

## **Separation of the Texas Regional Entity**

**The Board of Directors requested ERCOT review which services ERCOT could not provide to the Texas Regional Entity (“TRE”) post separation. There were very few services which could not be provided and they are:**

- TRE employees could not continue to actively participate in the ERCOT 401(k) or other employee benefit plans once they are no longer active employees of ERCOT.
- ERCOT is not currently authorized to provide services for a fee to an outside Company; however, the PUCT might agree to authorize such services for a fee – at least for a transition period.

**It would be preferable by both the TRE and ERCOT to have an effective date of separation be January 1, 2010. To assist in a smooth transition, it is recommended that the Board of the TRE make a decision on separation no later than the July or August Board of Directors meeting to allow adequate time to establish the new company structure and minimize disruption.**

**The TRE would take the following action after the Board’s decision for separation:**

- Establish the structure of the TRE as a 501(c) 3 or 4;
- Develop the bylaws for the new legally separate TRE;
- Determine the new TRE Board of Directors, board and stakeholder committees;
- Finalize the TRE policies and procedures;
- Work with the PUC on:
  - Approval of the separation
  - Approval of any needed transitional administrative services
  - Retention of the current hearing process after separation
  - PUC determination of handling of the non-statutory activities currently provided by TRE
- Establish a membership group for the new TRE;
- Retain executive search firm and find potential new directors;
- Obtain transfer of the Terrace lease (ERCOT Legal will need to participate for ERCOT);
- Obtain NERC approval of Delegation Agreement and proposed modified 2010 Business Plan & Budget;
- File Delegation Agreement and 2010 Business Plan & Budget and obtain FERC approval.

**ERCOT could provide the following services to allow for a smooth separation of the Texas Regional Entity and minimize the impact on the TRE staff:**

- **ERCOT Human Resources could provide the following transition support:**
  - Medical, dental, life and disability programs:
    - Arrange for the ERCOT medical plan to provide claims information and demographic data for the TRE employees and information to assist TRE in establishing comparable benefit programs to be maintained by TRE post separation;
    - Assist TRE in finding comparable medical, dental, vision, life, disability and supplemental plans for the TRE employees and provide options to the TRE management for final approval;
    - For any TRE employees who are disabled at the time of transition, provide benefits in the ERCOT disability program until the employee is no longer disabled or no longer qualified for the benefit;
    - Provide a special open enrollment for all TRE employees for the new benefit plans effective January 1, 2010.
  - 401(k) and retirement programs
    - Assist TRE in establishing a 401(K) plan that is consistent with the ERCOT 401(k) plan, upon the effective date of the new TRE (possibly with the ERCOT current provider – Fidelity), using as many similar funds as

- possible, understanding that the TRE plan may not be eligible for all specific investment funds provided to ERCOT;
  - Arrange for a trust-to-trust transfer of 401(k) funds for all TRE employees on or around the effective date of the new TRE;
  - Assist TRE, if needed, with obtaining contracted services with AON or similar investment services for ongoing review of the funds for the new TRE plan;
  - Recruiting and staffing needs:
    - Assist TRE with information needed for it to transition its recruitment needs by January 1, 2010;
    - Assist, as needed, in the hiring of the HR and Finance person in the third quarter of 2009 to assist with the transition and support the TRE's on-going requirements.
- **ERCOT Finance/Treasury/Internal Controls Group could provide the following support during the transition process:**
  - Process all 2009 payroll, sales, and other tax forms and all tax returns;
  - Assist with and support the 2009 financial audit for TRE;
  - Assist the TRE staff with the selection of any new financial software packages and the transition of data;
  - Assist, as needed, TRE with the procurement of payroll and financial services and provide employee and financial information necessary to get the employees properly set up for the new payroll system effective on the effective date of the new TRE;
  - Assist in the transition of bank accounts to the new TRE and the establishment of any needed additional bank accounts;
  - Obtain information for TRE to obtain quotes, (from the ERCOT provider and possible competitors), for all risk management coverage such as worker's compensation, D&O coverage, liability coverage, etc.;
  - Provide electronic copies of all the ERCOT Policies, Standards, Operating Procedures to facilitate creation of any needed additional TRE corporate policies and procedures and updating of its employee manual.
- **ERCOT Facilities could provide the following support for the transition:**
  - Provide information on all ERCOT furniture and equipment (including any maintenance agreements) currently used by TRE.
- **ERCOT Internal Audit could provide the following transition services:**
  - Assist in the selection and negotiation for external audit firms.
- **ERCOT IT could provide the following assistance with the transition of services:**
  - Provide assistance in negotiating outsourcing agreement with third-party vendor;
  - Assist TRE with transition of all data and systems to TRE or new TRE third party vendor;
  - Provide helpdesk support during the transition to all new systems;
  - Provide on-going helpdesk support during at least the first two quarters of 2010 (via new contract for services if approved by the PUC);
  - Identify all software licenses currently used by TRE staff and help TRE obtain needed software licenses by either transferred or new licenses;
  - Provide ERCOT on-going support for required access to any TRE data until all is transferred to TRE networks.

The appropriate fees for the transition services provided outside of the Memorandum of Understanding will be negotiated by ERCOT and TRE and approved by the Boards of both ERCOT and the TRE.