental



NOTE: The WECC budget has been adjusted downward to eliminate the Reliability Coordinator function headcount from the comparison (estimate only).



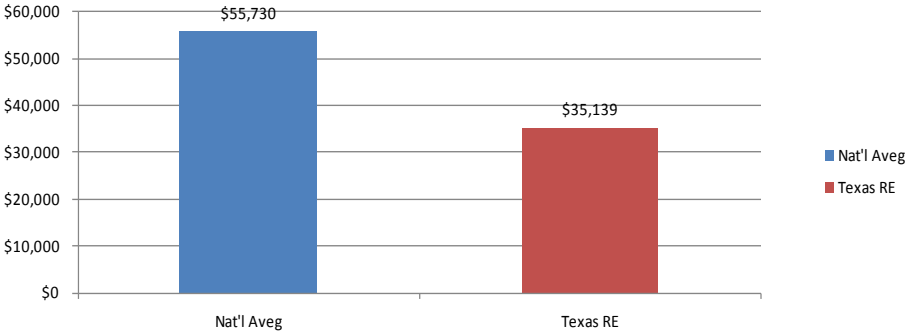
Statutory Cost per Registered Entity-Base + Supplemental



NOTE: The WECC budget has been adjusted downward to eliminate the Reliability Coordinator function expenses from the comparison (estimate only).

Texas RE reflects recurring supplemental budget costs excluding start-up costs.

**Estimated Total Cost per Registered Entity
Texas RE Base + Recurring Supplemental Budget Costs vs.
National Average**



Date: June 8, 2009
To: Texas RE Board of Directors
From: Larry Grimm, Texas RE CEO and CCO
Subject: Approval of Legal Separation of Texas Regional Entity

Texas Regional Entity Board of Directors Meeting Date: June 15, 2009
Agenda Item No.: 5c

Issue:

Whether Texas Regional Entity (Texas RE) should be legally separated from Electric Reliability Council of Texas, Inc. (ERCOT).

Background/History:

In response to the Energy Policy Act of 2005, in May 2007, the ERCOT Board of Directors voted to create Texas RE as an independent and functionally separate division of ERCOT. The Amended and Restated Bylaws incorporating this change to the ERCOT structure were approved by the Public Utility Commission of Texas in September 2007. To further separate and distinguish Texas RE from ERCOT, in July 2008, the Texas RE Board of Directors approved the Texas Advisory Committee, comprised of the Unaffiliated Directors, the PUC Board Chair, and the Public Counsel from the Office of Public Utility Counsel, to review and make recommendations to the Texas RE Board regarding budget, compensation, and other administrative matters.

Over the past year, the Board has discussed whether Texas RE should remain an independent division or whether it should be separated into a legally separate entity. If the Board authorizes the separation of Texas RE from ERCOT, Texas RE staff can begin the steps needed to create a new legal entity and seek required approvals for an Amended Delegation Agreement and Business Plan & Budget with NERC. Texas RE staff needs guidance about the Board's intentions regarding separation and a possible timetable therefor.

Key Factors Influencing Issue:

With Texas RE as a functionally independent division of ERCOT:

- Texas RE's administrative costs have been less as a division of ERCOT than if Texas RE had been a separate legal entity
- Texas RE Directors have a conflict of interest that is difficult to manage:
 - Texas RE determines ERCOT ISOs compliance with NERC standards and prosecutes any enforcement actions against ERCOT ISO that ERCOT ISO might dispute
 - Texas RE makes registration decisions that ERCOT ISO might dispute
 - The Texas RE and ERCOT Directors have fiduciary duties to both Texas RE and ERCOT
- The ERCOT Bylaws and Budget are reviewed by FERC and substantial portions of the Bylaws cannot be modified without FERC approval
- Texas RE is not allowed to vote on NERC matters as a regional entity (because only one of affiliated entities may vote, and ERCOT ISO votes in the NERC ISO/RTO Sector)
- FERC has questioned Texas RE's affiliation with ERCOT ISO

- NERC prohibits regional entities from leading compliance activities of or enforcement actions against affiliated entities
- Any penalties paid by ERCOT ISO must go to offset the NERC (instead of the Texas RE) budget

Alternatives:

- Approve the legal separation of Texas RE from ERCOT.
 - Don't approve the legal separation of Texas RE from ERCOT at this time.
-

Conclusion/Recommendation:

Texas RE respectfully requests the Board approve the legal separation of Texas RE, with the goal of separating on January 1, 2010, and permit Texas RE to take the acts needed to begin the implementation of a separate legal entity.

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 has determined it to be desirable and in the best interest of Texas Regional Entity to have the new separate legal entity implemented by January 1, 2010 or as soon thereafter as reasonably practicable;

THEREFORE be it RESOLVED, that the Board hereby approves that the legal separation of Texas Regional Entity from ERCOT; a new legal entity and to legally separate from ERCOT;

BE it FURTHER RESOLVED that Texas Regional Entity staff is hereby authorized to immediately take such steps as are needed to create a new legal entity, Delegation Agreement, and needed supplemental Business Plan(s) and Budget(s) and to obtain all required approvals from the Public Utility Commission of Texas, North American Electric Reliability Corporation, and Federal Energy Regulatory Commission to permit the separation of Texas Regional Entity from ERCOT.

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

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.
-

Conclusion/Recommendation:

Texas RE respectfully requests the Board approve the supplemental budget for 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



**Texas Regional Entity Statement of Activities and
Accomplishments in Carrying Out its
Delegated Responsibilities for the Period
January 1, 2007 – February 28, 2009**

April 1, 2009

Introduction

Pursuant to the regulations of the Federal Energy Regulatory Commission (FERC), 18 C.F.R. §39.3(c), the North American Electric Reliability Corporation (NERC) is required to submit an assessment of its performance three years from the date of NERC's certification as the Electric Reliability Organization ("ERO") for the United States of America. NERC must include in its self-assessment an assessment of the effectiveness of each Regional Entity. As part of the process of developing the Regional Entities' assessments, NERC has requested that each Regional Entity provide a Statement of Activities and Achievements for distribution and public comment.

Public comment on the first draft of NERC and the Regional Entities' Statement of Activities and Achievements to October 31, 2008 was solicited on January 14, 2009 via a questionnaire posted on the NERC Web site. Texas Regional Entity (Texas RE) reviewed the data and comments received in response to the questionnaire. This version of Texas RE's Statement of Activities and Achievements has been updated to include discussion on the areas for improvement identified by the first round of stakeholder feedback.

Background

Texas RE is a functionally independent division of Electric Reliability Council of Texas, Inc (ERCOT). As the independent system operator (ISO) for the region, ERCOT ISO manages the flow of electric power to 21 million Texas customers – representing 85 percent of the state's electric load and 75 percent of the Texas land area. ERCOT ISO schedules power on an electric grid that connects 38,000 miles of transmission lines and more than 550 generation units. ERCOT ISO also manages financial settlement for the competitive wholesale bulk-power market and administers customer switching for 6 million Texans in competitive choice areas. ERCOT is a membership-based 501(c)(4) nonprofit corporation, governed by a board of directors and subject to oversight by the Public Utility Commission of Texas and the Texas Legislature. ERCOT's members include consumers, cooperatives, independent generators, independent power marketers, retail electric providers, investor-owned electric utilities (transmission and distribution providers), and municipal-owned electric utilities.

Formerly ERCOT Compliance, Texas RE was created and began acting as a functionally independent division of ERCOT ISO on May 18, 2007, when Texas RE's approved delegation agreement with North American Electric Reliability Corporation (NERC) was filed with the Federal Energy Regulatory Commission (FERC). As mandated by its delegation agreement, Texas RE performs the regional entity functions described in the Energy Policy Act of 2005 for the ERCOT region. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC reliability standards within the geographic boundaries of the ERCOT region.

I. Reliability Standards Development

A. Describe Regional Entity's activities and accomplishments in regional reliability standards development since January 1, 2007. Include discussion of improvements to activities and operations since January 1, 2007.

Texas RE facilitates the activities of the Reliability Standards Committee (RSC), which was formed in December 2007, as well as the implementation of the Texas RE Regional Reliability Standards Development Process, as described and approved in Texas RE's May 2007 delegation agreement.

Texas RE has facilitated the development of seven draft standards/procedural changes:

- SAR-001-TRE-02 – Provision for the ERCOT ISO to Participate and Have a Vote in the Processes (submitted December 2007) – revision of Texas RE Regional Standards Development Process.

During 2008, ERCOT ISO suggested revisions to the Standards Development Process by submitting SAR-001 to correct and further improve the balance of interests considered in the process. SAR-001 proposes that ERCOT ISO, which is the Reliability Coordinator, Balancing Authority, Transmission Service Provider, Transmission Operator, Interchange Authority, Resource Planner, and Planning Authority, become a segment and receive at least a portion of one vote. Other improvements to the Standards Development Process were added to this SAR, including a clarification that the Texas RE Board of Directors, instead of the ERCOT Board of Directors, approves all SARs. Initial comments to the changed procedure were received from the public in November 2008.

A Registered Ballot Body (RBB) was formed (with 46 members) for this SAR. In January 2009, this RBB voted on and passed the provisions of SAR-001 (with 37 of the 46 members voting), giving ERCOT a ¼ vote and making additional improvements to regional standards development processes. The ERCOT Board approved these provisions at its February 2009 meeting. The approved provisions also changed the approval authority in the ERCOT region from the ERCOT Board to the Texas RE Board. Currently, this Provision is at NERC for consideration at the May 2009 Board of Trustees meeting.

- SAR-002-TRE-01 – Development and Documentation of Regional UFLS Programs (submitted April 2008). This Standard Drafting Team (SDT) has been on hold while awaiting the national team's efforts. This SDT expects to re-convene in May 2009 to begin evaluating the potential for a regional variance to the proposed national standard.
- SAR-003-TRE-01 – FERC-Ordered Modification to ERCOT CPS2 Waiver to R2 of BAL-001-0 (submitted April 2008). This standard has been drafted and is currently out for public comment. The SDT is holding a technical workshop in March to help educate the ERCOT region on frequency response in general and how this standard will help ensure reliability with better frequency response.
- SAR-004-TRE-01 – ERCOT-Specific Sabotage Reporting Regional Standard (submitted in April 2008) was rejected by the RSC. Much of the reason for this SAR in the beginning was to include additional appropriate entities on the list of applicability. This may now be at least partially remedied by the proposed Joint Registration Organization (JRO) agreement that is being developed for the Load-Serving Entity (LSE) function, because it proposes to include Transmission Owners (TOs) in the list of applicability for this CIP-001 standard.
- SAR-005-TRE-01 – Remove LSE Applicability from EOP-002
- SAR-006-TRE-01 – Remove LSE Applicability from MOD-017 and MOD-018
- SAR-007-TRE-01 – Remove LSE Applicability from MOD-019, MOD-020 and MOD-021

Based upon advice and guidance by FERC staff that a regional standard cannot be used to remove a NERC function from a standard and that joint or concurrent registration should be used to address any regional issues causing applicability issues, on February 4, 2009, the RSC voted to suspend activity on SAR-005, SAR-

006 and SAR-007 to allow Texas RE time to attempt to facilitate a possible JRO agreement to address the applicability issues. Texas RE is continuing to facilitate a possible JRO through the LSE Registration Working Group.

An additional SAR for Disturbance Monitoring (PRC-002) was drafted but was then placed on hold until the continent-wide standard was further developed. The continent-wide standard has since been drafted and it appears that a regional standard on Disturbance Monitoring will not be necessary.

The RSC meets once a month. The SDTs meet as necessary and include WebEx participation. Texas RE employees facilitate all meetings and are directly involved in the non-technical aspects of the drafting of the standards. To promote wider awareness of and participation in the reliability standards process throughout the ERCOT region, Texas RE launched the Reliability Standards Tracking site in 2008. The tool allows all registered parties to efficiently submit comments on SARs and draft standards during commenting periods and allows members of the Registered Ballot Body (RBB) to vote online.

Texas RE staff participates in the NERC Standards Committee and Regional Reliability Standards Working Group and has contributed to the 2009-2011 NERC Work Plan. The Texas RE Manager of Standards was nominated and accepted into the NERC Communications and Planning Subcommittee of the NERC Standards Committee. In addition, the Texas RE staff screens draft reliability standards from other regions. Texas RE staff also screens proposed NERC standards that may have an impact on registered entities in the ERCOT region. To date, four proposed NERC standards have been screened and brought to the notice of RSC.

Texas RE informs stakeholders of the impact and requirements of emerging NERC standards through training at the Texas RE workshops (see Section III B). In general, Texas RE works to ensure that stakeholders have the most current and accurate information on reliability standards. Procedures, forms, meetings, minutes, notes, agendas, drafts, etc., for all regional activities associated with standards are posted in a timely fashion on the Texas RE website. Market notices on major topics and upcoming meetings are sent regularly to Texas RE email lists. Articles on reliability standards topics are included in the bi-monthly Texas RE newsletter.

Texas RE faces the challenge of the upcoming change in the ERCOT region systems from zonal to nodal. Texas RE staff participates in Nodal Protocol/Reliability Standards Alignment (NPRSA) Working Group, the ERCOT region taskforce organized to align changes in the ERCOT Protocols language for the nodal market with NERC language. Due to delays in the implementation of the nodal market, this working group was recently put on hold until the nodal implementation is complete.

B. Explain how the Regional Entity has the ability to develop regional standards and has a standards development process that provides for openness, due process and balancing of interests.

The Texas RE Standards Development Process, as approved by NERC and FERC as Exhibit C to Texas RE's Delegation Agreement with NERC, provides for openness, due process, and balancing of interests. Participation in Texas RE's Standards Development Process is open to all organizations that are materially affected by the ERCOT region bulk power system (BPS), with no undue financial barriers, and any such entity has the right to participate by expressing an opinion, having its opinion considered, and having the right to

appeal. Notice of all meetings of the Texas RE RSC and all drafting teams are provided on the Texas RE website and are open to the public.

The Texas RE Standards Development Process provides for a balance of interests, containing seven market segments and a requirement of a vote of at least two-thirds of the segments for approval of any regional standard. SAR-001 proposed to add an additional market segment, with a ¼ vote, for ERCOT ISO. No two segments can dominate, and no single segment can defeat any matter. In addition, each of the current seven segments has at least two representatives on the RSC. In 2008, 40 entities joined the RBB, representing about 25% of all ERCOT region members.

Texas RE's Standards Development Process provides for fair and due process by providing sufficient public notice of the intent to develop a standard. In addition, all proposed standards are posted on the Texas RE Standards Tracking Site for public comments. The site allows all interested parties to submit comments during the commenting period. The Process also provides an appeals process.

C. State Regional Entity's assessment of its own effectiveness in reliability standards development since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed.

Texas RE's effectiveness in reliability standards development has steadily improved since its Delegation Agreement was approved in April 2007. Texas RE's first hurdle was to educate the users, owners, and operators of the BPS of the Standards Development Process and the need for involvement in the process by all industry segments. Texas RE primarily used its website and two 2007 Texas RE Standards and Compliance Workshops to begin to educate and inform ERCOT Market Participants about the Standards Development Process. Industry interest, participation, and understanding of the Standards Development Process have grown, particularly after the RSC was formed in December 2007.

Beginning in spring 2008, Texas RE made great strides in its efficiency and effectiveness. Texas RE worked with other regional entities to launch the Regional Standards Tracking Site described above. This tool greatly improves the efficiency by which standards can be presented and evaluated by all stakeholders, as well as allowing comments to be gathered from across the ERCOT region and votes to be easily compiled from RBB members. Texas RE also began its e-newsletter, which communicates updates, status, and other information about standards to stakeholders. Finally, Texas RE also added a new Standards Coordinator position late in the spring 2008, which allowed Texas RE to further improve the efficiency of all standards-related tasks.

Texas RE standards development staff also participated in the four 2007 and 2008 Texas RE Standards and Compliance Workshops to communicate and educate stakeholders about standards development.

D. State any proposals of Regional Entity to improve its effectiveness in reliability standards development

Texas RE Reliability Standards staff is leading the RSC in developing a scope of work for the RSC to include more comprehensive review and comment to the existing and proposed NERC standards under development for tracking of possible regional variances that may be necessary with the associated continent-wide efforts. Texas RE Standards staff presented the RSC with the 39 standards development projects in the current NERC

workplan and asked the RSC to rank them in importance. Ten projects emerged as most important to the ERCOT region. The RSC plans to have subject matter experts (SMEs) make one presentation each month on the 10 projects for evaluation as to any potential regional standard that may be necessary. A presentation on NERC Project 2006-03 System Restoration and Blackstart (EOP-005, 006, 007 and 009) was made at the March RSC meeting.

Certain stakeholders submitted comments requesting improvements to the Texas RE website. The new Texas RE website (which is expected to launch by the end of the second Quarter 2009) will have a Standards section that is intended to have improved clarity and navigation.

Texas RE Reliability Standards staff is considering having a regional Standards workshop (a longer and more detailed presentation than the normal standards presentation made during the Compliance workshop), to allow ERCOT region stakeholders to learn about standards in general and the process for developing new regional and national standards. If this workshop is warranted, it would occur in the latter half of 2009. Otherwise, Texas RE Reliability Standards staff will continue to include a standards section in the Compliance Workshop.

Stakeholders also submitted comments indicating that the NERC Fill-in-the-Blank standards have caused confusion. Texas RE supports the concept of revising the standards to remove the Fill-in-the-Blank components. Texas RE will develop (as necessary) any regional standards that are subsequently required.

A regional-wide announcement was sent out in December 2008 to update and solicit more RBB registrations, to ensure wider participation by all segments. This announcement was part of the ballot pool solicitation and formation efforts for SAR-001. This resulted in the 46 RBB members as of February 28, 2009,

Texas RE Reliability Standards staff will increase its participation in NERC Standards Committee meetings to stay current on all NERC Standards under Development for presentation to the ERCOT stakeholders. Texas RE has already begun participating in the NERC Communication and Planning Subcommittee, the first meeting of which was held on March 16, 2009.

II. Organization Registration and Compliance Monitoring and Enforcement Program

- A. Describe Regional Entity's activities and accomplishments in OC/CMEP since January 1, 2007. Include discussion of improvements to activities and operations since January 1, 2007. This description should emphasize quantitative information, e.g.: Staffing; numbers of registered entities registered; numbers of workshops, seminars, training and education sessions, etc. conducted; numbers of compliance audits conducted and reports processed; numbers of other compliance processes conducted and processed, e.g., spot-checks, self-certifications, etc.; numbers of notices of violation issued and processed; numbers of mitigation plans processed.**

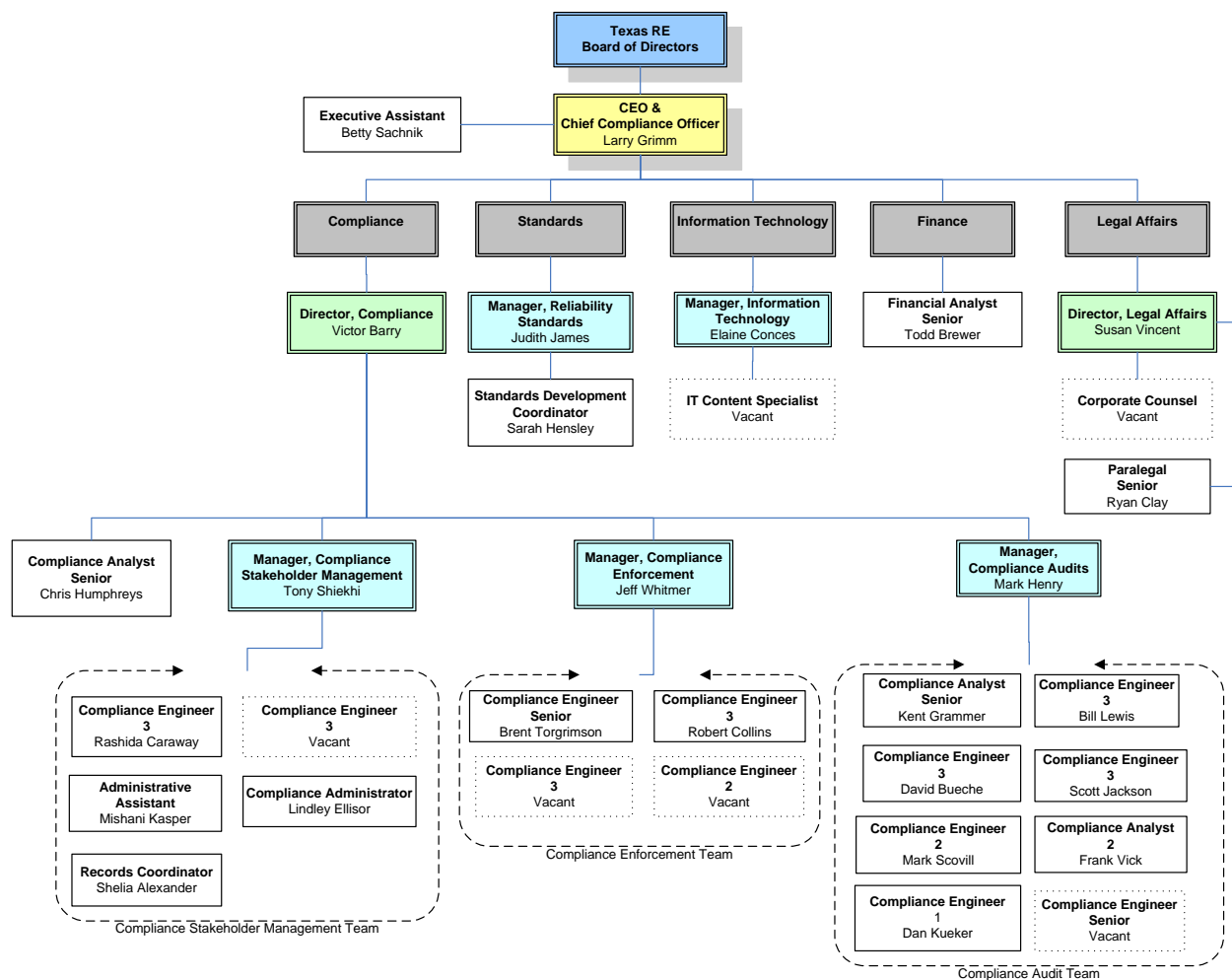
Texas RE staffing has increased steadily since January 1, 2007, when Texas RE had only nine (9) compliance employees. At the beginning of 2008, Texas RE had 11 compliance employees, but by December 2008, Texas RE grew to 17 full time employees and one part time intern for the Organization Registration and Compliance Monitoring and

Enforcement Program area (out of 25 total full time staff for all of Texas RE). At year-end of 2008 Texas RE reached 100% of planned staffing levels, but it did operate for most of 2008 with several vacancies due to the difficulty of locating and recruiting experienced candidates and turnover.

For 2009, Texas RE's board approved 5 new positions to reach 22 full time positions for the Organization Registration and Compliance Monitoring and Enforcement Program area (one of which was filled by February 28, 2009). The Compliance area has one Director and the divisions have the following employee positions:

- Compliance Auditing: 9 positions (one open)
- Compliance Enforcement: 5 positions (two open)
- Compliance Stakeholder Management (including Registration and Certification): 6 positions (one open)
- Critical Infrastructure Protection: 1 position

Texas RE Organizational Chart



Organization Registration and Certification

Texas RE has 212 registered entities, registered for 326 Functions, as of February 28, 2009. Registration activity continues to evolve with modifications to entities' registrations related to changes in their businesses, joint registration organization (JRO) agreements, and changes to the registration criteria (e.g. LSE). Texas RE experienced two major registration disputes, one of which was appealed to and is still pending with FERC. The time expended on each registration appeal has been significant, but the hope is that registration disputes should reduce over time, as long as the NERC functions and registration criteria do not change.

Registration activities have continued to require much more time than anticipated by Texas RE. Texas RE acknowledges the stakeholder comments received regarding the timeliness of the Texas RE registration process. Texas RE will attempt to add additional administration resources to supplement its registration staff, since the additional workload from new and modified (due to mergers, acquisitions, and turnover in registered entity personnel) registrations is not expected to reduce.

Due to the market design of the ERCOT region, no entities have been registered for the LSE function while Texas RE works with the stakeholders to develop a solution that eliminates all gaps and minimizes overlap. Texas RE has facilitated the NERC Load Serving Entity Working Group (LSEWG) for the past five months, to obtain stakeholder feedback and try to achieve a region-wide JRO agreement for the LSE function in the ERCOT region. Although this effort has required a large time commitment from a variety of Texas RE staff, this process has enabled significant communications regarding registrations in areas where the ERCOT deregulated market model appears to conflict with the NERC Registration Criteria. Texas RE anticipates that it will have an increase in registered entities once LSEs are identified and registered, but it hopes to have reduced the potential registration disputes through the LSEWG communications.

Compliance Monitoring and Enforcement

Please see section III.B.1. for a description of the workshops, seminars, training and education sessions.

Since January 1, 2007, Texas RE has conducted and processed the following:

- Audits: 59 (5 pre-June 18, 2007)
- Spot-checks: 23
- Self-certifications: 383
- CIP self-certifications: 292
- Complaints: 3 related to NERC standard violations
- Compliance Violation Investigation (CVI): initiated 1 Texas RE led and 1 NERC-led
- Self Reports processed: 91 (79 pre-June 18, 2007)

Texas RE is in the process of negotiating or completing settlement agreements with six (6) entities for 18 violations. Settlements with two entities for four (4) violations have been conditionally approved by NERC BOTCC.

Summary of the number of violations assessed and processed between January 1, 2007 and February 28, 2009:

Violation Timeframe	Number of Possible Violations Reviewed	Preliminary Notice of Alleged Violations	Notices of Alleged Violation Filed w/ NERC (#Violations)	Notices of Confirmed Violation Filed w/ FERC (#Violations)	Number of Violations Complete
2007 Pre-June 18	206	N/A	206	N/A	206
2007 Post-June 18	28	28	28	21	21
2008	44	38	3	0	0
2009	4	0	0	0	0

Summary of the number of mitigation plans processed to February 28, 2009:

Mitigation Plan Progress (for the below Violation Date Periods)	Number of Violations with Mitigation Plans Submitted	Number of Violations with Accepted and Approved by NERC Mitigation Plans	Number of Violations with Mitigation Plans Certified as Complete by Entity	Number of Violations with Mitigation Plans Verified as Complete by Texas RE
2007 Pre-June 18	206	206	205	100
2007 Post-June 18	28	28	23	22
2008	35	6	23	21
2009	0	0	0	0

B. Describe how the Regional Entity has the ability to enforce reliability standards and to provide for an adequate level of bulk power system reliability in its region.

Texas RE is following the requirements as defined by the CMEP, Rules of Procedure (ROP), and the delegation agreement between Texas RE and NERC and has used these documents to create the framework for auditing, investigating and enforcement of reliability standards.

AUDITING: Texas RE has created and implemented an audit program designed around the required 3 and 6 year audit cycles and remains 100% on schedule with this plan. Texas RE also uses the complete list of NERC-approved Actively Monitored Standards and Requirements as a minimum audit scope. Texas RE has also required all Compliance employees, not just the auditors, to complete the NERC required training

classes for auditors so that all employees have a general understanding of the significance of the auditing process.

ENFORCEMENT: In addition to the Auditing program, Texas RE has implemented a separate Enforcement program with dedicated staff. The Enforcement group processes alleged violations originating from audits, spot-checks, self-certifications, complaints, self reports, and CVIs. This includes managing settlement negotiations and hearings associated with contested violations. The Texas RE Enforcement Program is also responsible for investigating potential reliability standards violations arising from BPS disturbances, outages, self reports and complaints.

CONSISTENCY & COORDINATION: Texas RE also fully participates in multi-region forums to share information related to best practices as they relate to the successful implementation of compliance auditing and enforcement. These include the Regional Entity Compliance Implementation Group (RCIG) (and associated working groups), and the Organization Registration and Certification Subcommittee (ORCS). Texas RE currently chairs the RCIG, whose main purpose is to foster cooperation and coordination, and improve consistency between the regions. The RCIG directs the activity of its working groups. Texas RE also participates in the Regional Entities Management Group whose members are the chief executives of each region and oversee all program areas, including compliance and standards development.

Texas RE also directly participates in many ERCOT committees, such as ERCOT's Technical Advisory Committee (TAC), Reliability & Operating Subcommittee (ROS) and the Wind Operating Task Force (WOTF), among others, to understand and track the reliability issues and challenges for the region and to provide comments from the Texas RE perspective when there are potentially significant reliability issues and challenges that are not being adequately considered and addressed. This proactive approach to monitoring and supporting reliability in the region has expanded in 2008 as staffing increased. Texas RE's direct involvement, most recently with wind generation issues, has greatly increased the visibility of reliability issues and expedited the implementation of regional rules (ERCOT Protocols) to strengthen reliability.

C. Describe how the Regional Entity has fair and impartial procedures for enforcing reliability standards

Texas RE has adopted and implemented the NERC Uniform Compliance Monitoring and Enforcement Program (CMEP) in accordance with its Delegation Agreement with NERC. Texas RE is committed to the following five (5) guiding principles:

1. Independence
2. Ethics & Integrity
3. Inclusiveness
4. Fairness & Openness
5. Organizational Effectiveness & Efficiency

Texas RE strives to be fair, unbiased and balanced in its actions and approach to enforcing reliability standards and acts to remain above suspicion with regard to independence and ethical issues. Texas RE internal procedures incorporate these concepts. To provide a second level of checks and balances, Texas RE requires that all violations be reviewed and verified by a group other than the group that initially identified the alleged violation. It was partially for this reason that the Enforcement group was

separated from the Audit group. In addition, all potential violations and penalties are reviewed by Texas RE Legal, the Director of Compliance and the CEO prior to issuance.

In addition, NERC provides regular oversight of the Texas RE audits and its related processes and procedures. This oversight provides yet another level of review of Texas RE's work for fairness, impartiality, and consistency. Texas RE also regularly engages in discussions with NERC staff about significant violations, prior to its issuance of penalties. This provides another level of oversight with respect to impartiality and fairness as well as striving to remain consistent with other regions.

All Texas RE employees and consultants must identify all potential relationships to or conflicts with market participants or registered entities and sign an Ethics Agreement verifying their compliance with Texas RE's Code of Conduct. Texas RE follows the CMEP requirements to provide biographies of all potential auditors prior to an audit to allow the entity to be audited to review these biographies and object to any potential or perceived conflicts that could impair fairness or impartiality. Texas RE also internally bars any employee from working on any compliance work related to an entity for which they have had a relationship for at least a 6 month separation period. Texas RE's Code of Conduct requires that there be no financial relationship with a registered entity and bars involvement on any compliance work for an entity where there is a personal or family relationship.

Texas RE has implemented a Compliance Hotline to allow anyone to report compliance or ethics complaints related to Texas RE, its employees or consultants, or a registered entity. The Hotline process is designed to direct any complaints to Texas RE Legal or the board of directors as appropriate, based on the complaint. To date Texas RE has received no complaints from the Compliance Hotline and has received no complaints of any kind regarding any failure of fairness or impartiality. Because Texas RE also performs non-statutory compliance functions for the Public Utility Commission of Texas (PUC), the PUC also maintains oversight to ensure that Texas RE's non-statutory compliance is performed in a fair and impartial manner.

At the end of every audit, Texas RE provides the NERC Questionnaire to allow the audited entity to directly report to NERC any concerns with fairness, objectivity or balance, in addition to other quality measures, with respect to how Texas RE carries out its auditing function.

D. State Regional Entity's assessment of its own effectiveness in OC/CMEP since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed

Texas RE's effectiveness has continuously improved over time through the enhancement of our internal processes, refinement of our organizational structure, the growing maturity of the understanding of the NERC processes, and the addition of talented staff. Added to this is our concerted effort to improve our communications with the other regions, NERC, FERC, and the registered entities which has resulted in greater efficiency and fewer misunderstandings.

As evidence of Texas RE's continuous improvement, all 2007 and 2008 audits, investigations, violations and mitigation plans are either closed or are on schedule with regularly monitored plans to meet milestones. Due to the complexity of some settlement negotiations, some preliminary violations have remained open for longer than originally

anticipated. Implementing all procedures necessary to reach final NERC approval on violations and settlements has taken longer than anticipated in many instances. The work load increased throughout 2008. Texas RE has been able to improve its process efficiency with the growing maturity of the Texas RE and NERC organizations, but most Texas RE staff still must work long hours to maintain the required schedule. The work load is expected to increase again in 2009, due to new registrations, CIP standards moving toward enforceability and the audit of Texas RE by FERC; so, Texas RE will seek to hire all additional personnel as early in the year as possible.

In 2008, Texas RE and five (5) other regional entities formed a Consortium User Group to collaborate on and share resources for the development, modification and maintenance of portal software. As part of the Consortium User Group, Texas RE is actively participating in collaborative projects to improve the portal and to add new useful features, such as alleged violation tracking. Texas RE is also participating in a Consortium User Group project to allow its portal to communicate directly with NERC's portal when the NERC portal comes on-line. Texas RE anticipates that improvements and additions to the portal will address the stakeholder comments requesting more electronic tools to improve efficiency.

E. State any proposals of Regional Entity to improve its effectiveness in OC/CMEP.

Texas RE acknowledges stakeholder comments about the application of the NERC Registration Criteria in the ERCOT region, given the statutory, market, and system design differences. Texas RE believes that the use of the stakeholder LSEWG to help craft a solution for LSE registration in the ERCOT region to address all standard requirements without any reliability gaps has been useful. This cooperative effort between Texas RE, registered entities, and NERC has proven to be an efficient method to identify needed variances to NERC standards, regional standards, and JRO agreements that can effectively address reliability needs. Texas RE will continue to communicate with and answer questions of stakeholders regarding registrations, at its Compliance Workshops, in newsletters, and as needed, with specific groups of stakeholders.

Texas RE believes that the best means to improve effectiveness of the CMEP is for NERC and the regional entities to continue to consistently communicate and coordinate regarding new issues as they are identified or to address any confusion that may arise due to changes in standards, processes or interpretations. Even though the reliability standards have been enforceable for 20 months, they are still relatively new for both registered entities and the auditors. Implementation of the NERC Compliance Portal and its integration with the Texas RE portal, which is in-process, should also help to continuously improve Texas RE's efficiency and effectiveness. Texas RE anticipates that these portal improvements will address the stakeholder requests for electronic tools to improve efficiency.

III. Other Program Areas

A. Reliability Readiness Evaluation and Improvement Program

- 1. Describe Regional Entity's activities and accomplishments in Reliability Readiness Evaluation and Improvement since January 1, 2007, including discussion of improvements in this area.**

One Reliability Readiness Evaluation (of ERCOT ISO) was conducted in the ERCOT region. ERCOT ISO is the only RC/TOP/BA in the region.

- 2. State Regional Entity's assessment of its own effectiveness in Reliability Readiness Evaluation and Improvement since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed.**

Texas RE's effectiveness with respect to Reliability Readiness Evaluations has not changed since 2007. Texas RE's Reliability Readiness Program has operated effectively, but only one Registered Entity has been subject to these evaluations. NERC is now phasing out this Program.

- 3. [Discussion of proposed improvements not needed, since this program is being phased on in the first quarter of 2009.]**

N/A.

B. Training, Education and Operator Certification

- 1. Describe Regional Entity's activities and accomplishments in Training, Education and Operator Certification since January 1, 2007, including discussion of improvements in this area.**

Number of workshops, seminars, training, and education sessions conducted since January 1, 2007:

- Standards and Compliance workshops - 4
- CIP workshops – 2
- Operations Training Seminar Sessions – 14

In addition to compliance workshops, Texas RE staff also facilitates the ERCOT Operator Certification Program. This includes maintaining and updating the ERCOT Fundamentals Training Manual and administering the System Operator testing process.

Texas RE has implemented a website (www.texasre.org) that provides direct public access to information about Texas RE. The site includes audit schedules, documents, newsletters, announcements, and important links to other sites, such as NERC's.

Texas RE has also established a bi-monthly newsletter that is published on our website and is sent via email to registered entities and all others who have subscribed to the Texas RE's email list.

In addition, Texas RE has also participated in numerous industry sponsored seminars and panels (e.g. National Rural Electric Cooperative Association, Gulf Coast Power Association, and Wind Coalition) to provide as much information to the industry as possible as well as to receive feedback.

Texas RE's training program continues to improve and consistently receives favorable reviews from participants. With few exceptions our workshops and seminars are fully

subscribed. We have added the ability to support remote attendance using call-in numbers and WebEx presentations this year.

- 2. State Regional Entity's assessment of its own effectiveness in Training, Education and Operator Certification since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed.**

Over time Texas RE has added additional topics to its training program, such as the recent CIP Workshops, and has provided greater depth to our traditional Reliability Standards workshops through the greater use of panel sessions and lessons learned segments.

Texas RE's operations training seminars continue to run at full capacity with some attendance from industry participants from outside our region, due to the quality of the seminars.

Texas RE strives to support and speak at seminars in the ERCOT region held by other organizations, in order to provide the most information to the widest possible group of people.

- 3. State any proposals of Regional Entity to improve its effectiveness in Training, Education and Operator Certification.**

Texas RE will continue to request, review, and incorporate helpful feedback from stakeholders regarding Texas RE's training, education, and operator certification programs. Texas RE will also modify these programs as needed to incorporate any changes to NERC standards or procedures.

C. Reliability Assessment and Performance Analysis Program

- 1. Describe Regional Entity's activities and accomplishments in Reliability Assessment and Performance Analysis since January 1, 2007, including discussion of improvements in this area.**

Texas RE has established a role in cooperation with the technical subject matter experts at ERCOT ISO and registered entities on the preparation of seasonal and annual long term planning assessments. Texas RE reviews the reports for completeness prior to forwarding to NERC. Similarly, Texas RE staff works with the region's Reliability Coordinator (ERCOT ISO) to monitor system events for possible violations and reliability risks. Texas RE often requests data and analysis from the ERCOT ISO to assist in the determination of the root cause of events, and any new trends or potential risk to the BES. In addition, Texas RE also monitors reliability studies and reports from ERCOT stakeholder organizations, such as the Reliability and Operations Subcommittee (ROS) for potential risks or analysis of events.

Texas RE attends ERCOT committees, such as ERCOT's Technical Advisory Committee (TAC), Reliability & Operating Subcommittee (ROS) and the Wind Operations Task Force (WOTF) to better understand the reliability issues and challenges for the ERCOT region and to provide comments from the Texas RE perspective when it believes there are significant reliability issues and challenges that are not being adequately considered or addressed. This proactive approach to

monitoring and supporting enhancements to Protocols and Operating Guides that enhance reliability or support NERC goals in the ERCOT region has expanded in 2008 as staffing increased. Texas RE's direct involvement, for example with wind generation issues, has greatly increased the visibility of new reliability issues and expedited the implementation of regional rules to strengthen reliability.

Texas RE also regularly communicates with NERC staff regarding reliability challenges of special interest in the ERCOT region (e.g. wind generation) to keep NERC apprised of risks, improvements, and on-going strategy.

On a monthly basis, Texas RE also calculates and reports on a variety of reliability performance metrics (e.g. Regional (ERCOT Protocol) measures and NERC Reliability Standards measures) to its Board of Directors. Texas RE also uses this information, when appropriate, to identify potential standards violations or declining reliability trends that need to be investigated.

2. State Regional Entity's assessment of its own effectiveness in Reliability Assessment and Performance Analysis since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed.

Texas RE has significantly improved in its effectiveness in this area. In 2008, as staff was added, Texas RE became much more proactive in assessing and addressing reliability performance issues. As with most new programs, a great deal of effort has gone into defining how to best work with the ERCOT ISO and other stakeholders to build this program and to increase Texas RE's ability to effect change before reliability is adversely impacted or violations occur. A key goal is to facilitate proactive consideration of matters important to reliability that may not yet be part of the mandatory requirements in NERC's developing reliability standards.

3. State any proposals of Regional Entity to improve its effectiveness in Reliability Assessment and Performance Analysis.

Texas RE plans to use a continual process improvement plan for Reliability Assessment and Performance Analysis. This will be driven by the maturation of existing relationships within the region and the further strengthening of staff in 2009.

D. Situational Awareness and Infrastructure Security Program

Note: Although Situational Awareness and Infrastructure Security is one of the program areas designated for a lesser amount of discussion in this template, Regional Entities that are actively performing the Reliability Coordinator function as a statutory function should provide more extensive discussion of that activity.

1. Describe Regional Entity's activities and accomplishments in Situational Awareness and Infrastructure Security since January 1, 2007, including discussion of improvements in this area.

Situational Awareness takes several forms for Texas RE and can most accurately be differentiated by the time frame related to awareness. To support awareness for real time events and emergencies Texas RE has staff assigned to track and monitor ERCOT ISO status, briefings and email updates and also participates in

teleconferences for emergency situations, such as the hurricane that struck the Houston/Galveston area in 2008. To support long term Situational Awareness, Texas RE also monitors changes to the ERCOT BPS and how the ERCOT region is addressing these changes. A primary example of this type of Situational Awareness would be Texas RE's activities with respect to the growth of wind power in the region and how it will affect the reliability of the BPS.

Texas RE also worked with ERCOT ISO to provide real-time data to the FERC Situational Awareness center in Washington D.C., and began constructing its own Situational Awareness room in March of 2009 to enable system monitoring and awareness.

- 2. State Regional Entity's assessment of its own effectiveness in Situational Awareness and Infrastructure Security since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed.**

Texas RE has continued to improve its efforts related to Situational Awareness. A key enabler was the addition of staff and the maturation of our core audit, enforcement and registration programs that allowed us to add more focus on Situational Awareness. Texas RE was also able to add a full-time critical infrastructure protection (CIP) specialist employee in 2008. The CIP specialist has been instrumental in participating in national CIP program development and the creation of a CIP program for Texas RE.

- 3. State any proposals of Regional Entity to improve its effectiveness in Situational Awareness and Infrastructure Security.**

Texas RE has begun building an improved Situational Awareness system in our new facility. This will enable Texas RE to better display and more efficiently analyze the real-time feeds of data from the ERCOT ISO and to provide better insight into the current state of the ERCOT BPS.

E. Budgeting

- 1. Describe Regional Entity's activities and accomplishments in the development and submission of its annual business plan and budget, beginning with the 2007 business plan and budget.**

Texas RE successfully obtained NERC and FERC approval of both its 2007 and 2008 business plans and budgets and conditional approval of its 2009 business plan and budget. Similarly to the other regional entities and NERC, Texas RE has been able to improve its budgeting estimates and processes since its submission of its 2007 business plan and budget, primarily because the expectations of regional entities have become clearer over the past two years and Texas RE has gained experience in performing regional entity duties.

Texas RE followed NERC guidance and used NERC templates when it prepared its 2007 business plan and budget. At the time all 2007 regional entity budgets were developed, however, NERC and FERC expectations about regional entity performance were just beginning to evolve. No regional entity had experience in performing duties as a regional entity and Texas RE had no dedicated finance

employees. Texas RE's 2007 business plan and budget was in accordance with NERC guidance, but it projected significantly higher than the actual expenditures. The primary reason for this positive variance was because this budget anticipated a full year of operations, but (a) Texas RE's Delegation Agreement was not conditionally approved by FERC until April 2007; and (b) per FERC order, the implementation of mandatory standards did not begin until June 2007. Because of this, Texas RE delayed increasing its staffing until mid-2007 and the implementation of its capital (hardware and software) projects until 2008. In addition, Texas RE had a more difficult time than anticipated in locating and hiring qualified staff, so it experienced unintended vacancies through mid-2008.

Since 2007, Texas RE gained experience as it performed its registered entity duties, in accordance with its Delegation Agreement, the NERC Rules of Procedure, NERC guidance, and FERC orders. All Texas RE employees track their time, using electronic timesheets incorporating the functional categories in the NERC Chart of Accounts and separating time spent on non-statutory duties. Each employee must submit a timesheet twice monthly, in accordance with the payroll cycle.

In 2008, Texas RE implemented budgeting and accounting guidelines, along with its other corporate and governance policies and procedures. In mid-2008, Texas RE improved its time tracking consistency by developing and providing additional training to its employees on time and expense guidelines. These guidelines were shared with NERC and the other regional entities.

As Texas RE's experience as a regional entity has grown, the time tracking system has captured the amount of time Texas RE employees spend working in each functional area. This allows Texas RE to more accurately budget for future periods. Texas RE acknowledges that the expectations and requirements of Texas RE and the other regional entities will likely continue to evolve over the next few years, but Texas RE's budget procedures and time tracking system should continue to help Texas RE to produce quality budget projections, to the extent any modifications to its duties are known.

Texas RE followed all NERC guidance and templates in preparing its 2008 business plan and budget. Because Texas RE was required to prepare and obtain board approval for the business plan and budget in mid-2007 and the reliability standards became mandatory in June 2007, Texas RE still had only a partial year of experience at the time of the 2008 budget preparation. The 2008 budget development process was improved because (a) Texas RE, NERC, and the other regional entities had the benefit of FERC orders on the 2007 budgets; (b) Texas RE hired a financial analyst; and (c) NERC, Texas RE, and the other regional entities met to discuss and gain general consensus on the budget requirements, given the short history of the regional entity organizations.

Texas RE makes it a priority to diligently and effectively communicate with NERC regarding all required financial reports. Texas RE will continue to keep this as a priority and will continue to provide all required financial reports on or before the date due.

In 2008, Texas RE established a separate cash investment account for the segregation of any fines and penalties, to ensure such monies are not commingled

with operating funds. In coordination with NERC and the other regional entities, Texas RE established a process for the accounting of fines and penalties.

Texas RE's 2009 business plan and budget is improved over its previous budgets, because Texas RE has gained significant performance experience and has the benefit of understanding the time required for all of its regional entity duties. Further, NERC and the regional entities spent even more time meeting and discussing the NERC templates and the procedures to be followed by the regional entities in their budgeting process, which improved the consistency of the business plans and budgets.

Texas RE followed all NERC guidance and templates in preparing its 2009 business plan and budget and was required to obtain Texas RE board approval before the final submission to NERC. In addition to process improvements made by NERC for the 2009 business plan and budget process, Texas RE leveraged improvements made to its time-tracking and financial operations implemented in 2008 to further improve the process for 2009. Texas RE has and will continue to make improvements to its financial function and it is confident that these changes will enhance future period budget requests.

2. State Regional Entity's assessment of its own effectiveness in developing its business plans and budgets and in the submission of its business plans and budgets in a consistent manner with NERC and the other Regional Entities.

Texas RE's effectiveness in developing and submitting business plans and budgets in a consistent manner with NERC and the other regional entities has steadily improved with each filing. For all of its submitted business plans and budgets, Texas RE has followed NERC guidance and templates, attended all scheduled budgeting meetings with NERC and the other regional entities, and had numerous discussions with NERC and the other regional entities regarding the preparation of the business plans and budgets. As the NERC and regional entity experience has grown, NERC improved its processes and templates and hosted more discussions with the regional entities to try to improve the consistency of the business plans and budgets. Overall, Texas RE's business plan and budget was very consistent with NERC guidance and the other regional entities.

Texas RE will continue to work with the other regional entities to strive for even greater consistency in budgeting and in the creation of uniform metrics. The improvement in the consistency of the nine start-up entity business plans and budgets, as expectations and duties for these entities have continued to evolve over the past two years, seems quite good. Due to the varying structures of the regional entities, there could still be differences in how each organization prepares its respective operating budgets, but, particularly in light of the October 16, 2008 FERC Order on the 2009 business plans and budgets, the regional entities will continue to discuss and harmonize any remaining differences with NERC and each other.

3. State any proposals of the Regional Entity to improve its effectiveness in submitting effective, adequate and consistent business plans and budgets.

- Texas RE suggested that NERC and the regional entities use generally accepted accounting principles to increase the level of consistency in the business plans and budgets. This requires NERC and each regional entity to prepare an

operating budget and a separate capital expenditures budget. This will occur for each region's 2010 Business Plan & Budget.

- Texas RE believes that NERC and the regional entities need to standardize language and expectations regarding the acceptable components of indirect costs so that the regions can consistently budget certain expenses as either indirect (overhead) or direct (functional). With two full years of experience, and in accordance with FERC guidance, NERC and the regional entities should be able to implement a uniform expense allocation that will enhance consistency among the regional entities and NERC.
- Texas RE suggests NERC consider implementing a uniform budgeting tool, in place of the NERC-supplied Excel spreadsheet templates, to capture and project expected budgetary needs for each region. Due to the complexity of budgeting to the function level for so many entities, it would be useful if a common tool could be used by NERC and all regional entities. This could help improve efficiency and consistency by allowing each organization to prepare its budgets in a more automated fashion.
- Texas RE believes that the adoption of uniform metrics would enable the identification of trends that would be useful for projecting future resource needs. NERC and the regional entities have already started making efforts toward this goal.
- Texas RE plans to further enhance its time-tracking system, to add additional departmental codes, which will add additional detail to the financial data that will further enhance management and financial reporting capabilities. This enhancement will be in compliance with the NERC Chart of Accounts, and is expected to be useful in aiding management decision making.
- Additionally, given the experience of all the regional entities, and with the hope that its processes and templates will need fewer changes during 2009, Texas RE hopes to have time to work with other regional entities to identify and determine trended and comparative financial results for the 2009 operating year which will enhance the consistency of the regional entities' future business plans & budgets.

**Texas Regional Entity
Board of Directors
Future Agenda Items - June 2009**

Item		Meeting
1.	Review Texas RE Succession Plan	August 2009
2.	Review 2010 Goals	November 2009
3.	Select Financial Auditor for 2009 Financials	November 2009
4.	Consider Board Training Needs	November 2009
5.	Consider Revisions to Bylaws	November 2009
6.	Select an Independent Auditor for the TRE Annual Financial Audit	November 2009
7.	Distribute Board Self-Survey	November 2009