

Date: January 8, 2010
To: Texas Reliability Entity, Inc. Board of Directors (Board)
From: Larry Grimm, Texas Reliability Entity, Inc., President & CEO
Subject: Approval of Amended 2010 Business Plan and Budget

Texas Reliability Entity Board of Directors Meeting Date: January 18, 2010

Agenda Item No.: 6

Issue:

Approval of the Texas Reliability Entity, Inc. Amended 2010 Business Plan and Budget which is attached hereto as Exhibit A and is incorporated herein for all purposes (Proposed Budget), with no material changes.

Background/History:

Texas Reliability Entity, Inc. (Texas RE) was formed on January 1, 2010 to become the successor regional entity to Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc. (Original Texas RE). Texas RE must have the Proposed Budget approved by North American Electric Reliability Corporation (NERC) and the Federal Energy Regulatory Commission (FERC) before Texas RE can perform activities as a regional entity.

The Federal Energy Regulatory Commission (FERC) approved Original Texas RE's 2010 Business Plan and Budget (Approved Budget) on October 15, 2009. Texas RE will have administrative expenses that are higher than those of Original Texas RE, because Original Texas RE received certain administrative services from Electric Reliability Council of Texas Inc. (ERCOT – its affiliate) at a lower cost than Texas RE will pay to independent third party vendors for the same services. In addition, Texas RE will have significant start-up costs to begin operations as an independent regional entity. The Proposed Budget includes all revenues and expenses anticipated by Texas RE for 2010, with the assumption that FERC will approve Texas RE as the successor regional entity to Original Texas RE in approximately May 2010, and Texas RE will have approximately 60 days to implement activities as a regional entity. Original Texas RE will continue to perform the delegated activities under the Approved Budget until this implementation.

FERC and NERC require that a regional entity's annual budget be sufficient to enable the regional entity 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. At the December 14, 2009, meeting of the board of Original Texas RE, the Original Texas RE board voted to recommend that the Board of Texas RE approve an amended 2010 business plan and budget, with no material changes, which is substantially similar to the *2010 Amended Business Plan and Budget* which is attached hereto as Exhibit A. Since December 14, 2009, Texas RE staff has negotiated with and received comments from NERC regarding the Proposed Budget, which require certain minor changes to the Proposed Budget be made before formal submission to NERC and FERC.

Key Factors Influencing Issue:

The requirement that the Texas RE Board approve a 2010 Business Plan and Budget for Texas RE, prior to submission to NERC and Texas RE, which includes adequate and sufficient 2010 funds to:

- Properly complete all activities required by the Delegation Agreement with NERC
- Properly complete all non-statutory (Protocol and Operating Guide compliance) responsibilities
- Have reasonable reserve funding for unforeseen and extraordinary expenses and other contingencies
- Transition Statutory and Non-Statutory activities from Original Texas RE to Texas RE

The NERC Board of Trustees meeting to consider approval of the Bylaws, Delegation Agreement, and Business Plan and Budget is scheduled for February 16, 2010.

Alternatives:

- Approve the proposed Amended 2010 Business Plan and Budget
 - Suggest modifications to the proposed Amended 2010 Business Plan and Budget
-

Conclusion/Recommendation:

Approve the Amended 2010 Business Plan and Budget attached hereto as Exhibit A, with no material changes.

**RESOLUTION OF THE BOARD OF DIRECTORS OF
TEXAS RELIABILITY ENTITY, INC.**

, 2010

WHEREAS, the Board of Directors ("Board") of Texas Reliability Entity, Inc. a Texas non-profit corporation, has determined it to be desirable and in the best interest of Texas Reliability Entity, Inc. to approve the Amended 2010 Business Plan and Budget, which is attached hereto as Exhibit A and is incorporated herein for all purposes, with no material changes, for submission to North American Electric Reliability Corporation (NERC) and the Federal Energy Regulatory Commission (FERC);

THEREFORE be it RESOLVED, that the Board hereby approves the Amended 2010 Business Plan and Budget, which is attached hereto as Exhibit A, with no material changes.

CORPORATE SECRETARY'S CERTIFICATE

I, _____, Corporate Secretary of Texas Reliability Entity, do hereby certify that, at the January 18, 2010 Texas Reliability Entity Board of Directors Meeting, the Board of Directors of Texas Reliability Entity approved the above referenced resolution. The motion passed by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of _____, 2010.

Corporate Secretary

Amended 2010 Business Plan and Budget

**Texas Reliability Entity, Inc.,
Successor to Texas Regional Entity,
A Division of Electric Reliability Council of Texas, Inc.**

**Approved by:
Texas RE Board of Directors**

Submitted:

January 8, 2010

Table of Contents

Introduction.....	3
Organizational Overview.....	3
Membership and Governance.....	5
Statutory Functional Scope.....	6
2010 Key Assumptions.....	7
2010 Goals and Key Deliverables.....	8
Overview of Cost Impacts – Operating Expenses – of the 2010 Amended Business Plan and Budget.....	9
Overview of Cost Impacts – Texas RE Start-Up Expenses.....	11
Detailed Business Plans and Budgets by Program.....	12
Section A — 2010 Business Plan.....	13
Reliability Standards Program.....	13
Compliance Monitoring and Enforcement and Organization Registration and Certification Program.....	19
Reliability Assessment and Performance Analysis Program.....	36
Situational Awareness and Infrastructure Security Program.....	41
Administrative Services.....	47
Section B — 2010 Budget.....	67
2009 Budget and Projection and 2010 Budget Comparisons.....	67
Regional Entity Assessment Analysis.....	72
Assessments by Country.....	72
Breakdown by Statement of Activity Sections.....	73
Section C — 2009 RE Non-statutory Business Plan and Budget.....	80
Major 2010 Cost Impacts – Proposed 2010 Amended Budget versus Approved 2010 Budget.....	81
2010 Primary Goals and Objectives —.....	81
2010 Approved Budget and 2010 Proposed Amended Budget Comparisons	82
Personnel Analysis.....	83
Section D.....	84

Introduction

Total Texas RE Resources				
(in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	39.50			
Non-statutory FTEs	6.50			
Total FTEs	46.00			
Statutory Expenses	\$9,216,393	\$9,216,393		
Non-statutory Expenses	\$1,149,132	\$1,149,132		
Total Expenses	\$10,365,525	\$10,365,525		
Statutory Funding	\$9,353,340	\$9,353,340		
Non-statutory(Member) Funding	\$1,183,879	\$1,183,879		
Total Funding	\$10,537,219	\$10,537,219		
NEL	310,856,852	310,856,852		
NEL %	100%	100%		

Organizational Overview

Texas Reliability Entity, Inc. (Texas RE) is a new Texas non-profit corporation which was created to become the successor to the Texas Regional Entity division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), which has an approved Regional Delegation Agreement with the North American Reliability Corporation (NERC) for the ERCOT region. The purpose of Texas RE is to become the regional entity for the ERCOT region and 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, the Texas Regional Entity division of ERCOT ISO (Original Texas RE) executed its Delegation Agreement with 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, Original 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 Original Delegation Agreement"), NERC delegated to Original 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). These activities under the Original Delegation Agreement and the proposed new Delegation Agreement for Texas RE are referred to herein as Statutory activities.

Texas RE seeks, concurrently with the submission of this 2010 Amended Business Plan and Budget, to be approved as a regional entity and take over the performance of the Statutory activities under a new or amended Delegation Agreement with NERC (“Delegation Agreement”). Texas RE intends to begin its performance of the delegated activities as a successor to Original Texas RE approximately sixty (60) days after FERC approves the Delegation Agreement and this proposed 2010 Amended Business Plan and Budget. The date upon which Texas RE begins to perform under the Delegation Agreement (and Original Texas RE ceases performance of regional entity delegated functions under the Original Delegation Agreement) is referred to herein as the “Implementation.” In preparing this 2010 Amended Business Plan and Budget, the Implementation is projected to occur on July 1, 2010; however, the amount of start-up and incremental operating costs that Texas RE expects to incur in 2010 would not be significantly affected were the Implementation to be one to two months earlier or later than this date.

Beginning with the Implementation, in addition to performing the Statutory activities, Texas RE will also monitor, investigate, audit, and report on compliance with the ERCOT region reliability-based Protocols and Operating Guides (Protocols) for the PUCT, as a transition of the activities performed by Original Texas RE, through at least December 31, 2010. These Protocol compliance activities are referred to herein as Non-Statutory activities. Texas RE will coordinate with PUCT staff regarding enforcement of potential Protocol violations, and the PUCT will prosecute 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.

Overview of the Texas RE proposed 2010 Amended Business Plan and Budget

Texas RE’s proposed 2010 Amended and Restated Business Plan and Budget (referred to herein as “Amended Budget” or “Proposed Budget”) includes (A) the expenditures required by Original Texas RE under its previously submitted and approved 2010 Business Plan and Budget¹ (referred to herein as “Approved Budget”) until Implementation, which is estimated herein to be July 1, 2010, and (B) the expenditures required by Texas RE in 2010 for its start up costs and for operating expenses it incurs in 2010 as a regional entity, beginning at Implementation. In addition, the 2010 Amended Budget recognizes, through appropriate adjustments to the Working Capital Reserve Analysis, certain major cost impacts that were not recognized in the 2010 Approved Budget submitted by Original Texas RE to NERC in July and August 2009 and by NERC to the Commission in August 2009, but have manifested subsequent to August 2009.

¹ See *Request of the North American Electric Reliability Corporation for Acceptance of its 2010 Business Plan and Budget and the 2010 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets*, filed August 24, 2009 in Docket RR09-9-000; and *Order Conditionally Accepting 2010 Business Plan And Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 129 FERC ¶ 61,040 (October 15, 2009)

In general, the organization of the 2010 Amended Budget follows the organization of the 2010 Approved Budget except where revisions are needed to describe the impacts of the above-described changes. In addition, in several instances in which an assumption is mentioned that is now known to be incorrect (for reasons unrelated to the formation of Texas RE as a separate entity), the fact that the assumption is no longer valid is noted. (A separate, redlined version of the 2010 Amended Budget against the 2010 Approved Budget is also being provided.) Further, in the Statements of Activities and the summary tables for each statutory program, the values for the 2010 Approved Budget, the incremental costs due to the separation of Texas RE, and the resulting 2010 Amended Budget, are shown.

Original Texas RE will continue to perform under the Original Delegation Agreement and its approved 2010 Business Plan and Budget until Implementation, when Texas RE will begin to perform the Statutory and Non-statutory activities under a new Delegation Agreement. Original Texas RE will hire some of the additional employees required by new Texas RE prior to Implementation, to help prepare for the Implementation and for the prior transition of many of the administrative services that were performed for Original Texas RE by ERCOT ISO under the Memorandum of Understanding which was attached to the Original Texas RE 2010 Business Plan & Budget filing (MOU).

Upon Implementation, any remaining Original Texas RE funds, from cash reserves, penalties, and any Statutory revenues which are not spent by Original Texas RE performing Statutory Activities, will be distributed to Texas RE. Texas RE and NERC will, within ninety (90) days after Implementation, prepare and file a reconciliation of the approved 2010 budget of Original Texas RE to the actual expenditures and revenues, from January 1, 2010 to Implementation, to demonstrate that all unspent collections and reserves were appropriately transferred to Texas RE.

Membership and Governance

Texas RE has the following six membership sectors under its Bylaws:

- System Coordination and Planning - An entity that is registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP), or Interchange Authority (IA).
- Transmission and Distribution - An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP), and/or Transmission Operator (TOP), and is not a Cooperative or Municipal Utility.
- Cooperative Utility: An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; or (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the State of Texas; or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for at least one reliability function.
- Municipal Utility: An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities, or provides retail electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- Generation: An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- Load-Serving and Marketing: An entity that is registered with NERC as a Load Serving Entity (LSE), a Purchasing-Selling Entity, or any newly defined NERC reliability function for demand response.

Introduction

Membership in Texas RE is voluntary and open to any entity that is a user, owner, or operator in the ERCOT region BPS, who registers with Texas RE and complies with the Texas RE bylaws requirements. Texas RE 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.

Texas RE is governed by a hybrid board of directors (Board), comprised of the following nine (9) directors:

- The Texas RE Chief Executive Officer
- The Chair of the PUCT, as an ex officio non-voting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio non-voting member
- Four (4) Independent Directors
- Two (2) Member Directors (the Chair and Vice-Chair of the Member Representatives Committee).

The Board's primary role is to assure that Texas RE meets its requirements under the bylaws and Delegation Agreement. The PUCT acts as the Hearing Body for contested matters under the Compliance Monitoring and Enforcement Program (CMEP). As the Hearing Body, the PUCT makes a recommendation to the Board, and the Board makes final compliance and enforcement decisions on contested cases. The Texas RE Board performs this role, rather than a board compliance committee as used by other Regional Entities, because the Texas RE Board is smaller and has only seven voting members.

Texas RE has two membership committees, the Member Representatives Committee and the Reliability Standards Committee. The Member Representatives Committee includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related, or any other matters, except for standards development issues, through its elected Chair and Vice Chair, who serve as directors. The Reliability Standards Committee includes representatives from the six sectors described above, whether or not members of Texas RE and including any entity with a direct and material interest in the ERCOT region BPS, and manages and participates in the Regional Standards Development Process, coordinates the development of regional standards and variances with the development of national standards, and monitors, reviews, and comments on NERC (national) standards under development and standards interpretation requests.

Statutory Functional Scope

In accordance with the Delegation Agreement and in compliance with the NERC Rules of Procedure (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 Amended Budget include the following:

- Original Texas RE will remain functionally separate from ERCOT ISO and will continue to receive at least some administrative services (including human resources and possibly information technology services) from ERCOT ISO through a memorandum of understanding (which was amended as of February 16, 2009 and was attached to the Original Texas RE 2010 Business Plan & Budget filing (MOU)) until the Implementation.
- Texas RE will be legally separate from ERCOT ISO, will not obtain administrative or other services from ERCOT ISO, and as a result will be required to pay more for some of the administrative services and employee benefits than Original Texas RE paid through the MOU, including:
 - Texas RE will hire six (6) additional corporate services employees not required in the Original Texas RE 2010 Business Plan and Budget
 - Texas RE will outsource certain information technology services at cost higher than the amount paid by Original Texas RE to ERCOT ISO under the MOU
 - Texas RE will be required to pay more for employee benefits than the amount paid by Original Texas RE for similar services under the MOU
- Texas RE will use competitive processes, to the extent feasible, to procure the administrative services, goods, and employee benefits formerly provided to Original Texas RE under the MOU.
- Texas RE will be required to expend substantial start up costs for such things as furniture, software, information technology equipment (computers, telephone system, and servers), search firm expenses for independent directors, and contract assignments.
- Texas RE will maintain a 75-day cash reserve in 2010.
- The Delegation Agreement requirements and NERC expectations will be consistent with those under the current Delegation Agreement between NERC and Original Texas RE (without taking into account, for purposes of the 2010 Amended Budget, changes that may result from the currently ongoing renegotiation of the Delegation Agreements between NERC and the Regional Entities).
- Texas RE will use the surplus funds transferred from the Original Texas RE, and any penalty funds received by Original Texas RE or Texas RE prior to July 1, 2009, to offset 2010 funding requirements. All unanticipated expenses incurred in 2009 by Original Texas RE are offset by 2009 underspending in other areas; so, the surplus funds in the 2010 Approved Budget have not changed.
- The number of registered entities and the current audit frequency are expected to remain fairly constant, except as specifically described herein.

- The number of contested enforcement and registration cases will remain fairly low in 2010 but will be slightly higher than originally estimated by Original Texas RE – one to two large or two to three 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 coordinating, reviewing, and providing comments on such assessments, and ensuring timely submission to NERC. This is a changed statement of this assumption from the approved Original Texas RE Approved 2010 Budget.
- 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.
- NERC will lead the audits, other compliance monitoring processes, and enforcement of ERCOT ISO during the time Original Texas RE is the regional entity under the Delegation Agreement (until Implementation). This is a changed assumption from the approved Original Texas RE 2010 Approved Budget.
- NERC will charge Original Texas RE fees to cover NERC's costs for its leadership/performance of compliance monitoring and enforcement activities of ERCOT, but Original Texas RE and Texas RE will fund any such fees out of reserves. (NERC's costs will include its personnel expenses, travel expenses, an allocation of overhead based upon the time spent performing the function, and any other costs incurred specifically related to performance of compliance monitoring and enforcement activities in the Region. The impact of such costs incurred in 2009 was offset by positive variances in other areas and did not require an adjustment to the Working Capital Reserve.)
- Texas RE has not budgeted to conduct CIP audits of nuclear facilities.
- Texas RE estimated the budget immediately required for the evaluation of Technical Feasibility Exception (TFE) requests based upon the information available at this time.

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 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 – Operating Expenses – of the 2010 Amended Business Plan and Budget

In the proposed 2010 Amended Budget, total direct Statutory expenses are increasing by \$1,921K (28.5%) in recurring direct operating expenses less reductions in payments to ERCOT under the MOU ("MOU reductions") of \$787K, for a net increase of \$1,134K (16.8%) from the 2010 Approved Budget. This increase reflects the additional expenses required due to the legal separation of Texas RE and the elimination of the lower cost administrative services by ERCOT. This increase does not include the required one-time start-up costs to support the formation of Texas RE as a structurally separate entity from ERCOT ISO (described below). The total recurring Statutory increase is primarily being driven by the following items:

1. Increased personnel expenses resulting from adding six (6) additional staff (5.50 FTEs Statutory, 0.50 FTEs Non-statutory). The total increase for salaries is approximately \$490K. Additionally, the expected increase in benefits expense for those employees is \$156K. This results in a total Statutory personnel expense increase of \$646K due to the new separate corporate entity and elimination of administrative services from ERCOT ISO.
2. \$288K increase in the Contracts & Consultants category for recurring board-related expenses and increased administrative expenses incurred under the MOU for new employees prior to and in preparation for Implementation.

3. \$230K increase in Texas RE Office Rent expenses related to meeting space needs, increase in facility and maintenance expenses (for services previously provided under the MOU), and estimated expenses for a potential 2010 office move for Texas RE (since its lease expires in December 2010).
4. \$4K increase in Office Cost expenses due to additional office supplies and printing for new employees, membership, and items related to the formation of the new corporation.
5. \$597K for increased Professional Services expenses:
 - a. \$71K for increased employee benefit administration for employees (since these benefit administration services will no longer be provided under the MOU and will cost more from a third party vendor, based upon initial verbal quotes from potential vendors).
 - b. \$51K for additional recruitment expenses.
 - c. \$181K for the estimated increased technology expenditures (based upon preliminary discussions with vendors at the beginning of our competitive process), due to the increased cost of information technology (IT) support services from third-party vendors that will replace the services provided to Original Texas RE by ERCOT under the MOU.
 - d. \$64K for the increased cost accounting services from third-party vendors (based upon initial verbal quotes from potential vendors) instead of under the MOU.
 - e. \$43K for the cost of outsourced internal audit function (formerly included in the MOU).
 - f. \$83K for the estimated increased cost for general liability, property and casualty, Directors & Officers, and Errors & Omissions insurance coverage when it is separated from ERCOT's insurance.
 - g. \$15K for an increase in the cost of security services (based upon discussions with vendors), which were previously obtained under the MOU.
 - h. \$90K for increased outside legal expenses, due to the expectation of a greater number of, and scope of, enforcement and registration appeals during 2010 than was assumed in the 2010 Approved Budget. These increased legal expenses are not due to the formation of the new entity or the elimination of the MOU.
6. \$9K increase in the miscellaneous expense category due to the treasury fees to be incurred for start-up and on-going cash management services (formerly provided under the MOU).
7. \$147K for increased depreciation expense.
8. The above-listed costs are offset by reduced spending on costs that were estimated to be incurred under the MOU of \$787K. The detailed breakout of the \$787K in reductions is: \$560K in MOU reductions related to Consultants & Contracts, \$193K in MOU reductions related to office rent, and \$34K in reductions related to Professional Services.

Overview of Cost Impacts – Texas RE Start-Up Costs

In the proposed 2010 Amended Budget, total direct Statutory start-up costs are budgeted at \$1,162K, comprised of \$217K of operating expenses and \$1,092K of capital additions, offset by increased depreciation expense of \$147K. These costs are one-time costs that will not reoccur in future years. The total increase is primarily being driven by the following items that Texas RE must procure from independent third party vendors to replace the goods and services currently provided to Original Texas RE under its MOU with ERCOT ISO:

1. Texas RE must procure IT assets and establish an independent IT environment that operates without the assistance of ERCOT ISO. The expected capital costs are budgeted at \$634K.
2. Texas RE will procure an accounting system to process all of the accounting data; this is budgeted at \$41K.
3. Texas RE will also procure office furniture, workstations for employees, as well as conference room furniture, etc.; these are capital additions and are expected to total \$317K.
4. Texas RE is also budgeting for the recruitment fees anticipated with securing four (4) independent directors. This search fee is expected to be \$200K.
5. Texas RE must expend approximately \$17K for the set-up and implementation of the HRIS, Payroll, and Expense Reporting systems.
6. \$100K for a Texas RE Compliance and Enforcement Data Management System (a database tool designed to allow employees to efficiently and flexibly retrieve, view, and analyze registered entity compliance and enforcement information while maintaining data integrity and completeness and reducing the amount of employee time spent manually managing data).
7. Finally, the above costs are offset by the increased depreciation expense of \$147K.

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)			
	2010 Approved Budget	2010 Amended Budget	Increase (Decrease)
Total FTEs	2.06	2.06	0.00
Total Direct Expenses	\$273,959	\$273,959	\$0
Total Indirect Expenses ²	\$136,410	\$228,439	\$92,029
Total Expenses	\$410,369	\$502,398	\$92,029

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 six Sectors and a requirement of a vote of at least two-thirds of the sectors for approval of any regional standard. No two Sectors can approve, and no single Sector can defeat any matter. In addition, each of the six Sectors with at least two members has 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.

² Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

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 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 programs 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. Texas RE also supports revising the NERC Fill-in-the-Blank standards, and will help develop (as necessary) any regional standards that are subsequently required.

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 2010. Otherwise, Texas RE Standards staff will continue to include a standards section in the Compliance Workshop.

Previously, stakeholders 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 sectors. 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) Over 2010 Approved Budget

The funding requirements reflect an increase of \$150K from the 2010 Approved Budget for Original Texas RE because of the start-up costs and the increased administrative costs of Texas RE.

Section B — 2010 Regional Entity Budget

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			
2010 Approved Budget & 2010 Amended Budget			
Reliability Standards			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding			
ERO Funding			
ERO Assessments	\$ 411,750	\$ 149,650	\$ 561,400
Penalty Sanctions	-		-
Total ERO Funding	\$ 411,750	\$ 149,650	\$ 561,400
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
Total Funding	\$ 411,750	\$ 149,650	\$ 561,400
Expenses			
Personnel Expenses			
Salaries	\$ 184,729		\$ 184,729
Payroll Taxes	14,901		14,901
Benefits	20,489		20,489
Retirement Costs	26,697		26,697
Total Personnel Expenses	\$ 246,816	\$ -	\$ 246,816
Meeting Expenses			
Meetings	\$ 400		\$ 400
Travel	6,824		6,824
Conference Calls	-		-
Total Meeting Expenses	\$ 7,224	\$ -	\$ 7,224
Operating Expenses			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	480		480
Professional Services	18,824		18,824
Miscellaneous	615		615
Depreciation	-		-
Total Operating Expenses	\$ 19,919	\$ -	\$ 19,919
Total Direct Expenses	\$ 273,959	\$ -	\$ 273,959
Indirect Expenses	\$ 136,410	\$ 92,029	\$ 228,439
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	\$ 410,369	\$ 92,029	\$ 502,398
Change in Assets	\$ 1,381	\$ 57,621	\$ 59,002
Fixed Assets			
Depreciation	\$ -	\$ -	\$ -
Computer & Software CapEx	-		-
Furniture & Fixtures CapEx	-		-
Equipment CapEx	-		-
Leasehold Improvements	-		-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (1,381)	\$ (57,621)	\$ (59,002)
Change in Fixed Assets	\$ (1,381)	\$ (57,621)	\$ (59,002)
TOTAL CHANGE IN ASSETS	-	\$ -	\$ -

Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect expenses are increasing by \$92K due to the start-up costs and the increased administrative costs of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program. The result is a total of \$228K for indirect expenses through 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed asset additions are increasing due to the allocation of the increased administrative services' fixed assets expenditures which are required for the start-up of Texas RE, in the amount of approximately \$58K, bringing the total fixed asset additions to \$59K for 2010.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources			
(in whole dollars)			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	21.74	21.74	0.00
Total Direct Expenses	\$3,465,857	\$3,465,857	\$0
Total Indirect Expenses	\$1,438,898	\$2,409,652	\$970,754
Total Expenses	\$4,904,755	\$5,875,509	\$970,754

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 its 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 controlling the cost of compliance whenever possible.

In 2010, Texas RE is developing a software tool (Texas RE Compliance and Enforcement Data Management System) to allow Texas RE employees to efficiently and flexibly view, analyze, and retrieve Texas RE registered entity compliance and enforcement information (by registered entity, registered function, date, compliance monitoring process, technical feasibility exception request, settlement agreement, violation, etc.). The tool should increase the efficiency of

compliance and enforcement personnel locating and analyzing relevant compliance and enforcement information as needed for performance of their duties. This tool will ultimately interface with the Texas RE document management system. This is a cost impact not included in the 2010 Approved Budget of Original Texas RE.

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 214 registered entities representing 335 functions as of November 30, 2009. The list of registered entities in the ERCOT region continues to evolve and currently includes:

- 110 Generator Owners (GO)
- 79 Generator Operators (GOP)
- 24 Transmission Planners (TP)
- 29 Transmission Owners (TO)
- 46 Distribution Providers (DP)
- 40 Purchasing Selling Entities (PSE)
- 1 entity – ERCOT ISO – with seven (7) functional registrations: Transmission Operator (TOP), Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP), Transmission Service Provider (TSP), and Interchange Authority (IA)

Texas RE has a Stakeholder Management Department with responsibility for registration, certification, training, communications, reporting, document management and reliability assessments. This provides organizational focus for stakeholder management and services.

Texas RE will continue to use the compliance portal launched by Original Texas RE in 2008, which 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 are intended to reduce some of the administrative burdens on this program.

The implementation of the modified LSE registration criteria in 2008 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). A number of ERCOT region stakeholders have now agreed to a Joint Registration Organization (JRO) solution for the Load Serving Entity (LSE) function in the ERCOT region which should help to avoid gaps and overlaps and reduce the number of required registration appeals. The JRO has an effective date of January 1, 2010. Texas RE anticipates that most of the entities needed for registration as LSEs in the ERCOT region will participate in the LSE JRO, but it believes there might be some registration disputes by entities that do not participate in this JRO. Texas RE will need to register all LSEs that do not participate in the JRO. 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. This reflects a change in assumptions from the 2010 Approved Business Plan and Budget, but Texas RE is not seeking additional resources for this area at this time.

Registration work is expected to remain at the current level 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).

Registration disputes have the potential to adversely impact work load in the registration area. The time expended by Original Texas RE on each registration appeal (none of which are currently pending) has been significant. Texas RE anticipates that registration disputes should reduce over time once the NERC functions and registration criteria stabilize, but Texas RE anticipates possible registration disputes in the LSE and TOP areas in 2010. This budget anticipates no additional significant changes in registration criteria in 2010.

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 meet extensive reporting obligations through 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 reliability in 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 addition, in accordance with the NERC CMEP Implementation Plan, Texas RE requires each registered entity to complete a compliance Self-Certification using electronic forms developed in coordination with NERC and distributed by Texas RE, regardless of whether the registered entity has had a compliance audit in that year. 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. (This paragraph reflects a change in policy adopted subsequent to the submission of the 2010 Approved Budget.)

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.

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 has a single Table 1 entity, ERCOT ISO, due to its registration as the sole TOP, BA and RC in the ERCOT Region. Texas RE scheduled the spot check in 2009 for this entity covering the thirteen requirements initially applicable to Table 1 entities. Texas RE's 2010 plan therefore does not include additional mandatory spot checks of these thirteen requirements (as is the case in most other Regions). In the latter half of 2010, Texas RE has budgeted for

approximately 10 possible event-driven spot checks of CIP requirements for Table 3 entities that will be in the “Compliant” stage of the CIP implementation plan. The budget also includes a planned ERCOT ISO audit for the remaining 28 CIP-002 through 009 requirements not included in this year’s spot check, after July 1, 2010 when these requirements become “Auditably Compliant” for Table 1 entities under the implementation plan. It also includes a spot check for the single BA’s compliance with BAL-003, which was adopted after the 2010 Approved Budget was submitted.

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 TOP registrations.

- Certification audits for a maximum of 4 new TOPs (registered by JRO) might be performed.
- A maximum of two small to medium or one large registration dispute will occur in 2010. (This is a new assumption not included in the 2010 Approved Business Plan and Budget of Original Texas RE.)
- 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 mid-2010 and fully operational by late- 2010.

Compliance Audit

- Audits will require an average of 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, similar to the audits performed by Original Texas RE in 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 ten (10) Spot checks of CIP 002 – 009 standards listed below) conducted in the second half of the year.
- Develop and implement the Texas RE Compliance and Enforcement Data Management System – this is a new assumption not reflected in the 2010 Approved Budget of Original Texas RE.
- NERC will not lead audits or other compliance activities of ERCOT ISO after Implementation (which is a new assumption not reflected in the 2010 Approved Budget).

Compliance Enforcement

- The number of alleged violations in the region 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.
- Develop and implement the Texas RE compliance management data management system.

- 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 under development or revision, and 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. Help implement and maintain an electronic document management system to more efficiently 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 Texas RE'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) Over 2010 Approved Budget

The funding requirement reflects an increase of \$1,679K over the Original Texas RE's 2010 Approved Budget because of Texas RE's required start up costs and increased administrative operational expenses. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

Technical Feasibility Exceptions

TFE Program Scope and Description

The CIP standards allow for registered entities to request TFEs to certain of the standard requirements on the grounds of technical feasibility or technical limitations. NERC issued initial procedures for the processing of TFEs, but there is still great uncertainty regarding the workload requirements and longevity of the TFE review and evaluation process. To date, 48 ERCOT Region registered entities have declared critical cyber assets, and each of these registered entities must be audited against the CIP standards requirements. Using the information available, including the NERC guidance, Texas RE has used its best efforts to estimate the workload requirements for its review and evaluation of TFEs in the ERCOT region, including coordination with NERC and the other Regional Entities, in accordance with its below-listed assumptions. Texas RE estimates that each of the registered entities with critical cyber assets

will submit an average of five (5) TFEs (totaling 240 TFEs), and that these 240 TFEs will be screened and verified over the next two years (2010-2011), or 120 TFEs per year.

Texas RE estimates that screening of each of these TFEs will require 16 hours of staff labor and the verification will require 34 hours of staff labor. Additionally, there will be approximately 6 hours of staff support required for development and maintenance of online forms, data management, and to monitor periodic reporting of TFE status. Therefore the total estimated impact is 56 hours per TFE. The total effort given these assumptions is 6,720 hours in 2010 (6,000 hours for engineering/information technology/legal labor (3.6 FTEs) and 720 hours of support labor (0.4 FTEs), or a total of 4 FTEs). This FTE increase would equate to approximately \$651K in additional expense plus cash reserves of approximately \$133K. Texas RE acknowledges, however, that the estimated workload for the TFE evaluation is based upon many assumptions that cannot yet be verified. For this reason, Texas RE seeks to add only \$400K, for 3 FTEs for TFE evaluation activities at this time.

Texas RE will monitor the workload actually required to process the TFEs as they are submitted. If the total number of TFEs or the actual workload required for processing the TFEs significantly exceeds the \$400K budget estimate, Texas RE would initially use its cash reserves and will seek a 2010 budget supplement. If the total number of TFEs is significantly less than the above estimate or if the workload for completing TFEs is significantly less than the amount budgeted, any savings will be applied to a future budget year.

The estimates above do not include staff enforcement time required if violations are assessed during the TFE evaluation. Should a large number of violations be assessed as a result of TFE evaluations, this would have a significant impact on enforcement staff and additional resources will be required.

TFE Program Key Assumptions

- Texas RE will perform TFE evaluations for registered entities in the ERCOT Region and will coordinate with the other Regions to ensure consistent treatment of similar requested TFEs.
- TFE processing will require a preliminary screening of the TFE for completeness and reasonableness for acceptance on an interim basis. Screening is assumed to be completed within 60 days of receipt by the regional entity.
- Texas RE will conduct a thorough review of the TFE and proposed mitigating measures, and will prepare its justification for approval or denial of the TFE within 360 days of the initial submittal of the TFE, unless otherwise extended by the regional entity with the concurrence of NERC, based on criteria provided by NERC.
- The initial screening and thorough review of each TFE will be conducted off-site (not at the office of the Registered Entity and normally at the Texas RE offices) and Registered Entities will electronically submit all documentation required to review TFEs, including Critical Energy Infrastructure Information (CEII) associated with TFEs, to Texas RE. Registered entities will submit the information through either (1) encrypted email or (2) encrypted or password protected CDs, DVDs, or other mobile storage devices. Texas RE will ensure that confidential data and information received, including Critical Energy Infrastructure Information (CEII), are secured, in accordance with Section 1500 of NERC Rules of Procedure. Unless and until Texas RE can confirm that its servers are appropriately secure, Texas RE will maintain all CEII on password protected or

encrypted mobile storage devices which are maintained in locked fire-proof filing cabinets, in accordance with its Handling Guidelines for CEII Corporate Procedure, and Texas RE will only view registered entity CEII on designated secured (password protected) computers that are not network-connected to either the Internet or the Texas RE corporate local area network.

- If a TFE is found to be deficient in the initial screening or during the thorough review, the registered entity will be provided 30 days to remedy the deficiency. If the registered entity fails to comply with the mitigation measures in its own TFE, the entity may be referred to Texas RE enforcement for processing of a possible violation. Registered entities will have a 'safe harbor' from enforcement while a TFE is pending acceptance by Texas RE and while the entity is performing in accordance with the TFE mitigation plan.
- TFEs are associated with and permitted for only CIP-005 requirements 2.4, 2.6, 3.1, and 3.2; and CIP-007 requirements 2.3, 4, 5.3, 5.3.1, 5.3.2, 5.3.3, 6, and 6.3.
- If a registrant refuses to submit materials or documents due to CEII concerns and requests that Texas RE only review materials on-site, Texas RE will not approve the request, unless the registered entity is prohibited by law from disclosing information designated as Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information to any person who is not an Eligible Reviewer (such as, for example, the restriction on access to Classified National Security Information specified in Section 4.1 of Executive Order No. 12958, as amended). In such an instance, the TFE Request shall identify the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information that is subject to such restrictions on disclosure and shall identify the criteria which a person must meet in order to be an Eligible Reviewer of the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information. The registered entity must submit all information that is not so designated.
- Registered entities will be required to provide quarterly updates on the status of TFEs compared to mitigation plan milestones. Texas RE will be expected to review the completion of a TFE in a manner similar to a spot check.
- TFEs will be grouped by common equipment/device types. Therefore, if there is one vulnerability that affects several types of devices, of which an entity has hundreds of such devices, Texas RE assumes that an entity will submit a single TFE for such vulnerability.
- NERC will provide review, input, and visibility (such as through a shared national database for use by the Regions) for consistency of the TFEs and will also develop common TFEs to provide better consistency and efficiency across Regions.

Staffing Summary to Support TFE Processing

The TFE processing and evaluation will require three (3.0) Compliance FTEs, as follows:

- Two (2.0) FTEs for TFE screening and verification, and mitigation plan review and follow-up.
- One (1.0) FTE for TFE data base administration and tracking.

Section B — 2010 Regional Entity Budget

At the end of the two-year period (after 2011), Texas RE will better understand the scope of the CIP compliance activity (including overflow work associated with balance of nuclear plant audits) and will evaluate staffing needs going forward. Texas RE believes the three (3.0) new TFE-related staff will transition into assuming responsibility for additional work associated with CIP audits, spot checks, investigations and enforcement activities, as well as follow-up on questions and concerns from registered entities.

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			
2010 Approved Budget & 2010 Amended Budget			
Compliance and Organization Registration and Certification			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding			
ERO Funding			
ERO Assessments	\$ 5,067,667	\$ 1,678,562	\$ 6,746,229
Penalty Sanctions	-		-
Total ERO Funding	\$ 5,067,667	\$ 1,678,562	\$ 6,746,229
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
Total Funding	\$ 5,067,667	\$ 1,678,562	\$ 6,746,229
Expenses			
Personnel Expenses			
Salaries	\$ 2,037,418		\$ 2,037,418
Payroll Taxes	161,372		161,372
Benefits	221,580		221,580
Retirement Costs	289,434		289,434
Total Personnel Expenses	\$ 2,709,803	\$ -	\$ 2,709,803
Meeting Expenses			
Meetings	\$ 4,000		\$ 4,000
Travel	154,664		154,664
Conference Calls	-		-
Total Meeting Expenses	\$ 158,664	\$ -	\$ 158,664
Operating Expenses			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	12,062		12,062
Professional Services	428,660		428,660
Miscellaneous	15,561		15,561
Depreciation	141,107		141,107
Total Operating Expenses	\$ 597,389	\$ -	\$ 597,389
Total Direct Expenses	\$ 3,465,857	\$ -	\$ 3,465,857
Indirect Expenses	\$ 1,438,898	\$ 970,754	\$ 2,409,652
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	\$ 4,904,755	\$ 970,754	\$ 5,875,509
Change in Assets	\$ 162,912	\$ 707,808	\$ 870,720
Fixed Assets			
Depreciation	\$ (141,107)	\$ -	\$ (141,107)
Computer & Software CapEx	274,237	100,000	374,237
Furniture & Fixtures CapEx	15,215		15,215
Equipment CapEx	-		-
Leasehold Improvements	-		-
(Incr)Dec in Fixed Assets	\$ (148,345)	\$ (100,000)	\$ (248,345)
Allocation of Fixed Assets	\$ (14,568)	\$ (607,808)	\$ (622,375)
Change in Fixed Assets	\$ (162,912)	\$ (707,808)	\$ (870,720)
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -

Explanations of Variances –Amended 2010 Budget versus Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect expenses are increasing by \$971K over the Original Texas RE's 2010 Approved Budget, due to the start-up costs and the increased administrative expenses of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program. The result is a total of \$2,410K for indirect expenses for 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed asset additions are increasing due to the allocation of the increased administrative services' fixed asset additions which are required for the start-up of Texas RE, in the amount of approximately \$608K. Also, there is a need to establish a Texas RE Compliance Monitoring and Enforcement Data Management System tool at a cost of \$100K. The result of these additions brings the total of fixed asset additions to \$871K (net of depreciation) for 2010.

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources			
(in whole dollars)			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	0.97	0.97	0.00
Total Direct Expenses	\$328,735	\$328,735	\$0
Total Indirect Expenses	\$64,442	\$107,918	\$43,476
Total Expenses	\$393,177	\$436,653	\$43,476

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 coordinate and facilitate six (6) regular sessions of the ERCOT Operations Training Seminar in 2010. 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 will also facilitate 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 will continue to publish a bi-monthly newsletter, which will include 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 will continue to participate on selected industry sponsored seminars and panels to provide as much information to the industry as possible as well as to receive feedback.

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 offsetting the majority of 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) over 2010 Approved Budget

The funding requirements reflect an increase of \$71K over the Original Texas RE's 2010 Approved Budget because of the required start-up costs and increased administrative costs of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

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			
2010 Approved Budget & 2010 Amended Budget			
Training and Education			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding			
ERO Funding			
ERO Assessments	\$ 213,829	\$ 71,349	\$ 285,179
Penalty Sanctions	-		-
Total ERO Funding	\$ 213,829	\$ 71,349	\$ 285,179
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	180,000		180,000
Interest	-		-
Miscellaneous	-		-
Total Funding	\$ 393,829	\$ 71,349	\$ 465,179
Expenses			
Personnel Expenses			
Salaries	\$ 81,122		\$ 81,122
Payroll Taxes	6,425		6,425
Benefits	8,834		8,834
Retirement Costs	11,511		11,511
Total Personnel Expenses	\$ 107,893	\$ -	\$ 107,893
Meeting Expenses			
Meetings	\$ 220,000		\$ 220,000
Travel	-		-
Conference Calls	-		-
Total Meeting Expenses	\$ 220,000	\$ -	\$ 220,000
Operating Expenses			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	-		-
Professional Services	-		-
Miscellaneous	842		842
Depreciation	-		-
Total Operating Expenses	\$ 842	\$ -	\$ 842
Total Direct Expenses	\$ 328,735	\$ -	\$ 328,735
Indirect Expenses	\$ 64,442	\$ 43,476	\$ 107,918
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	\$ 393,177	\$ 43,476	\$ 436,653
Change in Assets	\$ 652	\$ 27,874	\$ 28,526
Fixed Assets			
Depreciation	\$ -	\$ -	\$ -
Computer & Software CapEx	-		-
Furniture & Fixtures CapEx	-		-
Equipment CapEx	-		-
Leasehold Improvements	-		-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (652)	\$ (27,874)	\$ (28,526)
Change in Fixed Assets	\$ (652)	\$ (27,874)	\$ (28,526)
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -

Explanations of Variances –2010 Amended Budget versus Approved 2010 Budget

Funding Sources

- Training, Education and Operator Certification is planned to be nearly 39% self-funded in 2010 through registration fees from attendees of the OTS. The remaining 61% of this program is funded through ERO assessments.

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect expenses are increasing by \$43K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$108K for indirect expenses for 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed asset additions are increasing due to the allocation of the administrative services' fixed asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$28K, bringing the total of fixed asset additions to \$29K for 2010.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
<small>(in whole dollars)</small>			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	2.44	2.44	0.00
Total Direct Expenses	\$290,095	\$290,095	\$0
Total Indirect Expenses	\$161,505	\$270,464	\$108,959
Total Expenses	\$451,600	\$560,559	\$108,959

Program Scope and Functional Description:

Reliability Assessment Reports

ERCOT ISO has traditionally assembled the data for and 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, and 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
- Texas RE will review approximately 80 reports of incidents, complaints, and disturbances

2010 Goals and Key Deliverables:

1. Increase Texas RE participation in the Regional Planning Group activities
2. Coordinate the communication of all reliability assessment-related information as requested by NERC (this is an additional goal not stated in the 2010 Approved Business Plan and Budget).
3. Timely review and submit all required assessments to NERC (or ensure required assessments are submitted to NERC on schedule), providing comments to the assessments, as needed. (This goal has been restated from the 2010 Approved Business Plan and Budget.)
4. Timely review all required incidents, complaints and disturbances
5. Communicate and coordinate issues of reliability concern with NERC

Funding Requirements — Explanation of Increase (Decrease) over 2010 Approved Budget

Section B — 2010 Regional Entity Budget

The funding requirements reflect an increase of \$177K over the Original Texas RE's 2010 Approved Budget because of Texas RE's start-up costs and increased administrative expenses and fixed asset additions. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

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			
2010 Approved Budget & 2010 Amended Budget			
Reliability Assessment and Performance Analysis			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding			
ERO Funding			
ERO Assessments	\$ 453,235	\$ 177,181	\$ 630,416
Penalty Sanctions	-		-
Total ERO Funding	<u>\$ 453,235</u>	<u>\$ 177,181</u>	<u>\$ 630,416</u>
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
Total Funding	<u>\$ 453,235</u>	<u>\$ 177,181</u>	<u>\$ 630,416</u>
Expenses			
Personnel Expenses			
Salaries	\$ 217,004		\$ 217,004
Payroll Taxes	17,187		17,187
Benefits	23,632		23,632
Retirement Costs	30,793		30,793
Total Personnel Expenses	<u>\$ 288,615</u>	<u>\$ -</u>	<u>\$ 288,615</u>
Meeting Expenses			
Meetings	\$ -		\$ -
Travel	806		806
Conference Calls	-		-
Total Meeting Expenses	<u>\$ 806</u>	<u>\$ -</u>	<u>\$ 806</u>
Operating Expenses			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	-		-
Professional Services	-		-
Miscellaneous	673		673
Depreciation	-		-
Total Operating Expenses	<u>\$ 673</u>	<u>\$ -</u>	<u>\$ 673</u>
Total Direct Expenses	<u>\$ 290,095</u>	<u>\$ -</u>	<u>\$ 290,095</u>
Indirect Expenses	<u>\$ 161,505</u>	<u>\$ 108,959</u>	<u>\$ 270,464</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 451,600</u>	<u>\$ 108,959</u>	<u>\$ 560,559</u>
Change in Assets	<u>\$ 1,635</u>	<u>\$ 68,222</u>	<u>\$ 69,857</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>
Allocation of Fixed Assets	\$ (1,635)	\$ (68,222)	\$ (69,857)
Change in Fixed Assets	<u>\$ (1,635)</u>	<u>\$ (68,222)</u>	<u>\$ (69,857)</u>
TOTAL CHANGE IN ASSETS	<u>\$ (0)</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect expenses are increasing by \$109K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$270K for indirect expenses through 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed asset additions are increasing due to the allocation of increased administrative services' fixed asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$68K, bringing the total fixed asset additions to \$70K for 2010.

Situational Awareness and Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources			
(in whole dollars)			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	3.03	3.03	0.00
Total Direct Expenses	\$391,907	\$391,907	\$0
Total Indirect Expenses	\$200,226	\$335,309	\$135,083
Total Expenses	\$592,134	\$727,217	\$135,083

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 Goals and Key Deliverables

Situational Awareness

SAFNR’s goal is to provide 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) Over 2010 Approved Budget

The funding requirements reflect an increase of \$220K from the 2010 Approved Budget for Original Texas RE to the 2010 Amended Budget because of Texas RE’s start-up costs and increased administrative expenses. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

Critical Infrastructure Protection Resources			
(Included in Total Situational Awareness and Infrastructure Security)			
(in whole dollars)			
	2010 Approved Budget	2010 Amended 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

Exhibit not completed due to personnel salary confidentiality.

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 currently the only registered Balancing Authority (BA), Transmission Operator (TOP), and Reliability Coordinator (RC) in the ERCOT region and was the only entity required to self-certify compliance to NERC's Urgent Action Cyber Security Standard 1200. As such, only 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 be responsible for CIP audits of nuclear facilities, as contemplated by NERC's approved Business Plan and Budget. (This assumption has been restated from the 2010 Approved Business Plan and Budget.)
- Six (6) CIP spot checks will be done in 2010.

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.
 - a. 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) before most entities enter Auditably Compliant phase and CIP audits begin. (This goal is slightly revised from the 2010 Approved Business Plan and Budget.)
7. Enhance the Texas RE website with CIP information and links.

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			
2010 Approved Budget & 2010 Amended Budget			
Situational Awareness and Infrastructure Security			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding			
ERO Funding			
ERO Assessments	\$ 594,161	\$ 219,661	\$ 813,822
Penalty Sanctions	-		-
Total ERO Funding	\$ 594,161	\$ 219,661	\$ 813,822
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
Total Funding	\$ 594,161	\$ 219,661	\$ 813,822
Expenses			
Personnel Expenses			
Salaries	\$ 291,164		\$ 291,164
Payroll Taxes	23,060		23,060
Benefits	31,708		31,708
Retirement Costs	41,316		41,316
Total Personnel Expenses	\$ 387,247	\$ -	\$ 387,247
Meeting Expenses			
Meetings	\$ -		\$ -
Travel	4,260		4,260
Conference Calls	-		-
Total Meeting Expenses	\$ 4,260	\$ -	\$ 4,260
Operating Expenses			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	-		-
Professional Services	-		-
Miscellaneous	400		400
Depreciation	-		-
Total Operating Expenses	\$ 400	\$ -	\$ 400
Total Direct Expenses	\$ 391,907	\$ -	\$ 391,907
Indirect Expenses	\$ 200,226	\$ 135,083	\$ 335,309
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	\$ 592,134	\$ 135,083	\$ 727,217
Change in Assets	\$ 2,027	\$ 84,578	\$ 86,605
Fixed Assets			
Depreciation	\$ -	\$ -	\$ -
Computer & Software CapEx	-		-
Furniture & Fixtures CapEx	-		-
Equipment CapEx	-		-
Leasehold Improvements	-		-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (2,027)	\$ (84,578)	\$ (86,605)
Change in Fixed Assets	\$ (2,027)	\$ (84,578)	\$ (86,605)
TOTAL CHANGE IN ASSETS	\$ 0	\$ -	\$ -

Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect expenses are increasing by \$135K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$335K for indirect expenses through 2010. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed asset additions are increasing due to the allocation of increased administrative services' fixed asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$85K, bringing the total of fixed asset additions to \$87K for 2010.

Administrative Services

Administrative Services			
(in whole dollars)			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	3.76	9.26	5.50
Total Direct Expenses	\$2,001,482	\$3,351,783	\$1,350,301

Program Scope and Functional Description

All administrative activities are considered indirect (including General and Administrative or “G&A”, Legal and Regulatory, Information Technology, Human Resources, and Finance) and the salaries of all employees in the administrative areas are reflected in the G&A program, to protect the confidentiality of salaries.

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 non-contested 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

- Original Texas RE will perform all Statutory and Non-statutory activities until Implementation.
- Upon Implementation Texas RE will perform all Statutory and Non-statutory activities as the regional entity.
- Texas RE will be a separate corporation that is not associated with nor affiliated with ERCOT ISO and does not receive any administrative services from ERCOT ISO.
- Texas RE total staff will increase to 46.00 staff (39.50 FTEs Statutory, 6.50 FTEs Non-statutory), including an increase of 6.00 FTE resulting from the formation of Texas RE as a separate entity from ERCOT.
- Where possible, all appropriate direct program expenses will be direct costs to the respective program and function. Only corporate services expenses and personnel will remain in administrative services.
- The costs currently incurred under the MOU are eliminated, and these cost reductions are reflected in column 4 in the “General & Administrative” Statement of Activities table on page 49.

2010 Goals and Key Deliverables

1. Communicate and maintain effective relationships with the board, industry, regulators, and other stakeholders.
2. Ensure that the new corporation is appropriately staffed and managed to maximize stakeholder value as well as to maintain independence.
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) Over 2010 Approved Budget

- The funding requirements for this program reflect an increase of \$215K over Original Texas RE’s 2010 Approved Budget, because of Texas RE’s required start-up costs and increased administrative operational expenses. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

Section B — 2010 Regional Entity Budget

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						
2010 Approved Budget & 2010 Amended Budget						
General and Administrative - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding						
ERO Funding						
ERO Assessments	\$ (80,265)	\$ -	\$ 349,842	\$ (161,632)	\$ 188,211	\$ 107,946
Penalty Sanctions	-	-	-	-	-	-
Total ERO Funding	\$ (80,265)	\$ -	\$ 349,842	\$ (161,632)	\$ 188,211	\$ 107,946
Membership Dues	-	-	27,000	-	27,000	27,000
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	2,000	-	-	-	-	2,000
Miscellaneous	-	-	-	-	-	-
Total Funding	\$ (78,265)	\$ -	\$ 376,842	\$ (161,632)	\$ 215,211	\$ 136,946
Expenses						
Personnel Expenses						
Salaries	\$ 539,855	\$ -	\$ 490,490	\$ -	\$ 490,490	\$ 1,030,345
Payroll Taxes	42,598	-	37,438	-	37,438	80,036
Benefits	54,570	-	47,960	-	47,960	102,530
Retirement Costs	80,324	-	70,594	-	70,594	150,918
Total Personnel Expenses	\$ 717,347	\$ -	\$ 646,482	\$ -	\$ 646,482	\$ 1,363,829
Meeting Expenses						
Meetings	\$ 3,600	\$ -	\$ -	\$ -	\$ -	\$ 3,600
Travel	17,158	-	-	-	-	17,158
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	\$ 20,758	\$ -	\$ -	\$ -	\$ -	\$ 20,758
Operating Expenses						
Consultants & Contracts	\$ 676,331	\$ 200,000	\$ 287,675	\$ (559,523)	\$ (71,848)	\$ 604,483
Office Rent	327,600	-	229,725	(193,425)	36,300	363,900
Office Costs	24,240	-	4,590	-	4,590	28,830
Professional Services	60,000	-	15,300	-	15,300	75,300
Miscellaneous	1,350	-	-	-	-	1,350
Depreciation	-	-	146,550	-	146,550	146,550
Total Operating Expenses	\$ 1,089,521	\$ 200,000	\$ 683,840	\$ (752,948)	\$ 130,892	\$ 1,220,413
Total Direct Expenses	\$ 1,827,626	\$ 200,000	\$ 1,330,322	\$ (752,948)	\$ 777,374	\$ 2,605,000
Indirect Expenses	\$ (1,827,626)	\$ (200,000)	\$ (1,330,322)	\$ 752,948	\$ (777,374)	\$ (2,605,000)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ (0)	\$ -	\$ -	\$ -	\$ -	\$ (0)
Change in Assets	\$ (78,265)	\$ -	\$ 376,842	\$ (161,632)	\$ 215,211	\$ 136,946
Fixed Assets						
Depreciation	\$ -	\$ -	\$ (146,550)	\$ -	\$ (146,550)	\$ (146,550)
Computer & Software CapEx	-	-	-	-	-	-
Furniture & Fixtures CapEx	-	317,000	-	-	317,000	317,000
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ (317,000)	\$ 146,550	\$ -	\$ (170,450)	\$ (170,450)
Allocation of Fixed Assets	\$ -	\$ 317,000	\$ (146,550)	\$ -	\$ 170,450	\$ 170,450
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ (78,265)	\$ -	\$ 376,842	\$ (161,632)	\$ 215,211	\$ 136,946

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 – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

- The 2010 funding requirements are increasing \$215K over the 2010 Approved Budget. ERO assessments are increasing by \$188K, and Texas RE expects to receive \$27K for membership fees, which were not provided for in the 2010 Approved Budget. The 2010 Approved Budget assumed unspent funds of \$78K; therefore, the net funding requirement for 2010 is \$137K. Indirect program costs are allocated to the direct statutory programs.

Personnel Expenses

- The primary reason for the increase of \$646K for Statutory Personnel Expenses is that Texas RE will need to hire additional staff (in addition to the partial outsourcing of) certain of its human resources (HR) and information technology (IT) services that were formerly performed by ERCOT ISO under the MOU at a lower cost. The budget for Personnel Expenses is consolidated to ensure the confidentiality of individual salaries under the General & Administrative budget. Texas RE will need to hire the following positions:
 - One (1) HR Manager to support and facilitate the HR and benefits functions for Texas RE and its employees.
 - One (1) Member Services Administrator to oversee administration of membership information and enrollment and to coordinate committee meetings and activities.
 - One (1) Finance and Accounting Manager to maintain the accounting system, financial/internal controls, budget development, payroll processing, accounts payable, accounts receivable, increased accountability, fixed assets, financial statement preparation and auditor interface.
 - One (1) Attorney to perform primarily corporate legal services, such as negotiation and preparation of contracts and other required documentation for goods, services, software licenses, and HR benefit plans, and HR legal services, all of which were previously included in the HR, information technology, finance, and other administrative services that were provided by ERCOT ISO under the MOU.
 - Two (2) IT employees to provide Texas RE with the appropriate level of IT support and skill necessary to maintain its network infrastructure and data integrity, provide desk-side support to Texas RE staff, facilitate specialized software and applications support, develop project scheduling / priority project lists, and project requirements engineering documentation (policies, procedures) creation.

Meeting Expenses

- No additional travel is anticipated for the Amended 2010 Budget.

Operating Expenses

- Consulting and contract expenses are decreasing \$72K, due to the net effect of reductions from the elimination of the MOU. Texas RE expects an increase in rent and facilities-related expenses of \$36K for 2010, due to a possible move at the end of 2010, because of space constraints and the expiration of Texas RE's present lease on

December 31, 2010. The recurring costs are also increasing by \$15K for Professional Services and \$5K for Office Costs which are not included in the 2010 Approved Budget. Finally, depreciation expenses are increasing \$147K as a result of fixed asset purchases required as part of the start-up costs.

Indirect Expenses

- The entire program/activity expense reflected for G&A will be treated as indirect expense.

Other Non-Operating Expenses

- None.

Fixed Asset Additions

- Office furniture and equipment for all Texas RE staff (office and conference room furniture, computers, servers, telephone system, software, etc.) totaling \$317K will need to be acquired as part of the start-up costs. This will be offset from a funding perspective by depreciation expense of \$147K.

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. In addition to overseeing Board meetings and activities, Texas RE Legal and Regulatory staff will oversee and coordinate corporate membership enrollment, information, and meetings and will coordinate and oversee the Member Representatives Committee activities.

2010 Key Assumptions

Texas RE Legal and Regulatory has the following key assumptions:

- A. Original Texas RE will continue to perform all Statutory and Non-statutory activities until Implementation.
- B. Upon Implementation, Texas RE will perform the Statutory and Non-statutory activities and will operate as a separate corporation, not associated with or affiliated with ERCOT ISO, and Texas RE will receive no administrative services from ERCOT ISO.
- C. Legal and Regulatory will oversee and coordinate corporate membership and Member Representative Committee activities.
- D. The Delegation Agreement requirements and NERC expectations will remain consistent.
- E. The majority of possible violations will be handled through the settlement process.
- F. The number of contested registration and enforcement cases will remain fairly low, but will increase to two large or up to three 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, board committees, and departments, as needed on corporate, contract, transactional, regulatory, enforcement, 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) Over 2010 Approved Budget

All expenses for this program are allocated to the statutory direct programs.

Section B — 2010 Regional Entity Budget

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						
2010 Approved Budget & 2010 Amended Budget						
Legal and Regulatory - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses						
Personnel Expenses						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,478	-	-	-	-	4,478
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	\$ 4,478	\$ -	\$ -	\$ -	\$ -	\$ 4,478
Operating Expenses						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	5,400	-	-	-	-	5,400
Professional Services	48,000	-	90,000	-	90,000	138,000
Miscellaneous	6,200	-	-	-	-	6,200
Depreciation	-	-	-	-	-	-
Total Operating Expenses	\$ 59,600	\$ -	\$ 90,000	\$ -	\$ 90,000	\$ 149,600
Total Direct Expenses	\$ 64,078	\$ -	\$ 90,000	\$ -	\$ 90,000	\$ 154,078
Indirect Expenses	\$ (64,078)	\$ -	\$ (90,000)	\$ -	\$ (90,000)	\$ (154,078)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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 – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- Texas RE is adding one (1) Attorney and one (1) Member Services Administrator, due to the increased workload that was formerly performed for Original Texas RE under the MOU with ERCOT ISO. However, those employees are reflected under G&A for personnel confidentiality purposes. The detail for the headcount is reflected in Table 2 within Section B.

Meeting Expenses

- No additional travel is anticipated.

Operating Expenses

- Legal and Regulatory requires an additional \$90K to pay for outside legal counsel expenses. This increased expense is not related to the formation of Texas RE as a separate legal entity. This is to ensure that there are sufficient funds to cover the anticipated additional registration or enforcement disputes.

Indirect Expenses

- None.

Other Non-Operating Expenses

- None.

Fixed Asset Additions

- None.

Information Technology

Program Scope and Functional Description

Texas RE's IT employees 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 employees will outsource a mix of services to third-party vendors. This will require a great deal of time and resources during the early part of 2010, as Texas RE competitively resources and acquires the information technology equipment and services that were performed for Original Texas RE by ERCOT ISO under the MOU. 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 external IT vendors on day-to-day support, administration, and future requirements.

IT staff also has the general responsibility to keep Texas RE systems up-to-date with evolving industry standards and 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 email boxes and lists, and Web-based training.

IT staff will also manage the design, implementation, support, and maintenance of 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 RE Entity Portal and associated tools for management and tracking, the Reliability Standards tracking tool, the compliance and enforcement data management system, 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

- Original Texas RE will continue to procure key IT equipment and services (such as computers and support, email and support, phone service and support, enterprise servers, and WebEx, but not including any services relating to the portal) from ERCOT ISO for at least several months of 2010, until these services can be performed by new employees or third-party vendors, which will occur prior to Implementation.
- Texas RE will receive no IT services from ERCOT ISO.
- Original Texas RE is in the process of competitively procuring its IT equipment (including computers, servers, telephone systems, etc.), software, and all required IT services from qualified third-parties, and it will implement a transition of the IT services from ERCOT ISO as part of the Texas RE start up costs.

- Texas RE will require two (2) additional IT employees to perform services that are currently provided by ERCOT ISO under the MOU.
- Texas RE will outsource many key IT services (email server hosting and service, desk side support services, telecommunications services, etc.) to third parties, at a cost greater than Original Texas RE paid to ERCOT ISO under the MOU.
- Texas RE will be 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. Implement and monitor long-term strategy in response to business needs.
2. Continue to 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. Provide vendor management support / IT department management support (security, disaster recovery, service management, self-assessment, lifecycle management)
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.
7. Provide or oversee desk side support to Texas RE staff.
8. Support specialized software and applications.
9. Oversee project scheduling and priority project lists.
10. Engineer project requirements.
11. Ensure documentation (policies, procedures) creation and management for IT operations.
12. Train and support staff on software and applications.
13. Implement and oversee all Texas RE electronic systems and tools.

Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget

Indirect program costs are allocated to the direct programs.

Section B — 2010 Regional Entity Budget

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						
2010 Approved Budget & 2010 Amended Budget						
Information Technology - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-					
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-					
Testing Fees	-					
Services & Software	-					
Workshops	-					
Interest	-					
Miscellaneous	-					
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses						
Personnel Expenses						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-					
Benefits	-					
Retirement Costs	-					
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,057					4,057
Conference Calls	-					
Total Meeting Expenses	<u>\$ 4,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,057</u>
Operating Expenses						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-					
Office Costs	960					960
Professional Services	33,860		180,873		180,873	214,733
Miscellaneous	6,500					6,500
Depreciation	12,000					12,000
Total Operating Expenses	<u>\$ 53,320</u>	<u>\$ -</u>	<u>\$ 180,873</u>	<u>\$ -</u>	<u>\$ 180,873</u>	<u>\$ 234,193</u>
Total Direct Expenses	<u>\$ 57,377</u>	<u>\$ -</u>	<u>\$ 180,873</u>	<u>\$ -</u>	<u>\$ 180,873</u>	<u>\$ 238,250</u>
Indirect Expenses	<u>\$ (57,377)</u>	<u>\$ -</u>	<u>\$ (180,873)</u>	<u>\$ -</u>	<u>\$ (180,873)</u>	<u>\$ (238,250)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets						
Depreciation	\$ (12,000)	\$ -	\$ -	\$ -	\$ -	\$ (12,000)
Computer & Software CapEx	32,263	634,000	-	-	634,000	666,263
Furniture & Fixtures CapEx	-					
Equipment CapEx	-					
Leasehold Improvements	-					
(Incr)Dec in Fixed Assets	<u>\$ (20,263)</u>	<u>\$ (634,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (634,000)</u>	<u>\$ (654,263)</u>
Allocation of Fixed Assets	\$ 20,263	\$ 634,000	\$ -	\$ -	\$ 634,000	\$ 654,263
Change in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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 – Proposed 2010 Amended Budget versus 2010 Approved Budget

Funding Sources

- Indirect program costs are allocated to the direct programs.

Personnel Expenses

- There are two (2) additional IT positions included in Texas RE's budget for 2010, to perform some of the services provided to Original Texas RE under the MOU with ERCOT ISO. These positions have been reflected under G&A for personnel confidentiality purposes. However, the detail for the headcount is reflected in Table 2 within Section B.

Meeting Expenses

- No additional meeting and travel expense is provided for in the 2010 Amended Budget.

Operating Expenses

- Professional IT services (hosting and professional services) for Microsoft Exchange and other servers, desk side support, maintenance, etc. are expected to increase \$181K over Original Texas RE's 2010 Approved Budget, due to the higher costs of obtaining these services from outside providers. These expenses which are within this indirect program are administrative services required to maintain the IT functionality for all of Texas RE's Statutory activities and should be allocated as an indirect expense.

Indirect Expenses

- None.

Other Non-Operating Expenses

- None.

Fixed Asset Additions

- The IT start-up fixed asset additions include computer systems for all employees, servers, LAN, software, telephone systems (PBX), monitors, and printers. There is an expected one-time start-up cost for these items totaling \$634K, which is allocated to the direct programs.

Human Resources

Program Scope and Functional Description

Original Texas RE has not had a Human Resources Department, as all Human Resources services are obtained from ERCOT under the MOU. The Texas RE Human Resources department will provide a broad range of support and human resources advice to all Texas RE employees. The HR function consists of overseeing all employee benefit programs and performing or overseeing all traditional human resources activities, including recruiting, on-boarding, developing, and counseling employees, maintaining job descriptions and market salary information, maintaining personnel policies and procedures, tracking existing employee data which traditionally includes personnel histories, skills, capabilities, accomplishments and salary. The HR function also encompasses such responsibilities as maintaining the Payroll Master File, benefits administration, HR Management Information Systems oversight, Training/Learning Management System, and overseeing and managing the employee performance review process and records. This department will play a pivotal role in the structural separation process, as the benefits programs and HR tools are established, and will also coordinate all of the HR-related filings and reporting with all governmental entities.

The Human Resources function will oversee the on-boarding and off-boarding of employees in a manner that ensures company policies are appropriately followed. This department is critical to ensure that Texas RE attracts and retains top talent within the company. Texas RE intends to have one HR Manager and to outsource many of its HR and employee benefit duties to third parties, under the guidance of the HR Manager.

2010 Key Assumptions

- Texas RE will formally hire employees upon the Implementation.
- Texas RE will hire a dedicated HR Manager to support Texas RE's human resource needs and oversee the vendors that provide human resources and benefit plan administration services to Texas RE.
- The HR Manager will be hired by Original Texas RE in early 2010 and prior to Implementation, to oversee the selection and implementation of the third-party vendors that will provide the human resource services and benefits programs for Texas RE staff upon Implementation and to help finalize personnel policies and procedures.
- Appropriate employee benefits will be provided for all Texas RE employees, similar to the benefits that were provided by ERCOT to employees of Original Texas RE.

Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget

- Indirect program costs are allocated to the direct programs.

Section B — 2010 Regional Entity Budget

Human Resources

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

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Human Resources - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Amended
	Budget	Start-Up	Recurring	Reductions	to the Approved	Budget
		Costs	Costs	(MOU Decreases)	Budget	
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses						
Personnel Expenses						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-	-
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Operating Expenses						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	-	-	-	-	-	-
Professional Services	-	-	121,720	-	121,720	121,720
Miscellaneous	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Total Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,720</u>	<u>\$ -</u>	<u>\$ 121,720</u>	<u>\$ 121,720</u>
Total Direct Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,720</u>	<u>\$ -</u>	<u>\$ 121,720</u>	<u>\$ 121,720</u>
Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (121,720)</u>	<u>\$ -</u>	<u>\$ (121,720)</u>	<u>\$ (121,720)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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 – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

Indirect program costs are allocated to the direct programs.

Personnel Expenses

- There is an HR Manager position that will be hired to perform this function; however that position has been reflected under G&A for personnel confidentiality purposes. The detail for the headcount is reflected in Table 2 within Section B.

Meeting Expenses

- None.

Operating Expenses

- The increased cost for benefits administration and employee recruitment will be \$71K and \$51K, respectively. The Human Resources program code is new for Texas RE, because benefits administration was provided for Original Texas RE under the MOU (for a lower cost) and was reflected in the 2010 Approved Budget under the General and Administrative Statement of Activities. These increased benefits administration and recruitment costs are net of the amounts paid by Original Texas RE to ERCOT under the MOU, which are included in the amounts reflected under column 4 of the General and Administrative Statement of Activities. Texas RE will use the Human Resource program code in future budgets.

Indirect Expenses

- None.

Other Non-Operating Expenses

- None.

Fixed Asset Additions

- None.

Finance and Accounting

Program Scope and Functional Description

The **Finance** and Accounting staff will provide a broad range of support to Texas RE management and personnel. Finance and Accounting 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 and Accounting 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. Texas RE's monthly general ledger close activities will be managed by Texas RE Finance and Accounting personnel. The Finance and Accounting staff are 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.

After Implementation, Texas RE Finance and Accounting will also direct the financial affairs of the organization and prepare financial analyses of operations, including interim and final financial statements with supporting schedules, for the guidance of management. Additionally, Texas RE Finance and Accounting will have responsibility for the company's financial plans and policies, its accounting practices, the conduct of its relationships with banking institutions, the maintenance of its fiscal records, and the preparation of financial reports. Texas RE Finance and Accounting will be centrally responsible for general accounting, accounts payable, accounts receivable, payroll processing, fixed asset accounting, cost accounting, and budgetary controls.

The Finance and Accounting staff are 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 be required to hire an additional employee to manage this function prior to Implementation, to transition the services that were previously provided to Texas RE through the MOU with ERCOT ISO.

2010 Goals and Key Deliverables

1. Ensure that the accounting, finance, and budgeting functions are appropriately managed at Texas RE.
2. Keep the CEO informed of budget, expenditures, and total operational financial performance.

Section B — 2010 Regional Entity Budget

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 and coordinate with NERC finance staff to meet 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) Over 2010 Approved Budget

Indirect program costs are allocated to the direct programs.

Section B — 2010 Regional Entity Budget

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						
2010 Approved Budget & 2010 Amended Budget						
Finance and Accounting - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-					
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses						
Personnel Expenses						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	2,145	-	-	-	-	2,145
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	<u>\$ 2,145</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,145</u>
Operating Expenses						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	880	-	-	-	-	880
Professional Services	45,281	16,500	189,190	(33,961)	171,729	217,010
Miscellaneous	4,095	-	8,606	-	8,606	12,701
Depreciation	-	-	-	-	-	-
Total Operating Expenses	<u>\$ 50,256</u>	<u>\$ 16,500</u>	<u>\$ 197,796</u>	<u>\$ (33,961)</u>	<u>\$ 180,335</u>	<u>\$ 230,591</u>
Total Direct Expenses	<u>\$ 52,401</u>	<u>\$ 16,500</u>	<u>\$ 197,796</u>	<u>\$ (33,961)</u>	<u>\$ 180,335</u>	<u>\$ 232,736</u>
Indirect Expenses	<u>\$ (52,401)</u>	<u>\$ (16,500)</u>	<u>\$ (197,796)</u>	<u>\$ 33,961</u>	<u>\$ (180,335)</u>	<u>\$ (232,736)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets						
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	41,000	-	-	41,000	41,000
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ (41,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41,000)</u>	<u>\$ (41,000)</u>
Allocation of Fixed Assets	\$ -	\$ 41,000	\$ -	\$ -	\$ 41,000	\$ 41,000
Change in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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 Amended Budget versus Approved 2010 Budget

Funding Sources

Indirect program costs are allocated to the direct programs.

Personnel Expenses

- Texas RE is hiring one (1) Finance and Accounting Manager which is reflected under G&A for personnel confidentiality purposes. However, the detail for the employee is reflected in Table 2 within Section B.
- The new employee will need to be hired in early 2010 and prior to the approval by FERC of the Delegation Agreement, so that this employee can provide assistance in procuring the needed financial tools and preparing for the transition of the finance and accounting services from ERCOT ISO (under the MOU) to be performed by Texas RE.

Meeting Expenses

- None.

Operating Expenses

- Professional services will need to be procured to supplement the Finance and Accounting function, including: electronic expense reporting of \$21K, timekeeping and processing payroll of \$26K, outsourced internal audit function of \$43K, and increased insurance coverage costs of \$82K. Insurance coverage was previously included in the Original Texas RE's MOU with ERCOT ISO, and so this is a new expense in this category for 2010.
- Additionally, the treasury function set-up and maintenance fees are budgeted in miscellaneous expenses and this is expected to be approximately \$9K for 2010.

Indirect Expenses

- None.

Other Non-Operating Expenses

- None.

Fixed Asset Additions

- Texas RE will need to deploy an accounting system and will need to procure the software as well as implement the software. The cost for this is approximately \$41K and is a start-up cost in year one.

Section B — 2010 Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
STATUTORY + STRUCTURAL SEPARATION BUDGET						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Base + Adjustment
	Budget	Start-Up	Recurring	Reductions	to the Approved	to the
		Costs	Costs		Budget	Approved Budget
Funding						
ERO Funding						
ERO Assessments	\$ 6,660,377	\$ 1,308,500	\$ 2,124,004	\$ (948,540)	\$ 2,483,964	\$ 9,144,340
Penalty Sanctions ⁽¹⁾	-	-	-	-	-	-
Total ERO Funding	\$ 6,660,377	\$ 1,308,500	\$ 2,124,004	\$ (948,540)	\$ 2,483,964	\$ 9,144,340
Membership Dues	-	-	27,000	-	27,000	27,000
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	180,000	-	-	-	-	180,000
Interest	2,000	-	-	-	-	2,000
Miscellaneous	-	-	-	-	-	-
Total Funding	\$ 6,842,377	\$ 1,308,500	\$ 2,151,004	\$ (948,540)	\$ 2,510,964	\$ 9,353,340
Expenses						
Personnel Expenses						
Salaries	\$ 3,351,291	\$ -	\$ 490,490	\$ -	\$ 490,490	\$ 3,841,781
Payroll Taxes	265,543	-	37,438	-	37,438	302,981
Benefits	360,813	-	47,960	-	47,960	408,773
Retirement Costs	480,075	-	70,594	-	70,594	550,669
Total Personnel Expenses	\$ 4,457,721	\$ -	\$ 646,482	\$ -	\$ 646,482	\$ 5,104,203
Meeting Expenses						
Meetings	\$ 228,000	\$ -	\$ -	\$ -	\$ -	\$ 228,000
Travel	194,392	-	-	-	-	194,392
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	\$ 422,392	\$ -	\$ -	\$ -	\$ -	\$ 422,392
Operating Expenses						
Consultants & Contracts	\$ 676,331	\$ 200,000	\$ 287,675	\$ (559,523)	\$ (71,848)	\$ 604,483
Office Rent	327,600	-	229,725	(193,425)	36,300	363,900
Office Costs	44,022	-	4,590	-	4,590	48,612
Professional Services	634,625	16,500	597,083	(33,961)	579,622	1,214,246
Miscellaneous	36,236	-	8,606	-	8,606	44,843
Depreciation	153,107	-	146,550	-	146,550	299,657
Total Operating Expenses	\$ 1,871,921	\$ 216,500	\$ 1,274,229	\$ (786,909)	\$ 703,820	\$ 2,575,740
Total Direct Expenses	\$ 6,752,034	\$ 216,500	\$ 1,920,711	\$ (786,909)	\$ 1,350,302	\$ 8,102,336
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 6,752,034	\$ 216,500	\$ 1,920,711	\$ (786,909)	\$ 1,350,302	\$ 8,102,336
Change in Assets	\$ 90,343	\$ 1,092,000	\$ 230,293	\$ (161,631)	\$ 1,160,662	\$ 1,251,005
Fixed Assets						
Depreciation	\$ (153,107)	\$ -	\$ (146,550)	\$ -	\$ (146,550)	\$ (299,657)
Computer & Software CapEx	306,500	775,000	-	-	775,000	1,081,500
Furniture & Fixtures CapEx	15,215	317,000	-	-	317,000	332,215
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
Change in Fixed Assets	\$ (168,608)	\$ (1,092,000)	\$ 146,550	\$ -	\$ (945,450)	\$ (1,114,058)
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	\$ (168,608)	\$ (1,092,000)	\$ 146,550	\$ -	\$ (945,450)	\$ (1,114,058)
TOTAL CHANGE IN ASSETS	\$ (78,265)	\$ -	\$ 376,843	\$ (161,631)	\$ 215,212	\$ 136,947

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

Personnel Analysis

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: January 18, 2010

Section B — 2010 Regional Entity Budget

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

Table 2

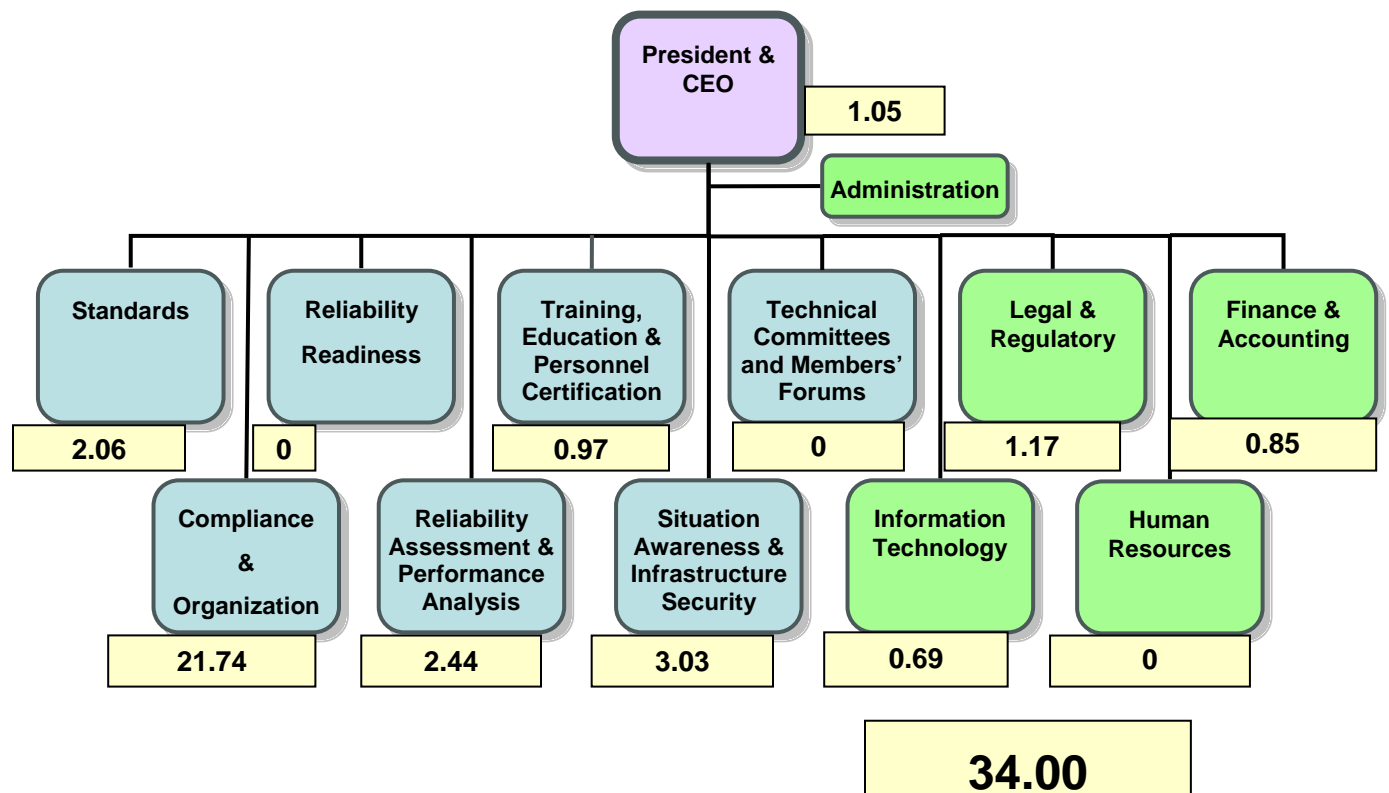
Total FTE's by Program Area	Approved 2010	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change From Approved 2010 Budget
STATUTORY					
Operational Programs					
Reliability Standards	2.06	0.00	2.06	2.06	0.00
Compliance and Organization Registration and Certification	21.74	0.00	21.74	21.74	0.00
Training and Education	0.97	0.00	0.97	0.97	0.00
Reliability Assessment and Performance Analysis	2.44	0.00	2.44	2.44	0.00
Situational Awareness and Infrastructure Security	3.03	0.00	3.03	3.03	0.00
Total FTEs Operational Programs	30.24	0.00	30.24	30.24	0.00
Administrative Programs					
Member Forums	0.00	0.00	0.00	0.00	0.00
General & Administrative	1.05	0.00	1.05	1.05	0.00
Information Technology	0.69	0.00	2.49	2.49	1.80
Legal and Regulatory	1.17	0.00	3.17	3.17	2.00
Human Resources	0.00	0.00	0.85	0.85	0.85
Accounting	0.85	0.00	1.70	1.70	0.85
Total FTEs Administrative Programs	3.76	0.00	9.26	9.26	5.50
Total FTEs	34.00	0.00	39.50	39.50	5.50

¹A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

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

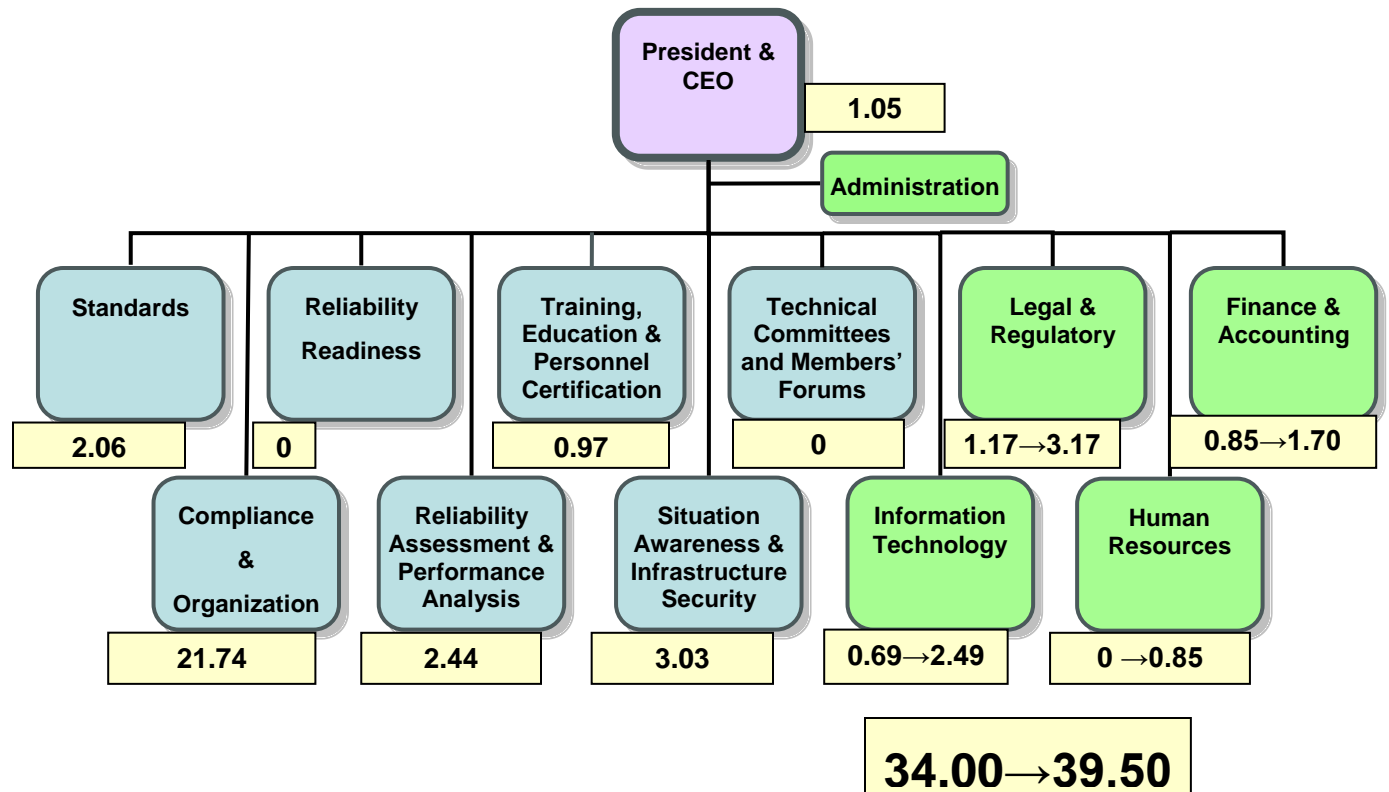
2010 Organizational Chart (Statutory) – Approved 2010 Budget

Table 3



2010 Organizational Chart (Statutory) – Proposed 2010 Budget versus Approved 2010 Budget

Table 4



Reserve Balance

Table 5

Working Capital Reserve Analysis 2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	2,666,325
Penalty sanctions being held 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	² 1,664,194
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
Less: LT Regulatory Liability Release	(593,983)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	215,212
2010 Assessment for Expenses and Capital Expenditures	9,138,129
Less: Penalty Sanctions ¹	0
Less: Other Funding Sources	(209,000)
Adjustment to achieve desired Working Capital Reserve	215,212
2010 Assessment	9,144,340

¹ Represents collections prior to June 30, 2009.

² Represents an approximately 75-day cash reserve.

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	310,856,852	310,856,852			100.0%	100.0%		
2008	WECC	-							
TOTAL		310,856,852	310,856,852	-	-	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		<u>\$ -</u>

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Training and Education				
Operations Training Seminar	\$ 180,000	\$ 180,000	\$ -	0.00%
Total	\$ 180,000	\$ 180,000	\$ -	0.00%
General and Administrative				
Membership Fees	\$ -	\$ 27,000	\$ 27,000	100.00%
Interest Income	2,000	2,000	-	0.00%
Total	\$ 2,000	\$ 29,000	\$ 27,000	1350.00%
Total Outside Funding	\$ 182,000	\$ 209,000	\$ 27,000	14.84%

Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget

- Texas RE members will pay nominal annual membership fee. Original Texas RE did not receive any portion of the ERCOT ISO membership fees.

Personnel Expenses

Table B-3

Personnel Expenses	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Salaries				
Salary	\$ 3,351,291	\$ 3,841,781	\$ 490,490	14.6%
Total Salaries	\$ 3,351,291	\$ 3,841,781	\$ 490,490	14.6%
Total Payroll Taxes	\$ 265,543	\$ 302,981	\$ 37,438	14.1%
Benefits				
Life, Health, Vision, etc.	\$ 360,813	\$ 408,773	\$ 47,960	13.3%
Total Benefits	\$ 360,813	\$ 408,773	\$ 47,960	13.3%
Retirement				
401(k) Contr. & Employee Matching	\$ 480,075	\$ 550,669	\$ 70,594	14.7%
Total Retirement	\$ 480,075	\$ 550,669	\$ 70,594	14.7%
Total Personnel Costs	\$ 4,457,721	\$ 5,104,203	\$ 646,482	14.5%
FTEs	34.00	39.50	5.50	16.2%
Cost per FTE				
Salaries	\$ 98,561	\$ 97,255	(1,306)	-1.3%
Payroll Taxes	7,810	7,670	(140)	-1.8%
Benefits	10,611	10,348	(263)	-2.5%
Retirement	14,119	13,940	(179)	-1.3%
Total Cost per FTE	\$ 131,101	\$ 129,213	\$ (1,888)	-1.4%

Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget

- The reason for the 1.4% decrease is that the average salary of the existing professional staff is higher than the additional corporate support staff being hired to perform the administrative services that were performed for Original Texas RE under its MOU with ERCOT ISO.

Consultants and Contracts

Table B-4

Consultants	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Consultants				
Recruitment	\$ -	\$ -	\$ -	
Consultants Total	\$ -	\$ -	\$ -	

Contracts	Budget 2010	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Contracts				
Corporate Support Allocation (MOU)	\$ 388,205	\$ 44,777	\$ (343,428)	-88.47%
Board Related Search & Support Fees	-	487,675	487,675	100.00%
IT Administration (MOU)	288,126	72,032	(216,095)	-75.00%
Contracts Total	\$ 676,331	\$ 604,483	\$ (71,848)	-10.62%
Total Consulting and Contracts	\$ 676,331	\$ 604,483	\$ (71,848)	-10.62%

Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget

- Board related costs are increasing due to the recruitment expenses included for start-up including four independent directors, as well as having overlapping board fees (Original Texas RE and Texas RE) during a portion of year one. The board related increase is offset by reductions in HR support, Finance support, Insurance coverage, and IT administration provided under the MOU. The net reduction is \$72K

Table B-5

Office Rent	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Office Rent & Facilities	\$ 327,600	\$ 261,900	(65,700)	-20.05%
2010 Office Move and Improvements	-	50,000	50,000	100.00%
2010 Office Move Project Management Expense	-	25,000	25,000	100.00%
MRC, Standards, and Board Meeting Room	-	27,000	27,000	100.00%
Total Office Rent	\$ 327,600	\$ 363,900	\$ 36,300	11.08%

Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget

- Texas RE expects that Office Rent & Facilities support will be more than the approved budget amount after Texas RE structurally separates, due to the need for Texas RE to acquire additional space and the expiration of the lease at the end of 2010.

Table B-6

Office Costs	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Office Supplies	\$ 16,002	\$ 16,766	\$ 764	4.77%
Cellular Phones	14,040	14,040	-	0.00%
Postage	1,800	3,713	1,913	106.28%
Express Shipping	7,980	7,980	-	0.00%
Stationary Forms	3,000	4,913	1,913	63.77%
Reports - Graphics	1,200	1,200	-	0.00%
Total Office Costs	\$ 44,022	\$ 48,612	\$ 4,590	10.43%

Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget

- Texas RE is increasing the amount for office supplies to reflect the additional employees \$1K.
- Additionally, postage costs are estimated to be higher due to additional mailings required related to tax filings, corporate governance, and employee communications. The estimated increase is expected to be approximately \$2K.
- Finally, employee forms needed for HR purposes, financial documents, and check stock will result in approximately a \$2K increase in office costs for Texas RE.

Table B-7

Professional Services	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Outside Legal	\$ 300,000	\$ 390,000	\$ 90,000	30.00%
Accounting & Auditing Fees	45,281	87,820	42,539	93.95%
Accounting Services Fees	-	46,582	46,582	100.00%
Insurance / Risk Management	-	82,608	82,608	100.00%
IT Professional Services	207,344	388,217	180,873	87.23%
RSVP Hosting	10,000	10,000	-	0.00%
Recruitment	12,000	63,000	51,000	425.00%
Other Professional Services	60,000	60,000	-	0.00%
Benefits Administration	-	70,720	70,720	100.00%
Security	-	15,300	15,300	100.00%
Total Services	\$ 634,625	\$ 1,214,246	\$ 579,621	115.62%

Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget

- Outside legal expenses are expected to increase \$90K over the approved 2010 budget due to the need to utilize outside counsel in connection with the projected increased number of enforcement or registration disputes. This increased cost is not due to the formation of Texas RE as a separate entity.
- Audit fees are increasing in 2010 by \$43K related to establishing an internal audit function for which an external service provider will be used. Additionally, accounting services expenses for timekeeping, expense reporting, payroll processing are expected to increase by \$47K, because the costs for these are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- Insurance/Risk Management is slated to increase approximately \$83K because the costs are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- IT professional services are increasing \$181K because these costs are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- Texas RE recruitment expenses are expected to increase \$51K in professional services. Recruitment expense was previously included in the Original Texas RE's MOU costs under Consultants and Contracts which reflects a decrease in expense.
- Benefits Administration will increase \$71K, because the cost of similar benefits is higher than when provided to Original Texas RE through the MOU with ERCOT ISO. This is as a result of the structural separation of Texas RE from ERCOT ISO.
- Security is being estimated to increase to \$15K, because this cost is higher than when provided to Original Texas RE through the MOU with ERCOT ISO.

Table B-8

Other Non-Operating Expenses	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Cash Reserve	\$ -	\$ -	\$ -	
Total Non-Operating Expenses	\$ -	\$ -	\$ -	

Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget

- N/A

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

(in whole dollars)			
(Decrease)	2010 Approved Budget	2010 Amended Budget	Increase
Total FTEs	6.00	6.50	0.50
Total Direct Expenses	\$1,086,772	\$1,112,132	\$25,360
Total Indirect Expenses			
Total Expenses	\$1,086,772	\$1,112,132	\$25,360

Non-statutory Functional Scope

In addition to the Statutory functions, Texas RE will provide compliance support to the Public Utility Commission of Texas (PUCT) through December 31, 2010. These services include auditing, event analysis, complaint investigations and monthly metric monitoring to identify violations of protocols. In addition, Texas RE also monitors the stakeholder market rules creation and modification 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, which follows 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 the enforcement processes, if needed; however, all enforcement is at the sole discretion of the PUCT.

Original Texas RE added one-half of an FTE (0.5 FTEs) in its 2010 Approved Budget to support the Non-statutory corporate support work in 2010. Texas RE estimates approximately (14%) 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.

Texas RE generated its budget to include the Non-statutory related work of the PUCT in its 2010 Amended Budget. However, the Non-statutory work performed by Texas RE may potentially transition to another entity selected by the PUCT effective December 31, 2010.

Major 2010 Cost Impacts – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

- Funding will be received through a contract with the PUCT or a three-way contract with the PUCT and ERCOT ISO.

Personnel Expenses

- Non-statutory Personnel Expenses are increasing primarily due to adding .50 FTEs of labor to the Non-statutory function for structural separation. This results in a \$70K increase to expenses (which is offset by the \$45K reduction in operating expenses), resulting in a change of a \$25K increase.

Operating Expenses

- Support service expenses incurred for consulting, and other professional services related to Texas RE's new corporate structure will require \$45K less expense, due to the elimination of the MOU expenses paid to ERCOT and a reduction to outside legal expenses.

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.

2010 Approved Budget and 2010 Proposed Amended Budget Comparisons

Table 1

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
NON-STATUTORY + STRUCTURAL SEPARATION BUDGET						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Base + Adjustment
	Budget	Start-Up	Recurring	Reductions	to the Approved	to the
		Costs	Costs		Budget	Approved Budget
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions ⁽¹⁾	-	-	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	1,153,772	-	195,064	(164,956)	30,108	1,183,879
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Funding	\$ 1,153,772	\$ -	\$ 195,064	\$ (164,956)	\$ 30,108	\$ 1,183,879
Expenses						
Personnel Expenses						
Salaries	\$ 608,104	\$ -	\$ 48,510	\$ -	\$ 48,510	\$ 656,614
Payroll Taxes	48,059	-	5,123	-	5,123	53,181
Benefits	66,079	-	7,044	-	7,044	73,123
Retirement Costs	86,102	-	9,178	-	9,178	95,280
Total Personnel Expenses	\$ 808,345	\$ -	\$ 69,854	\$ -	\$ 69,854	\$ 878,199
Meeting Expenses						
Meetings	\$ 5,600	\$ -	\$ -	\$ -	\$ -	\$ 5,600
Travel	624	-	-	-	-	624
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	\$ 6,224	\$ -	\$ -	\$ -	\$ -	\$ 6,224
Operating Expenses						
Consultants & Contracts	\$ 120,064	\$ -	\$ 21,677	\$ (99,273)	\$ (77,596)	\$ 42,467
Office Rent	62,400	-	40,540	(37,575)	2,965	65,365
Office Costs	-	-	810	-	810	810
Professional Services	57,875	-	27,809	-	27,809	85,684
Miscellaneous	1,865	-	1,519	-	1,519	3,383
Depreciation	30,000	-	-	-	-	30,000
Total Operating Expenses	\$ 272,203	\$ -	\$ 92,354	\$ (136,848)	\$ (44,494)	\$ 227,709
Total Direct Expenses	\$ 1,086,772	\$ -	\$ 162,208	\$ (136,848)	\$ 25,360	\$ 1,112,132
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 1,086,772	\$ -	\$ 162,208	\$ (136,848)	\$ 25,360	\$ 1,112,132
Change in Assets	\$ 67,000	\$ -	\$ 32,856	\$ (28,109)	\$ 4,748	\$ 71,748
Fixed Assets						
Depreciation	\$ (30,000)	\$ -	\$ -	\$ -	\$ -	\$ (30,000)
Computer & Software CapEx	67,000	-	-	-	-	67,000
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
Change in Fixed Assets	\$ (37,000)	\$ -	\$ -	\$ -	\$ -	\$ (37,000)
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	\$ (37,000)	\$ -	\$ -	\$ -	\$ -	\$ (37,000)
TOTAL CHANGE IN ASSETS	\$ 30,000	\$ -	\$ 32,856	\$ (28,109)	\$ 4,748	\$ 34,748

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

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	Approved 2010	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change From Approved 2010 Budget
NON-STATUTORY					
Operational Programs					
Protocol	5.04	0.00	5.04	5.04	0.00
Total FTEs Operational Programs	5.04	0.00	5.04	5.04	0.00
Administrative Programs					
General & Administrative	0.96	0.00	1.46	1.46	0.50
Total FTEs Administrative Programs	0.96	0.00	1.46	1.46	0.50
Total FTEs	6.00	0.00	6.50	6.50	0.50

¹A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (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	1,929,309	
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	1,696,208	
Total Assets		4,527,267	2,259,247	3,625,518	
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	3,360,403	
Total Liabilities and Net Assets		4,527,267	2,259,247	3,625,518	

Section D — Other Exhibits

Texas Regional Entity 2010 Budget

Statement of Activities 2010 Budget	Total	Statutory Total	Non-Statutory Total	Functions in Delegation Agreement											Non-Statutory Functions	
				Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Non-Statutory Total
Funding																
ERO Funding																
ERO Assessments	9,144,340	9,144,340	-	9,144,340	561,400	6,746,229	630,416	284,526	813,822	-	(6,343)	18,486	37,151	25,001	33,652	-
Penalty Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total ERO Funding	9,144,340	9,144,340	-	9,144,340	561,400	6,746,229	630,416	284,526	813,822	-	(6,343)	18,486	37,151	25,001	33,652	-
Membership Dues	27,000	27,000	-	27,000	-	-	-	-	-	-	27,000	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	1,183,879	-	1,183,879	-	-	-	-	-	-	-	-	-	-	-	-	1,183,879
Workshops	180,000	180,000	-	180,000	-	-	-	180,000	-	-	-	-	-	-	-	-
Interest	2,000	2,000	-	2,000	-	-	-	-	-	-	2,000	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding	10,537,219	9,353,340	1,183,879	9,353,340	561,400	6,746,229	630,416	464,526	813,822	-	22,657	18,486	37,151	25,001	33,652	1,183,879
Expenses																
Personnel Expenses																
Salaries	4,498,395	3,841,781	656,614	3,841,781	184,729	2,037,418	217,004	81,122	291,164	-	1,030,345	-	-	-	-	656,614
Payroll Taxes	356,162	302,981	53,181	302,981	14,901	161,372	17,187	6,425	23,060	-	80,036	-	-	-	-	53,181
Benefits	481,896	408,773	73,123	408,773	20,489	221,580	23,632	8,834	31,708	-	102,530	-	-	-	-	73,123
Retirement Costs	645,949	550,669	95,280	550,669	26,697	289,434	30,793	11,511	41,316	-	150,918	-	-	-	-	95,280
Total Personnel Expenses	5,982,402	5,104,203	878,199	5,104,203	246,816	2,709,803	288,615	107,893	387,247	-	1,363,829	-	-	-	-	878,199
Meeting Expenses																
Meetings	233,600	228,000	5,600	228,000	400	4,000	-	220,000	-	-	3,600	-	-	-	-	5,600
Travel	195,016	194,392	624	194,392	6,824	154,664	806	-	4,260	-	17,158	4,478	4,057	-	2,145	624
Conference Calls	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Meeting Expenses	428,616	422,392	6,224	422,392	7,224	158,664	806	220,000	4,260	-	20,758	4,478	4,057	-	2,145	6,224
Operating Expenses																
Consultants & Contracts	686,950	604,483	82,467	604,483	-	-	-	-	-	-	604,483	-	-	-	-	82,467
Office Rent	424,500	363,900	60,600	363,900	-	-	-	-	-	-	363,900	-	-	-	-	60,600
Office Costs	49,422	48,612	810	48,612	480	12,062	-	-	-	-	28,830	5,400	960	-	880	810
Professional Services	1,259,930	1,214,246	45,684	1,214,246	18,824	428,660	-	-	-	-	75,300	138,000	214,733	121,720	217,010	45,684
Miscellaneous	52,991	44,843	8,148	44,843	615	15,561	673	842	400	-	1,350	6,200	6,500	-	12,701	8,148
Depreciation	329,657	299,657	30,000	299,657	-	141,107	-	-	-	-	146,550	-	12,000	-	-	30,000
Total Operating Expenses	2,803,449	2,575,740	227,709	2,575,740	19,919	597,389	673	842	400	-	1,220,413	149,600	234,193	121,720	230,591	227,709
Total Direct Expenses	9,214,467	8,102,335	1,112,132	8,102,335	273,959	3,465,857	290,095	328,735	391,907	-	2,605,000	154,078	238,250	121,720	232,736	1,112,132
Indirect Expenses	-	-	-	-	228,439	2,409,652	270,464	107,918	335,309	-	(2,605,000)	(154,078)	(238,250)	(121,720)	(232,736)	-
Other Non-Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	9,214,467	8,102,335	1,112,132	8,102,335	502,398	5,875,509	560,559	436,653	727,217	-	(0)	-	-	-	-	1,112,132
Change in Assets	1,322,752	1,251,005	71,748	1,251,005	59,002	870,720	69,857	27,874	86,605	-	22,657	18,486	37,151	25,001	33,652	71,748
Fixed Assets																
Depreciation	(329,657)	(299,657)	(30,000)	(299,657)	-	(141,107)	-	-	-	-	(146,550)	-	(12,000)	-	-	(30,000)
Computer & Software CapEx	1,148,500	1,081,500	67,000	1,081,500	-	374,237	-	-	-	-	-	-	666,263	-	41,000	67,000
Furniture & Fixtures CapEx	332,215	332,215	-	332,215	-	15,215	-	-	0	-	317,000	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Increase) / Decrease in Fixed Assets	(1,151,058)	(1,114,058)	(37,000)	(1,114,058)	-	(248,345)	-	-	-	-	(170,450)	-	(654,263)	-	(41,000)	(37,000)
Allocation of Fixed Assets	-	-	-	-	(59,002)	(622,375)	(69,857)	(27,874)	(86,605)	-	170,450	-	654,263	-	41,000	-
Change in Fixed Assets	(1,151,058)	(1,114,058)	(37,000)	(1,114,058)	(59,002)	(870,720)	(69,857)	(27,874)	(86,605)	-	-	-	-	-	-	(37,000)
TOTAL CHANGE IN ASSETS	171,694	136,947	34,748	136,947	-	-	-	-	-	-	22,657	18,486	37,151	25,001	33,652	34,748
FTE's	46.00	39.50	6.50	39.50	2.06	21.74	2.44	0.97	3.03	-	1.05	3.17	2.49	0.85	1.70	6.50



Amended 2010 Business Plan and Budget

**Texas Reliability Entity, Inc.,
Successor to Texas Regional Entity,
A Division of Electric Reliability Council of Texas, Inc.**

Approved by:

XXXXXXXX

Texas RE Board of Directors

Submitted:

December __, 2009

January 8, 2010

Table of Contents

Introduction	43
Organizational Overview	43
Membership and Governance	65
Statutory Functional Scope	76
2010 Key Assumptions	87
2010 Goals and Key Deliverables	98
Overview of Cost Impacts – Operating Expenses <u>– of the 2010 Amended Business Plan and Budget</u>	109
Overview of Cost Impacts – Texas RE Start-Up Expenses	1240
Detailed Business Plans and Budgets by Program	1342
Section A — 2010 Business Plan	1413
Reliability Standards Program	1413
Compliance Monitoring and Enforcement and Organization Registration and Certification Program	2149
Reliability Assessment and Performance Analysis Program	3836
Situational Awareness and Infrastructure Security Program	4341
Administrative Services	4947
Section B — 2010 Budget	7368
2009 Budget and Projection and 2010 Budget Comparisons	7368
Regional Entity Assessment Analysis	7872
Assessments by Country	7872
Breakdown by Statement of Activity Sections	7973
Section C — 2009 RE Non-statutory Business Plan and Budget	8680
Major 2010 Cost Impacts – Proposed 2010 <u>Amended</u> Budget versus Approved 2010 Budget	8784
2010 Primary Goals and Objectives —	8784
2010 Approved Budget and 2010 Proposed <u>Amended</u> Budget Comparisons	8882
Personnel Analysis	8983

Field Code Changed	... [1]
Field Code Changed	... [2]
Field Code Changed	... [3]
Field Code Changed	... [4]
Field Code Changed	... [5]
Field Code Changed	... [6]
Field Code Changed	... [7]
Field Code Changed	... [8]
Field Code Changed	... [9]
Field Code Changed	... [10]
Field Code Changed	... [11]
Field Code Changed	... [12]
Field Code Changed	... [13]
Field Code Changed	... [14]
Field Code Changed	... [15]
Field Code Changed	... [16]
Field Code Changed	... [17]
Field Code Changed	... [18]
Field Code Changed	... [19]
Field Code Changed	... [20]
Field Code Changed	... [21]
Field Code Changed	... [22]
Field Code Changed	... [23]
Field Code Changed	... [24]
Field Code Changed	... [25]
Field Code Changed	... [26]
Field Code Changed	... [27]
Field Code Changed	... [28]
Field Code Changed	... [29]
Field Code Changed	... [30]
Field Code Changed	... [31]
Field Code Changed	... [32]
Field Code Changed	... [33]
Field Code Changed	... [34]
Field Code Changed	... [35]
Field Code Changed	... [36]
Field Code Changed	... [37]
Field Code Changed	... [38]
Field Code Changed	... [39]
Field Code Changed	... [40]
Field Code Changed	... [41]
Field Code Changed	... [42]
Field Code Changed	... [43]
Field Code Changed	... [44]
Field Code Changed	... [45]
Field Code Changed	... [46]
Field Code Changed	... [47]
Field Code Changed	... [48]
Field Code Changed	... [49]
Field Code Changed	... [50]

| Section D 9084

Field Code Changed

Field Code Changed

Introduction

Total Texas RE Resources				
(in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	39.50			
Non-statutory FTEs	6.50			
Total FTEs	46.00			
Statutory Expenses	\$9,216,393	\$9,216,393		
Non-statutory Expenses	\$1,149,132	\$1,149,132		
Total Expenses	\$10,365,525	\$10,365,525		
Statutory Funding	\$9,353,340	\$9,353,340		
Non-statutory(Member) Funding	\$1,183,879	\$1,183,879		
Total Funding	\$10,537,219	\$10,537,219		
NEL	310,856,852	310,856,852		
NEL %	100%	100%		

Organizational Overview

Texas Reliability Entity, Inc. (Texas RE) is a new Texas non-profit corporation which was created to become the successor to the Texas Regional Entity division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), which has an approved Regional Delegation Agreement with the North American Reliability Corporation (NERC) for the ERCOT region. The purpose of Texas RE is to become the regional entity for the ERCOT region and 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, the Texas Regional Entity division of ERCOT ISO (Original Texas RE) executed its Delegation Agreement with 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, Original 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 Original Delegation Agreement"), NERC delegated to Original Texas RE certain responsibilities and authorities of a regional entity as

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~[January 18, 2010](#)

Introduction

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). These activities under the Original Delegation Agreement and the proposed new Delegation Agreement for Texas RE are referred to herein as Statutory activities.

Texas RE seeks, concurrently with the [filingsubmission](#) of this 2010 Amended Business Plan and Budget, to be approved as a regional entity and take over the performance of the Statutory activities under a new or amended Delegation Agreement with NERC ("Delegation Agreement"). Texas RE intends to begin its performance of the delegated activities as a successor to Original Texas RE [approximately sixty \(60\) days](#) after FERC approves the Delegation Agreement and this proposed 2010 Amended Business Plan and Budget, ~~plus a subsequent implementation period of approximately sixty (60) days.~~ The date upon which Texas RE begins to perform under the Delegation Agreement (and Original Texas RE ~~does not perform~~ [ceases performance of regional entity delegated functions](#) under the Original Delegation Agreement) is referred to herein as the "Implementation."~~–.~~ [In preparing this 2010 Amended Business Plan and Budget, the Implementation is projected to occur on July 1, 2010; however, the amount of start-up and incremental operating costs that Texas RE expects to incur in 2010 would not be significantly affected were the Implementation to be one to two months earlier or later than this date.](#)

Beginning with the Implementation, in addition to [performing](#) the Statutory activities, Texas RE will also monitor, investigate, audit, and report on compliance with the ERCOT region reliability-based Protocols and Operating Guides (Protocols) for the PUCT, as a transition of the activities performed by Original Texas RE, through at least December 31, 2010. These Protocol compliance activities are referred to herein as Non-Statutory activities. Texas RE will coordinate with PUCT staff regarding enforcement of potential Protocol violations, and the PUCT will prosecute 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.

[Overview of the Texas RE proposed 2010 Amended Business Plan and Budget](#)

Texas RE's proposed 2010 Amended and Restated Business Plan and Budget ([referred to herein as "Amended Budget" or "Proposed Budget"](#)) includes (A) the expenditures required by Original Texas RE under its previously submitted and approved 2010 Business Plan and Budget¹ ([referred to herein as "Approved Budget"](#)) until Implementation, which is estimated herein to be ~~June~~ [July](#) 1, 2010, and (B) the expenditures required by Texas RE in 2010 for its start up costs and for operating expenses it incurs in 2010 as a regional entity, beginning at Implementation.~~–.~~ [In addition, the 2010 Amended Budget recognizes, through appropriate adjustments to the Working Capital Reserve Analysis, certain major cost impacts that were not recognized in the 2010 Approved Budget submitted by Original Texas RE to NERC in July and August 2009 and by NERC to the Commission in August 2009, but have manifested subsequent to August 2009.](#)

¹ See *Request of the North American Electric Reliability Corporation for Acceptance of its 2010 Business Plan and Budget and the 2010 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets*, filed August 24, 2009 in Docket RR09-9-000; and Order Conditionally Accepting 2010 Business Plan And Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings, 129 FERC ¶ 61,040 (October 15, 2009).~~–.)~~

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ [January 18, 2010](#)

Introduction

In general, the organization of the 2010 Amended Budget follows the organization of the 2010 Approved Budget except where revisions are needed to describe the impacts of the above-described changes. In addition, in several instances in which an assumption is mentioned that is now known to be incorrect (for reasons unrelated to the formation of Texas RE as a separate entity), the fact that the assumption is no longer valid is noted. (A separate, redlined version of the 2010 Amended Budget against the 2010 Approved Budget is also being provided.) Further, in the Statements of Activities and the summary tables for each statutory program, the values for the 2010 Approved Budget, the incremental costs due to the separation of Texas RE, and the resulting 2010 Amended Budget, are shown.

Original Texas RE will continue to perform under the Original Delegation Agreement and its approved 2010 Business Plan and Budget until Implementation, when Texas RE will begin to perform the Statutory and Non-statutory activities under a new Delegation Agreement. Original Texas RE will hire some of the additional employees required by new Texas RE prior to Implementation, to help prepare for the Implementation and for the prior transition of many of the administrative services that were performed for Original Texas RE by ERCOT ISO under the Memorandum of Understanding which was attached to the Original Texas RE 2010 Business Plan & Budget filing (MOU).

Upon Implementation, any remaining Original Texas RE funds, from cash reserves, penalties, and any Statutory revenues which are not spent by Original Texas RE performing Statutory Activities, will be distributed to Texas RE. Texas RE and NERC will, within ninety (90) days after Implementation, prepare and file a reconciliation of the approved 2010 budget of Original Texas RE to the actual expenditures and revenues, from January 1, 2010 to Implementation, to demonstrate that all unspent collections and reserves were appropriately transferred to Texas RE.

Membership and Governance

Texas RE has the following six membership sectors under its Bylaws:

- System Coordination and Planning - An entity that is registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP), or Interchange Authority (IA).
- Transmission and Distribution - An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP), and/or Transmission Operator (TOP), and is not a Cooperative or Municipal Utility.
- Cooperative Utility: An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; or (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the State of Texas; or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for at least one reliability function.
- Municipal Utility: An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities, or provides retail electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- Generation: An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- Load-Serving and Marketing: An entity that is registered with NERC as a Load Serving Entity (LSE), a Purchasing-Selling Entity, or any newly defined NERC reliability function for demand response.

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ January 18, 2010

Introduction

Membership in Texas RE is voluntary and open to any entity that is a user, owner, or operator in the ERCOT region BPS, who registers with Texas RE and complies with the Texas RE bylaws requirements. Texas RE 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.

Texas RE is governed by a hybrid board of directors (Board), comprised of the following nine (9) directors:

- The Texas RE Chief Executive Officer, ~~as a voting member~~
- The Chair of the PUCT, as an ex officio non-voting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio non-voting member
- Four (4) Independent Directors
- Two (2) Member Directors (the Chair and Vice-Chair of the Member Representatives Committee).

The Board's primary role is to assure that Texas RE meets its requirements under the bylaws and Delegation Agreement. The PUCT acts as the Hearing Body for contested matters under the Compliance Monitoring and Enforcement Program (CMEP). As the Hearing Body, the PUCT makes a recommendation to the Board, and the Board makes final compliance and enforcement decisions on contested cases. [The Texas RE Board performs this role, rather than a board compliance committee as used by other Regional Entities, because the Texas RE Board is smaller and has only seven voting members.](#)

Texas RE has two membership committees, the Member Representatives Committee and the Reliability Standards Committee. The Member Representatives Committee includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related, or any other matters, except for standards development issues, through its elected Chair and Vice Chair, who serve as directors. The Reliability Standards Committee includes representatives from the six ~~membership~~ sectors [described above](#), whether or not members [of Texas RE](#) and including any entity with a direct and material interest in the ERCOT region BPS, and manages and participates in the Regional Standards Development Process, coordinates the development of regional standards and variances with the development of national standards, and monitors, reviews, and comments on NERC (national) standards under development and standards interpretation requests.

Statutory Functional Scope

In accordance with the Delegation Agreement and in compliance with the NERC Rules of Procedure (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:

Introduction

- 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 [Amended](#) Budget include the following:

- Original Texas RE will remain functionally separate from ERCOT ISO and will continue to receive at least some administrative services (including human resources and possibly information technology services) from ERCOT ISO through a memorandum of understanding (which was amended as of February 16, 2009 and was attached to the Original Texas RE 2010 Business Plan & Budget filing (MOU)) until [Texas RE begins to perform under a new or amended Delegation Agreement](#)~~the Implementation~~.
- Texas RE will be legally separate from ERCOT ISO, will not obtain administrative or other services from ERCOT ISO, and [as a result](#) will be required to pay more for some of the administrative services and employee benefits than Original Texas RE paid through the MOU, including:
 - Texas RE will hire six (6) additional corporate services employees not required in the Original Texas RE 2010 Business Plan and Budget
 - Texas RE will outsource certain information technology services at cost higher than the amount paid by Original Texas RE to ERCOT ISO under the MOU
 - Texas RE will be required to pay more for employee benefits than the amount paid by Original Texas RE for similar services under the MOU
- [Texas RE will use competitive processes, to the extent feasible, to procure the administrative services, goods, and employee benefits formerly provided to Original Texas RE under the MOU.](#)
- Texas RE will be required [to](#) expend substantial start up costs for such things as furniture, software, information technology equipment (computers, telephone system, and servers), search firm expenses for independent directors, and contract assignments.
- Texas RE will maintain a 75-day cash reserve in 2010.
- The Delegation Agreement requirements and NERC expectations will be consistent with [the requirements of Original Texas RE those under the current Delegation Agreement between NERC and Original Texas RE \(without taking into account, for purposes of the 2010 Amended Budget, changes that may result from the currently ongoing renegotiation of the Delegation Agreements between NERC and the Regional Entities\).](#)
- Texas RE will use [any the](#) surplus funds [transferred](#) from the Original Texas RE ~~prior year~~, and any penalty funds received by Original Texas RE or Texas RE prior to July 1, 2009, to offset 2010 funding requirements. [All unanticipated expenses incurred in 2009 by Original Texas RE are offset by 2009 underspending in other areas; so, the surplus funds in the 2010 Approved Budget have not changed.](#)
- The number of registered entities and the current audit frequency are expected to remain fairly constant, except as specifically described herein.

Introduction

- The number of contested enforcement and registration cases will remain fairly low in 2010 but will be slightly higher than originally estimated by Original Texas RE – one to two large or two to three 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 coordinating, reviewing, and providing comments on such assessments, and ensuring timely submission to NERC. This is a changed statement of this assumption from the approved Original Texas RE Approved 2010 Budget.
- 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.
- NERC will lead the audits, other compliance monitoring processes, and enforcement of ERCOT ISO during the time Original Texas RE is the regional entity under the Delegation Agreement (until Implementation). This is a changed assumption from the approved Original Texas RE 2010 Approved Budget.
- NERC will charge Original Texas RE fees to cover NERC's costs for its leadership/performance of compliance monitoring and enforcement activities of ERCOT, but Original Texas RE and Texas RE will fund any such fees out of reserves. (NERC's costs will include its personnel expenses, travel expenses, an allocation of overhead based upon the time spent performing the function, and any other costs incurred specifically related to performance of the CEA function in the Region compliance monitoring and enforcement activities in the Region. The impact of such costs incurred in 2009 was offset by positive variances in other areas and did not require an adjustment to the Working Capital Reserve.)
- Texas RE has not budgeted to conduct CIP audits of nuclear facilities.
- Texas RE estimated the budget immediately required for the evaluation of Technical Feasibility Exception (TFE) requests based upon the information available at this time.

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.

Introduction

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 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 – Operating Expenses – of the 2010 Amended Business Plan and Budget

In the proposed 2010 ~~budget~~Amended Budget, total direct Statutory expenses are increasing by ~~46.8%~~ \$1,921K (28.5%) in recurring direct operating expenses ~~less MOU reductions in payments to ERCOT under the MOU ("MOU reductions") of \$787K, for a net increase of \$1,433K~~134K (16.8%) from the 2010 approved budget. Additionally, this Approved Budget. This increase includes reflects the additional expenses required effort due to support the structural/legal separation of Texas RE and the elimination of the lower cost administrative services by ERCOT. This increase does not include the required one-time start-up costs to support the formation of Texas RE as a structurally separate entity from ERCOT ISO- (described below). The total recurring Statutory increase is primarily being driven by the following items:

1. Increased personnel expenses resulting from adding six (6) additional staff (5.50 FTEs Statutory, 0.50 FTEs Non-statutory) ~~and salary and benefit increases for existing staff.~~ The total increase for salaries is approximately \$490K. Additionally, the expected increase in benefits expense for those employees is \$156K. This results in a total Statutory personnel expense increase of \$646K for structural separation due to the new separate corporate entity and elimination of administrative services from ERCOT ISO.

Introduction

2. ~~Texas RE is expecting the service fee and premium fees to \$288K increase for the benefits in the Contracts & Consultants category for recurring board-related expenses and increased administrative expenses incurred under the MOU for new employees prior to and in preparation for Implementation.~~
3. ~~\$230K increase in Texas RE Office Rent expenses related to meeting space needs, increase in facility and maintenance expenses (for services previously provided to existing employees, those under the MOU), and estimated expenses for a potential 2010 office move for Texas RE (since its lease expires in December 2010).~~
4. ~~\$4K increase in Office Cost expenses due to additional office supplies and printing for new employees, membership, and items related to the formation of the new corporation.~~
5. ~~\$597K for increased Professional Services expenses:~~
 - a. ~~\$71K for increased employee benefits expenses are expected to increase \$71K. Additionally, benefit administration for employees (since these benefit administration services will no longer be provided under the MOU and will cost more from a third party vendor, based upon initial verbal quotes from potential vendors).~~
 - 2-b. ~~\$51K for additional recruitment expenses will be incurred under professional services totaling \$60K.~~
 - 3-c. ~~Increased \$181K for the estimated increased technology expenditures for structural separation of \$181K. This is primarily (based upon preliminary discussions with external vendors at the beginning of our competitive process), due to the increased cost of information technology (IT) support services from third-party vendors that will be necessary to run the replace the services provided to Original Texas RE IT needs by ERCOT under the MOU.~~
 - d. ~~Increase \$64K for the increased cost accounting services expenses of \$46K, from third-party vendors (based upon initial verbal quotes from potential vendors) instead of under the MOU.~~
 - e. ~~\$43K for the cost of outsourced internal audit function (external provider) expenses of \$43K, \$9K in treasury fee increases, and formerly included in the MOU.~~
 - 4-f. ~~\$83K in for the estimated increased cost for general liability, property and casualty, Directors & Officers, and Errors & Omissions insurance coverage expense when it is separated from ERCOT's insurance.~~
 - 5-g. ~~Additionally, there is \$15K for an increase in the cost of \$15K for security services planned for 2010. This cost was also previously paid for under the MOU (based upon discussions with ERCOT vendors), which were previously obtained under the MOU.~~
6. ~~Increased depreciation expense of \$147K.~~
7. ~~These increases are offset by reductions in contracts & consultants of \$71K.~~
 - h. ~~There is an increase in \$90K for increased outside legal expenses, due to the expectation of a greater number of, and scope of, enforcement and registration appeals during 2010 than was assumed in the 2010~~

Formatted

Formatted

Introduction

Approved Budget. These increased legal expenses are not due to the formation of the new entity or the elimination of the MOU.

6. \$9K increase in the miscellaneous expense category due to the treasury fees to be incurred for start-up and on-going cash management services (formerly provided under the MOU).
7. \$147K for increased depreciation expense.
8. The above-listed costs are offset by reduced spending on costs that were estimated to be incurred under the MOU of \$787K. The detailed breakout of the \$787K in reductions is: \$560K in MOU reductions related to Consultants & Contracts, \$193K in MOU reductions related to office rent, and \$34K in reductions related to Professional Services.
- 8.

Formatted: Indent: Left: 1.05", No bullets or numbering

Overview of Cost Impacts – Texas RE Start-Up ExpensesCosts

In the proposed 2010 ~~budget~~Amended Budget, total direct Statutory start-up costs are budgeted at \$1,162K, comprised of \$217K of operating expenses and \$1,092K of capital additions, offset by increased depreciation expense of \$147K. These ~~expenses~~costs are one-time ~~expenses~~costs that will not reoccur. ~~They include both capital expenses as well as non-capital expenses, in future years.~~ The total increase is primarily being driven by the following items that Texas RE must procure from independent third party vendors to replace the goods and services currently provided to Original Texas RE under its MOU with ERCOT ISO:

1. Texas RE must procure IT assets and establish an independent IT environment that operates without the assistance of ERCOT ISO. The expected capital costs ~~for this~~ are budgeted at \$634K.
2. Texas RE will procure an accounting system to process all of the accounting data; this is budgeted at \$41K.
3. Texas RE will also procure office furniture, workstations for employees, as well as conference room furniture, etc.; these are capital ~~expenses~~additions and are expected to total \$317K.
4. Texas RE is also budgeting for the recruitment fees anticipated with securing four (4) independent directors. This search fee is expected to be \$200K.
5. Texas RE must expend approximately \$17K for the set-up and implementation of the HRIS, Payroll, and Expense Reporting systems.
6. ~~Texas RE Compliance Portfolio Management Tool \$100K.~~
6. \$100K for a Texas RE Compliance and Enforcement Data Management System (a database tool designed to allow employees to efficiently and flexibly retrieve, view, and analyze registered entity compliance and enforcement information while maintaining data integrity and completeness and reducing the amount of employee time spent manually managing data).
7. Finally, the above ~~is~~costs are offset by the increased depreciation expense of \$147K.

Introduction

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)			
(Decrease)	2010 Approved Budget	2010 Proposed Amended Budget	Increase
Total FTEs	2.06	2.06	0.00
Total Direct Expenses	\$273,959	\$273,959	\$0
Total Indirect Expenses ²	\$136,410	\$228,439	\$92,029
Total Expenses	\$410,369	\$502,398	\$92,029

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~~six Sectors and a requirement of a vote of at least two-thirds of the ~~segments~~sectors 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 and filed with FERC.~~ No two ~~segments~~sectors can approve, and no single ~~segment~~Sector can defeat any matter. In addition, each of the ~~current seven segments has six Sectors with~~ at least two members has two representatives on the RSC. Currently, 47 entities have joined the RBB, representing about 25% of all Texas RE members.

² Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

Section B — 2010 Regional Entity Budget

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 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.

Section B — 2010 Regional Entity Budget

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~~[programs](#) 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. Texas RE also supports revising the NERC Fill-in-the-Blank standards, and will help develop (as necessary) any regional standards that are subsequently required.

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 2010. Otherwise, Texas RE Standards staff will continue to include a standards section in the Compliance Workshop.

[Previously, stakeholders 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 sectors. 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

Section B — 2010 Regional Entity Budget

stakeholders, and Texas RE will continue participating in the NERC Communication and Planning Subcommittee.

Section B — 2010 Regional Entity Budget

Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget

The funding requirements reflect an increase of \$150K from the 2010 ~~approved budget~~Approved Budget for Original Texas RE because of the start-up costs and the increased administrative costs of Texas RE.

Formatted: Font: Not Bold

Section B — 2010 Regional Entity Budget

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			
2010 Approved Budget & 2010 Amended Budget			
Reliability Standards			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding			
ERO Funding			
ERO Assessments	\$ 411,750	\$ 149,650	\$ 561,400
Penalty Sanctions	-	-	-
Total ERO Funding	\$ 411,750	\$ 149,650	\$ 561,400
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
Total Funding	\$ 411,750	\$ 149,650	\$ 561,400
Expenses			
Personnel Expenses			
Salaries	\$ 184,729	-	\$ 184,729
Payroll Taxes	14,901	-	14,901
Benefits	20,489	-	20,489
Retirement Costs	26,697	-	26,697
Total Personnel Expenses	\$ 246,816	\$ -	\$ 246,816
Meeting Expenses			
Meetings	\$ 400	-	\$ 400
Travel	6,824	-	6,824
Conference Calls	-	-	-
Total Meeting Expenses	\$ 7,224	\$ -	\$ 7,224
Operating Expenses			
Consultants & Contracts	\$ -	-	\$ -
Office Rent	-	-	-
Office Costs	480	-	480
Professional Services	18,824	-	18,824
Miscellaneous	615	-	615
Depreciation	-	-	-
Total Operating Expenses	\$ 19,919	\$ -	\$ 19,919
Total Direct Expenses	\$ 273,959	\$ -	\$ 273,959
Indirect Expenses	\$ 136,410	\$ 92,029	\$ 228,439
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	\$ 410,369	\$ 92,029	\$ 502,398
Change in Assets	\$ 1,381	\$ 57,621	\$ 59,002
Fixed Assets			
Depreciation	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (1,381)	\$ (57,621)	\$ (59,002)
Change in Fixed Assets	\$ (1,381)	\$ (57,621)	\$ (59,002)
TOTAL CHANGE IN ASSETS	-	\$ -	\$ -

Explanations of Variances – Proposed 2010 [Amended](#) Budget versus Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect expenses are increasing by \$92K due to the start-up costs and the increased administrative costs of Texas RE. [These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.](#) The result is a total of \$228K for indirect expenses through 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed ~~assets~~[asset additions](#) are increasing due to the allocation of the increased administrative services' fixed assets [expenditures](#) which are required for the start-up of Texas RE, ~~+~~in the amount of approximately \$58K, bringing the total fixed ~~assets~~[asset additions](#) to \$59K for 2010.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources			
(in whole dollars)			
Increase(Decrease)	2010 Approved Budget	2010 Proposed Amended Budget	
Total FTEs	21.74	21.74	0.00
Total Direct Expenses	\$3,465,857	\$3,465,857	\$0
Total Indirect Expenses	\$1,438,898	\$2,409,652	\$970,754
Total Expenses	\$4,904,755	\$5,875,509	\$970,754

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 its 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 controlling the cost of compliance whenever possible.

In 2010, Texas RE is developing a software tool (Texas RE ~~compliance~~Compliance and ~~enforcement data management system~~Enforcement Data Management System) to allow Texas RE employees to efficiently and flexibly view, analyze, and retrieve Texas RE registered entity compliance and enforcement information (by registered entity, registered function, date,

Formatted: Font color: Auto

Section B — 2010 Regional Entity Budget

compliance monitoring process, technical feasibility exception request, settlement agreement, violation, etc.). The tool should increase the efficiency of compliance and enforcement personnel locating and analyzing relevant compliance and enforcement information as needed for performance of their duties. This tool will ultimately interface with the Texas RE document management system. [-This is a cost impact not included in the 2010 Approved Budget of Original Texas RE.](#)

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 214 registered entities representing 335 functions as of November 30, 2009. The list of registered entities in the ERCOT region continues to evolve and currently includes:

- 110 Generator Owners (GO)
- 79 Generator Operators (GOP)
- 24 Transmission Planners (TP)
- 29 Transmission Owners (TO)
- 46 Distribution Providers (DP)
- 40 Purchasing Selling Entities (PSE)
- 1 entity – ERCOT ISO – with seven (7) functional registrations: Transmission Operator (TOP), Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP), Transmission Service Provider (TSP), and Interchange Authority (IA)

Texas RE has a Stakeholder Management Department with responsibility for registration, certification, training, communications, reporting, document management and reliability assessments. This provides organizational focus for stakeholder management and services. [In response to concerns expressed by registered entities in the 2009 NERC survey, Original Texas RE had increased the staffing of this area for its 2010 budget \(1.0 full-time employee, allocated as 0.85 FTE Statutory and 0.15 FTE Non-statutory\), and Texas RE expects this staffing to be adequate for 2010.](#)

Texas RE will continue to use the compliance portal launched by Original Texas RE in 2008, which 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

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~[January 18, 2010](#)

Section B — 2010 Regional Entity Budget

NERC is working toward completing its portal to allow a more efficient submission of this information. The updated Texas RE and NERC portals are intended to reduce some of the administrative burdens on this program.

The implementation of the modified LSE registration criteria in 2008 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). A number of ERCOT region stakeholders have now agreed to a Joint Registration Organization (JRO) solution for the Load Serving Entity (LSE) function in the ERCOT region which should help to avoid gaps and overlaps and reduce the number of required registration appeals. The JRO has an effective date of January 1, 2010. Texas RE anticipates that most of the entities needed for registration as LSEs in the ERCOT region will participate in the LSE JRO, but it believes there might be some registration disputes by entities that do not participate in this JRO. Texas RE will need to register all LSEs that do not participate in the JRO. 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. [This reflects a change in assumptions from the 2010 Approved Business Plan and Budget, but Texas RE is not seeking additional resources for this area at this time.](#)

Registration work is expected to remain at the current level- 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 have the potential to adversely impact work load in the registration area. The time expended by Original Texas RE on each registration appeal (none of which are currently pending) has been significant. Texas RE anticipates that registration disputes should reduce over time once the NERC functions and registration criteria stabilize, but Texas RE anticipates possible registration disputes in the LSE and TOP areas in 2010. This budget anticipates no additional significant changes in registration criteria in 2010.

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 [expectmeet](#) extensive reporting obligations through 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 reliability in the ERCOT region BPS. Ensuring the reliable operation of the BPS benefits all owners, operators, and users of the BPS in the ERCOT region.

Section B — 2010 Regional Entity Budget

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~~ addition, in accordance with the NERC CMEP Implementation Plan, Texas RE requires ~~the~~ each registered entity to complete a compliance Self-Certification using electronic forms developed in coordination with NERC and distributed by Texas RE, ~~regardless of whether the registered entity has had a compliance audit in that year.~~ 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. (This paragraph reflects a change in policy adopted subsequent to the submission of the 2010 Approved Budget.)

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.

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

Section B — 2010 Regional Entity Budget

be ~~auditably compliant~~[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 has a single Table 1 entity, ERCOT ISO, due to its registration as the sole TOP, BA and RC in the ERCOT Region. Texas RE scheduled the spot check in 2009 for this entity covering the thirteen requirements initially applicable to Table 1 entities. Texas RE's 2010 plan therefore does not include additional mandatory spot checks of these thirteen requirements (as is the case in most other Regions). In the latter half of 2010, Texas RE has budgeted for approximately 10 possible event-driven spot checks of CIP requirements for Table 3 entities that will be in the ~~"compliant"~~["Compliant"](#) stage of the CIP implementation plan. The budget also includes a planned ERCOT ISO audit for the remaining 28 CIP-002 through 009 requirements not included in this year's spot check, after July 1, 2010 when these requirements become "Auditably Compliant" for Table 1 entities under the implementation plan. [It also includes a spot check for the single BA's compliance with BAL-003, which was adopted after the 2010 Approved Budget was submitted.](#)

~~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 CIP experts and staff to support the TFE processing 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.

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~[January 18, 2010](#)

Section B — 2010 Regional Entity Budget

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 audits for a maximum of 4 new TOPs (registered by JRO) might be performed.
- A maximum of two small to medium or one large registration dispute will occur in 2010. [\(This is a new assumption not included in the 2010 Approved Business Plan and Budget of Original Texas RE.\)](#)
- 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 mid-2010 and fully operational by late- 2010.

Compliance Audit

- Audits will require an average of 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, [similarlysimilar](#) to the audits performed by Original Texas RE in 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 ten (10) Spot checks of CIP 002 – 009 standards listed below) conducted in the second half of the year.
- [Develop and implement the Texas RE Compliance and Enforcement Data Management System – this is a new assumption not reflected in the 2010 Approved Budget of Original Texas RE.](#)
- [NERC will not lead audits or other compliance management data management system activities of ERCOT ISO after Implementation \(which is a new assumption not reflected in the 2010 Approved Budget\).](#)

Section B — 2010 Regional Entity Budget

Compliance Enforcement

- The number of alleged violations in the region 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.
- Develop and implement the Texas RE compliance management data management system.
- 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 under development or revision, and 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. Help implement and maintain an electronic document management system to more efficiently preserve work papers and evidence.

Section B — 2010 Regional Entity Budget

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 Texas RE'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) Over 2010 Approved Budget

The funding requirement reflects an increase of \$1,579K679K over the Original Texas RE's 2010 ~~approved budget~~ Approved Budget because of Texas RE's required start up costs and increased administrative operational expenses. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

Technical Feasibility Exceptions

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ January 18, 2010

TFE Program Scope and Description

The CIP standards allow for registered entities to request TFEs to certain of the standard requirements on the grounds of technical feasibility or technical limitations. NERC issued initial procedures for the processing ~~theof~~ TFEs, but there is still great uncertainty regarding the workload requirements and longevity of the TFE review and evaluation process. To date, 48 ERCOT Region registered entities have declared critical cyber assets, and each of these registered entities must be audited against the CIP standards requirements. Using the information available, including the NERC guidance, Texas RE has used its best efforts to estimate the workload requirements for its review and evaluation of TFEs in the ERCOT region, including coordination with NERC and the other Regional Entities, in accordance with its below-listed assumptions. Texas RE estimates that each of the registered entities with critical cyber assets will submit an average of five (5) TFEs (totaling 240 TFEs), and that these 240 TFEs will be screened and verified over the next two years (2010-2011), or 120 TFEs per year.

Texas RE estimates that screening of each of these TFEs will require 16 hours of staff labor and the verification will require 34 hours of staff labor. Additionally, there will be approximately 6 hours of staff support required for development and maintenance of online forms, data management, and to monitor periodic reporting of TFE status. Therefore the total estimated impact is 56 hours per TFE. The total effort given these assumptions is 6,720 hours in 2010 (6,000 hours for engineering/information technology/legal labor (3.6 FTEs) and 720 hours of support labor (0.4 FTEs), or a total of 4 FTEs). This FTE increase would equate to approximately \$651K in additional expense plus cash reserves of approximately \$133K. Texas RE acknowledges, however, that the estimated workload for the TFE evaluation is based upon many assumptions that cannot yet be verified. For this reason, Texas RE seeks to add only \$400K, for 3 FTEs for TFE evaluation activities at this time.

Texas RE will monitor the workload actually required to process the TFEs as they are submitted. If the total number of TFEs or the actual workload required for processing the TFEs significantly exceeds the \$400K budget estimate, Texas RE would initially use its cash reserves and will seek a 2010 budget supplement. If the total number of TFEs is significantly less than the above estimate or if the workload for completing TFEs is significantly less than the amount budgeted, any savings will be applied to a future budget year.

The estimates above do not include staff enforcement time required if violations are assessed during the TFE evaluation. Should a large number of violations be assessed as a result of TFE evaluations, this would have a significant impact on enforcement staff and additional resources will be required.

TFE Program Key Assumptions

- Texas RE will perform TFE evaluations for registered entities in the ERCOT Region and will coordinate with the other Regions to ensure consistent treatment of similar requested TFEs.
- TFE processing will require a preliminary screening of the TFE for completeness and reasonableness for acceptance on an interim basis. Screening is assumed to be completed within 60 days of receipt by the regional entity.

Section B — 2010 Regional Entity Budget

- Texas RE will conduct a thorough review of the TFE and proposed mitigating measures, and will prepare its justification for approval or denial of the TFE within 360 days of the initial submittal of the TFE, unless otherwise extended by the regional entity with the concurrence of NERC, based on criteria provided by NERC.
- The initial screening and thorough review of each TFE will be conducted off-site (not at the office of the Registered Entity and normally at the Texas RE offices) and Registered Entities will electronically submit all documentation required to review TFEs, including Critical Energy Infrastructure Information (CEII) associated with TFEs, to Texas RE. Registered entities will submit the information through either (1) encrypted email or (2) encrypted or password protected CDs, DVDs, or other mobile storage devices. Texas RE will ensure that confidential data and information received, including Critical Energy Infrastructure Information (CEII), are secured, in accordance with Section 1500 of NERC Rules of Procedure. Unless and until Texas RE can confirm that its servers are appropriately secure, Texas RE will maintain all CEII on password protected or encrypted mobile storage devices which are maintained in locked fire-proof filing cabinets, in accordance with its Handling Guidelines for CEII Corporate Procedure, and Texas RE will only view registered entity CEII on designated secured (password protected) computers that are not network-connected to either the Internet or the Texas RE corporate local area network.
- If a TFE is found to be deficient in the initial screening or during the thorough review, the registered entity will be provided 30 days to remedy the deficiency. If the registered entity fails to comply with the mitigation measures in its own TFE, the entity may be referred to Texas RE enforcement for processing of a possible violation. Registered entities will have a 'safe harbor' from enforcement while a TFE is pending acceptance by Texas RE and while the entity is performing in accordance with the TFE mitigation plan.
- TFEs are associated with and permitted for only CIP-005 requirements 2.4, 2.6, 3.1, and 3.2; ~~CIP-006 requirement 1.1~~; and CIP-007 requirements 2.3, ~~4~~, ~~5.3~~, ~~5.3.1~~, ~~5.3.2~~, ~~4~~, ~~4.1~~, ~~5.3.3~~, 6, and 6.3.
- If a registrant refuses to submit materials or documents due to CEII concerns and requests that Texas RE only review materials on-site, Texas RE will not approve the request, unless the registered entity is prohibited by law from disclosing information designated as Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information to any person who is not an Eligible Reviewer (such as, for example, the restriction on access to Classified National Security Information specified in Section 4.1 of Executive Order No. 12958, as amended). In such an instance, the TFE Request shall identify the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information that is subject to such restrictions on disclosure and shall identify the criteria which a person must meet in order to be an Eligible Reviewer of the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information. The registered entity must submit all information that is not so designated.
- Registered entities will be required to provide quarterly updates on the status of TFEs compared to mitigation plan milestones. Texas RE will be expected to review the completion of a TFE in a manner similar to a spot check.
- TFEs will be grouped by common equipment/device types. Therefore, if there is one vulnerability that affects several types of devices, of which an entity has hundreds of

Section B — 2010 Regional Entity Budget

such devices, Texas RE assumes that an entity will submit a single TFE for such vulnerability.

- NERC will provide review, input, and visibility (such as through a shared national database for use by the Regions) for consistency of the TFEs and will also develop common TFEs to provide better consistency and efficiency across Regions.

Staffing Summary to Support TFE Processing

The TFE processing and evaluation will require three (3.0) Compliance FTEs, as follows:

- Two (2.0) FTEs for TFE screening and verification, and mitigation plan review and follow-up.
- One (1.0) FTE for TFE data base administration and tracking.

At the end of the two-year period (after 2011), Texas RE will better understand the scope of the CIP compliance activity (including overflow work associated with balance of nuclear plant audits) and will evaluate staffing needs going forward. Texas RE believes the three (3.0) new TFE-related staff will transition into assuming responsibility for additional work associated with CIP audits, spot checks, investigations and enforcement activities, as well as follow-up on questions and concerns from registered entities.

2010 Overview of TFE Cost Impacts

~~Based on current assumptions that cannot yet be verified, Texas RE's initial analysis has indicated that \$784K will be needed for TFE processing in 2010. However, because of the many uncertainties associated with TFE processing, Texas RE seeks to include only \$400K for TFE processing in 2010 at this time.~~

Section B — 2010 Regional Entity Budget

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			
2010 Approved Budget & 2010 Amended Budget			
Compliance and Organization Registration and Certification			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding			
ERO Funding			
ERO Assessments	\$ 5,067,667	\$ 1,678,562	\$ 6,746,229
Penalty Sanctions	-		-
Total ERO Funding	\$ 5,067,667	\$ 1,678,562	\$ 6,746,229
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
Total Funding	\$ 5,067,667	\$ 1,678,562	\$ 6,746,229
Expenses			
Personnel Expenses			
Salaries	\$ 2,037,418		\$ 2,037,418
Payroll Taxes	161,372		161,372
Benefits	221,580		221,580
Retirement Costs	289,434		289,434
Total Personnel Expenses	\$ 2,709,803	\$ -	\$ 2,709,803
Meeting Expenses			
Meetings	\$ 4,000		\$ 4,000
Travel	154,664		154,664
Conference Calls	-		-
Total Meeting Expenses	\$ 158,664	\$ -	\$ 158,664
Operating Expenses			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	12,062		12,062
Professional Services	428,660		428,660
Miscellaneous	15,561		15,561
Depreciation	141,107		141,107
Total Operating Expenses	\$ 597,389	\$ -	\$ 597,389
Total Direct Expenses	\$ 3,465,857	\$ -	\$ 3,465,857
Indirect Expenses	\$ 1,438,898	\$ 970,754	\$ 2,409,652
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	\$ 4,904,755	\$ 970,754	\$ 5,875,509
Change in Assets	\$ 162,912	\$ 707,808	\$ 870,720
Fixed Assets			
Depreciation	\$ (141,107)	\$ -	\$ (141,107)
Computer & Software CapEx	274,237	100,000	374,237
Furniture & Fixtures CapEx	15,215		15,215
Equipment CapEx	-		-
Leasehold Improvements	-		-
(Incr)Dec in Fixed Assets	\$ (148,345)	\$ (100,000)	\$ (248,345)
Allocation of Fixed Assets	\$ (14,568)	\$ (607,808)	\$ (622,375)
Change in Fixed Assets	\$ (162,912)	\$ (707,808)	\$ (870,720)
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -

Explanations of Variances – ~~Proposed~~Amended 2010 Budget versus Approved 2010 Budget

Formatted: Font: 12 pt, Bold, Font color: Black

Funding Sources

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

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect expenses are increasing by \$971K over the Original Texas RE's [budget2010 Approved Budget](#), due to the start-up costs and the increased administrative expenses of Texas RE. [These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.](#) The result is a total of \$2,410K for indirect expenses for 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed ~~assets~~[asset additions](#) are increasing due to the allocation of the increased administrative services' fixed ~~assets~~[asset additions](#) which are required for the start-up of Texas RE, in the amount of approximately \$608K. Also, there is a need to establish a Texas RE ~~compliance management data management system~~[Compliance Monitoring and Enforcement Data Management System](#) tool ~~for at a cost of~~ \$100K. The result of these additions brings the total of fixed ~~assets~~[asset additions](#) to \$871K [\(net of depreciation\)](#) for 2010.

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources			
(in whole dollars)			
Increase(Decrease)	2010 Approved Budget	2010 Proposed Amended Budget	Budget
Total FTEs	0.97	0.97	0.00
Total Direct Expenses	\$328,735	\$328,735	\$0
Total Indirect Expenses	\$64,442	\$107,918	\$43,476
Total Expenses	\$393,177	\$436,653	\$43,476

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 coordinate and facilitate six (6) regular sessions of the ERCOT Operations Training Seminar in 2010. 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 will also facilitate 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 will continue to publish a bi-monthly newsletter, which will include 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 will continue to participate on selected industry sponsored seminars and panels to provide as much information to the industry as possible as well as to receive feedback.

Formatted: Font: Not Bold, No underline

2010 Key Assumptions:

Section B — 2010 Regional Entity Budget

- 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 offsetting the majority of 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) over 2010 Approved Budget

The funding requirements ~~reflects~~reflect an increase of \$71K over the Original Texas RE's 2010 ~~approved budget~~Approved Budget because of the required start-up costs and increased administrative costs of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

Section B — 2010 Regional Entity Budget

Formatted: Font: Not Bold

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			
2010 Approved Budget & 2010 Amended Budget			
Training and Education			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding			
ERO Funding			
ERO Assessments	\$ 213,829	\$ 71,349	\$ 285,179
Penalty Sanctions	-		-
Total ERO Funding	\$ 213,829	\$ 71,349	\$ 285,179
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	180,000		180,000
Interest	-		-
Miscellaneous	-		-
Total Funding	\$ 393,829	\$ 71,349	\$ 465,179
Expenses			
Personnel Expenses			
Salaries	\$ 81,122		\$ 81,122
Payroll Taxes	6,425		6,425
Benefits	8,834		8,834
Retirement Costs	11,511		11,511
Total Personnel Expenses	\$ 107,893	\$ -	\$ 107,893
Meeting Expenses			
Meetings	\$ 220,000		\$ 220,000
Travel	-		-
Conference Calls	-		-
Total Meeting Expenses	\$ 220,000	\$ -	\$ 220,000
Operating Expenses			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	-		-
Professional Services	-		-
Miscellaneous	842		842
Depreciation	-		-
Total Operating Expenses	\$ 842	\$ -	\$ 842
Total Direct Expenses	\$ 328,735	\$ -	\$ 328,735
Indirect Expenses	\$ 64,442	\$ 43,476	\$ 107,918
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	\$ 393,177	\$ 43,476	\$ 436,653
Change in Assets	\$ 652	\$ 27,874	\$ 28,526
Fixed Assets			
Depreciation	\$ -	\$ -	\$ -
Computer & Software CapEx	-		-
Furniture & Fixtures CapEx	-		-
Equipment CapEx	-		-
Leasehold Improvements	-		-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (652)	\$ (27,874)	\$ (28,526)
Change in Fixed Assets	\$ (652)	\$ (27,874)	\$ (28,526)
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -

Explanations of Variances – ~~Proposed~~ 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

- Training, Education and Operator Certification is planned to be nearly 3539% self-funded in 2010 through registration fees from attendees of the OTS. The remaining 6561% of this program is funded through ERO assessments.

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect expenses are increasing by \$43K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$108K for indirect expenses for 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed ~~assets~~asset additions are increasing due to the allocation of the administrative services' fixed ~~assets~~asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$28K, bringing the total of fixed ~~assets~~asset additions to \$29K for 2010.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
(in whole dollars)			
	2010 Approved Budget	2010 Proposed Amended Budget	Increase(Decrease)
Total FTEs	2.44	2.44	0.00
Total Direct Expenses	\$290,095	\$290,095	\$0
Total Indirect Expenses	\$161,505	\$270,464	\$108,959
Total Expenses	\$451,600	\$560,559	\$108,959

Program Scope and Functional Description:

Reliability Assessment Reports

ERCOT ISO has traditionally assembled the data for and 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, and 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

Section B — 2010 Regional Entity Budget

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
- Texas RE will review approximately 80 reports of incidents, complaints, and disturbances

2010 Goals and Key Deliverables:

1. Increase Texas RE participation in the Regional Planning Group activities
2. Coordinate the communication of all reliability assessment-related information as requested by NERC [\(this is an additional goal not stated in the 2010 Approved Business Plan and Budget\).](#)
3. Timely review and submit all required assessments to NERC (or ensure required assessments are submitted to NERC on schedule), providing comments to the assessments, as needed. [\(This goal has been restated from the 2010 Approved Business Plan and Budget.\)](#)
4. Timely review all required incidents, complaints and disturbances
5. Communicate and coordinate issues of reliability concern with NERC

Funding Requirements — Explanation of Increase (Decrease) [over 2010 Approved Budget](#)

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~[January 18, 2010](#)

Section B — 2010 Regional Entity Budget

The funding requirements ~~reflects~~reflect an increase of \$177K over the Original Texas RE's 2010 ~~approved budget~~Approved Budget because of Texas RE's start-up costs and increased administrative expenses- and fixed asset additions. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

Section B — 2010 Regional Entity Budget

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			
2010 Approved Budget & 2010 Amended Budget			
Reliability Assessment and Performance Analysis			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding			
ERO Funding			
ERO Assessments	\$ 453,235	\$ 177,181	\$ 630,416
Penalty Sanctions	-		-
Total ERO Funding	\$ 453,235	\$ 177,181	\$ 630,416
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
Total Funding	\$ 453,235	\$ 177,181	\$ 630,416
Expenses			
Personnel Expenses			
Salaries	\$ 217,004		\$ 217,004
Payroll Taxes	17,187		17,187
Benefits	23,632		23,632
Retirement Costs	30,793		30,793
Total Personnel Expenses	\$ 288,615	\$ -	\$ 288,615
Meeting Expenses			
Meetings	-		-
Travel	806		806
Conference Calls	-		-
Total Meeting Expenses	\$ 806	\$ -	\$ 806
Operating Expenses			
Consultants & Contracts	-		-
Office Rent	-		-
Office Costs	-		-
Professional Services	-		-
Miscellaneous	673		673
Depreciation	-		-
Total Operating Expenses	\$ 673	\$ -	\$ 673
Total Direct Expenses	\$ 290,095	\$ -	\$ 290,095
Indirect Expenses	\$ 161,505	\$ 108,959	\$ 270,464
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	\$ 451,600	\$ 108,959	\$ 560,559
Change in Assets	\$ 1,635	\$ 68,222	\$ 69,857
Fixed Assets			
Depreciation	-	-	-
Computer & Software CapEx	-		-
Furniture & Fixtures CapEx	-		-
Equipment CapEx	-		-
Leasehold Improvements	-		-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (1,635)	\$ (68,222)	\$ (69,857)
Change in Fixed Assets	\$ (1,635)	\$ (68,222)	\$ (69,857)
TOTAL CHANGE IN ASSETS	\$ (0)	\$ -	\$ -

Explanations of Variances – Proposed 2010 [Amended](#) Budget versus Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect expenses are increasing by \$109K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$270K for indirect expenses through 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed ~~assets~~[asset additions](#) are increasing due to the allocation of increased administrative services' fixed ~~assets~~[asset expenditures](#) which are required for the start-up of Texas RE, in the amount of approximately \$68K, bringing the total fixed ~~assets~~[asset additions](#) to \$70K for 2010.

Situational Awareness and Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources			
(in whole dollars)			
Increase(Decrease)	2010 Approved Budget	2010 Proposed Amended Budget	Budget
Total FTEs	3.03	3.03	0.00
Total Direct Expenses	\$391,907	\$391,907	\$0
Total Indirect Expenses	\$200,226	\$335,309	\$135,083
Total Expenses	\$592,134	\$727,217	\$135,083

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.

Formatted: Font: Not Bold

2010 Goals and Key Deliverables

Situational Awareness

SAFNR's 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) Over 2010 Approved Budget

The funding requirements ~~reflects~~reflect an increase of ~~\$214K~~220K from the 2010 ~~approved budget~~Approved Budget for Original Texas RE to the 2010 ~~proposed budget~~Amended Budget because of Texas RE's start-up costs and increased administrative expenses. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

<u>Critical Infrastructure Protection Resources</u>			
<u>(Included in Total Situational Awareness and Infrastructure Security)</u>			
<small>(in whole dollars)</small>			
<u>2010 Approved Budget</u> <u>2010 Amended Budget</u> <u>Increase(Decrease)</u>			
<u>Total FTEs</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
<u>Total Direct Expenses</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
<u>Total Indirect Expenses</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
<u>Total Expenses</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>

Exhibit not completed due to personnel salary confidentiality.

Program Scope and Functional Description

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

All new registered entities must also become ~~compliant~~**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).

Formatted: Font: Bold

Formatted: Normal

Section B — 2010 Regional Entity Budget

- Semi-annual CIP Self-Certifications will be required of registered entities in 2010.
- NERC will ~~conduct~~ be responsible for CIP audits of nuclear facilities, as contemplated by NERC's approved Business Plan and Budget. (This assumption has been restated from the 2010 Approved Business Plan and Budget.)
- Six (6) CIP spot checks will be done in 2010.

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.
 - a. 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) before most entities enter ~~audibly compliant~~ Auditably Compliant phase and CIP audits begin. (This goal is slightly revised from the 2010 Approved Business Plan and Budget.)
7. Enhance the Texas RE website with CIP information and links.

Section B — 2010 Regional Entity Budget

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			
2010 Approved Budget & 2010 Amended Budget			
Situational Awareness and Infrastructure Security			
Funding	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
ERO Funding			
ERO Assessments	\$ 594,161	\$ 219,661	\$ 813,822
Penalty Sanctions	-		-
Total ERO Funding	\$ 594,161	\$ 219,661	\$ 813,822
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
Total Funding	\$ 594,161	\$ 219,661	\$ 813,822
Expenses			
Personnel Expenses			
Salaries	\$ 291,164		\$ 291,164
Payroll Taxes	23,060		23,060
Benefits	31,708		31,708
Retirement Costs	41,316		41,316
Total Personnel Expenses	\$ 387,247	\$ -	\$ 387,247
Meeting Expenses			
Meetings	\$ -		\$ -
Travel	4,260		4,260
Conference Calls	-		-
Total Meeting Expenses	\$ 4,260	\$ -	\$ 4,260
Operating Expenses			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	-		-
Professional Services	-		-
Miscellaneous	400		400
Depreciation	-		-
Total Operating Expenses	\$ 400	\$ -	\$ 400
Total Direct Expenses	\$ 391,907	\$ -	\$ 391,907
Indirect Expenses	\$ 200,226	\$ 135,083	\$ 335,309
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	\$ 592,134	\$ 135,083	\$ 727,217
Change in Assets	\$ 2,027	\$ 84,578	\$ 86,605
Fixed Assets			
Depreciation	\$ -	\$ -	\$ -
Computer & Software CapEx	-		-
Furniture & Fixtures CapEx	-		-
Equipment CapEx	-		-
Leasehold Improvements	-		-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (2,027)	\$ (84,578)	\$ (86,605)
Change in Fixed Assets	\$ (2,027)	\$ (84,578)	\$ (86,605)
TOTAL CHANGE IN ASSETS	\$ 0	\$ -	\$ -

Explanations of Variances – Proposed 2010 [Amended](#) Budget versus Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect expenses are increasing by \$135K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$335K for indirect expenses through 2010. [These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.](#)

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed ~~assets~~[asset additions](#) are increasing due to the allocation of increased administrative services' fixed ~~assets~~[asset expenditures](#) which are required for the start-up of Texas RE, in the amount of approximately \$85K, bringing the total of fixed ~~assets~~[asset additions](#) to \$87K for 2010.

Administrative Services

Administrative Services			
(in whole dollars)			
Increase(Decrease)	2010 Approved Budget	2010 Proposed Amended Budget	Budget
Total FTEs	3.76	9.26	5.50
Total Direct Expenses	\$2,001,482	\$3,351,783	\$1,350,301

Program Scope and Functional Description

All administrative activities are considered indirect (including General and Administrative or “G&A”, Legal and Regulatory, Information Technology, Human Resources, and Finance) and the salaries of all employees in the administrative areas are reflected in the G&A program, to protect the confidentiality of salaries.

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 non-contested 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

- Original Texas RE will perform all Statutory and Non-statutory activities until Implementation.
- Upon Implementation Texas RE will perform all Statutory and Non-statutory activities as the regional entity.
- Texas RE will be a separate corporation that is not associated with nor affiliated with ERCOT ISO and does not receive any administrative services from ERCOT ISO.
- Texas RE total staff will increase to 46.00 staff (39.50 FTEs Statutory, 6.50 FTEs Non-statutory), [including an increase of 6.00 FTE resulting from the formation of Texas RE as a separate entity from ERCOT.](#)
- Where possible, all appropriate direct program expenses will be direct costs to the respective program and function. Only corporate services expenses and personnel will remain in administrative services.
- [The costs currently incurred under the MOU are eliminated, and these cost reductions are reflected in column 4 in the "General & Administrative" Statement of Activities table on page 49.](#)

2010 Goals and Key Deliverables

1. Communicate and maintain effective relationships with the board, industry, regulators, and other stakeholders.
2. Ensure that the new corporation is appropriately staffed and managed to maximize stakeholder value as well as to maintain independence.
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) [Over 2010 Approved Budget](#)

- The funding requirements for this program reflect an increase of ~~\$74K~~[215K](#) over Original Texas RE's ~~approved budget~~[2010 Approved Budget](#), because of Texas RE's required start-up costs and increased administrative operational expenses. ~~Indirect programs allocate their costs to the direct programs~~ [These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.](#)

Formatted: Font: 11 pt, Font color: Auto

Section B — 2010 Regional Entity Budget

Section B — 2010 Regional Entity Budget

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						
2010 Approved Budget & 2010 Amended Budget						
General and Administrative - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding						
ERO Funding						
ERO Assessments	\$ (80,265)	\$ -	\$ 349,842	\$ (161,632)	\$ 188,211	\$ 107,946
Penalty Sanctions	-	-	-	-	-	-
Total ERO Funding	\$ (80,265)	\$ -	\$ 349,842	\$ (161,632)	\$ 188,211	\$ 107,946
Membership Dues	-	-	27,000	-	27,000	27,000
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	2,000	-	-	-	-	2,000
Miscellaneous	-	-	-	-	-	-
Total Funding	\$ (78,265)	\$ -	\$ 376,842	\$ (161,632)	\$ 215,211	\$ 136,946
Expenses						
Personnel Expenses						
Salaries	\$ 539,855	\$ -	\$ 490,490	\$ -	\$ 490,490	\$ 1,030,345
Payroll Taxes	42,598	-	37,438	-	37,438	80,036
Benefits	54,570	-	47,960	-	47,960	102,530
Retirement Costs	80,324	-	70,594	-	70,594	150,918
Total Personnel Expenses	\$ 717,347	\$ -	\$ 646,482	\$ -	\$ 646,482	\$ 1,363,829
Meeting Expenses						
Meetings	\$ 3,600	\$ -	\$ -	\$ -	\$ -	\$ 3,600
Travel	17,158	-	-	-	-	17,158
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	\$ 20,758	\$ -	\$ -	\$ -	\$ -	\$ 20,758
Operating Expenses						
Consultants & Contracts	\$ 676,331	\$ 200,000	\$ 287,675	\$ (559,523)	\$ (71,848)	\$ 604,483
Office Rent	327,600	-	229,725	(193,425)	36,300	363,900
Office Costs	24,240	-	4,590	-	4,590	28,830
Professional Services	60,000	-	15,300	-	15,300	75,300
Miscellaneous	1,350	-	-	-	-	1,350
Depreciation	-	-	146,550	-	146,550	146,550
Total Operating Expenses	\$ 1,089,521	\$ 200,000	\$ 683,840	\$ (752,948)	\$ 130,892	\$ 1,220,413
Total Direct Expenses	\$ 1,827,626	\$ 200,000	\$ 1,330,322	\$ (752,948)	\$ 777,374	\$ 2,605,000
Indirect Expenses	\$ (1,827,626)	\$ (200,000)	\$ (1,330,322)	\$ 752,948	\$ (777,374)	\$ (2,605,000)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ (0)	\$ -	\$ -	\$ -	\$ -	\$ (0)
Change in Assets	\$ (78,265)	\$ -	\$ 376,842	\$ (161,632)	\$ 215,211	\$ 136,946
Fixed Assets						
Depreciation	\$ -	\$ -	\$ (146,550)	\$ -	\$ (146,550)	\$ (146,550)
Computer & Software CapEx	-	-	-	-	-	-
Furniture & Fixtures CapEx	-	317,000	-	-	317,000	317,000
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ (317,000)	\$ 146,550	\$ -	\$ (170,450)	\$ (170,450)
Allocation of Fixed Assets	\$ -	\$ 317,000	\$ (146,550)	\$ -	\$ 170,450	\$ 170,450
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ (78,265)	\$ -	\$ 376,842	\$ (161,632)	\$ 215,211	\$ 136,946

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.

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ [January 18, 2010](#)

Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

- The 2010 funding requirements are increasing \$~~404K~~215K over the ~~approved Original 2010 budget, Approved Budget.~~ ERO assessments are increasing by \$188K, and Texas RE expects to receive \$27K for total additional funding requirement of \$23K membership fees, which were not provided for in the 2010 Approved Budget. The ~~approved 2010 budget~~Approved Budget assumed unspent funds of \$78K. ~~The other indirect areas are also adding to the 75 days cash on hand in their respective funding sections.; therefore, the net funding requirement for 2010 is \$137K.~~ Indirect ~~programs allocate their program costs~~ are allocated to the direct statutory programs.

Personnel Expenses

- The primary reason for the increase of \$646K for Statutory Personnel Expenses is that Texas RE will need to hire additional staff ~~and outsource~~(in addition to the partial outsourcing of) certain of its human resources (HR) and information technology (IT) services that were formerly performed by ERCOT ISO under the MOU at a lower cost. The budget for Personnel Expenses is consolidated to ensure the confidentiality of individual salaries under the General & Administrative budget. Texas RE will need to hire the following positions:
 - One (1) HR Manager to support and facilitate the HR and benefits functions for Texas RE and its employees.
 - One (1) Member Services Administrator to oversee administration of membership information and enrollment and to coordinate committee meetings and activities.
 - One (1) Budget Finance and Accounting Manager to maintain the accounting system, financial/internal controls, budget development, payroll processing, accounts payable, accounts receivable, increased accountability, fixed assets, financial statement preparation and auditor interface.
 - One (1) Attorney to perform primarily corporate legal services, such as negotiation and preparation of contracts and other required documentation for goods, services, software licenses, and HR benefit plans, and HR legal services, all of which were previously included in the HR, information technology, finance, and other administrative services that were provided by ERCOT ISO under the MOU.
 - Two (2) IT employees to provide Texas RE with the appropriate level of IT support and skill necessary to maintain its network infrastructure and data integrity, provide desk-side support to Texas RE staff, facilitate specialized software and applications support, develop project scheduling / priority project lists, and project requirements engineering documentation (policies, procedures) creation.

Meeting Expenses

- No additional travel is anticipated for ~~this supplemental budget request~~the Amended 2010 Budget.

Operating Expenses

Section B — 2010 Regional Entity Budget

- Consulting and contract expenses are decreasing \$72K, due to [the net effect of reductions from the elimination of the MOU](#). Texas RE expects an increase in rent and facilities-related expenses of \$36K for 2010, due to a possible move [at the end of 2010](#), because of space constraints and the expiration of Texas RE's present lease [on December 31, 2010](#). [The recurring costs are also increasing by \\$15K for Professional Services and \\$5K for Office Costs which are not included in the 2010 Approved Budget](#). Finally, depreciation expenses are increasing \$147K as a result of fixed asset purchases required as part of the start-up costs.

Indirect Expenses

- The entire program/activity expense reflected for G&A will be treated as indirect expense.

Other Non-Operating Expenses

- None.

Fixed Asset Additions

- Office furniture and equipment for all Texas RE staff (office and conference room furniture, computers, servers, telephone system, software, etc.) totaling \$317K will need to be acquired as part of the start-up costs. This will be offset from a funding perspective by depreciation expense of \$147K.

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. In addition to overseeing Board meetings and activities, Texas RE Legal and Regulatory staff will oversee and coordinate corporate membership enrollment, information, and meetings and will coordinate and oversee the Member Representatives Committee activities.

2010 Key Assumptions

Texas RE Legal and Regulatory has the following key assumptions:

- A. Original Texas RE will continue to perform all Statutory and Non-statutory activities until Implementation.
- B. Upon Implementation, Texas RE will perform the Statutory and Non-statutory activities and will operate as a separate corporation, not associated with or affiliated with ERCOT ISO, and Texas RE will receive no administrative services from ERCOT ISO.
- C. Legal and Regulatory will oversee and coordinate corporate membership and Member Representative Committee activities.
- D. The Delegation Agreement requirements and NERC expectations will remain consistent.
- E. The majority of possible violations will be handled through the settlement process.
- F. The number of contested registration and enforcement cases will remain fairly low, but will increase to two large or up to three 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, board committees, and departments, as needed on corporate, contract, transactional, regulatory, enforcement, and other matters.
3. Represent Texas RE in all NERC, FERC, regulatory matters, and legal proceedings.
4. Prosecute CMEP hearings of contested enforcement matters.

Section B — 2010 Regional Entity Budget

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) Over 2010 Approved Budget

~~The 2010 funding requirement for this program is increasing by \$19K. This represents a provision for the 75-day cash on hand requirement in light of the expense change for outside legal counsel.~~

All expenses for this program are allocated to the statutory direct programs.

Section B — 2010 Regional Entity Budget

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						
2010 Approved Budget & 2010 Amended Budget						
Legal and Regulatory - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Amended
	Budget	Start-Up	Recurring	Reductions	to the Approved	Budget
		Costs	Costs	(MOU Decreases)	Budget	
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses						
Personnel Expenses						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,478	-	-	-	-	4,478
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	\$ 4,478	\$ -	\$ -	\$ -	\$ -	\$ 4,478
Operating Expenses						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	5,400	-	-	-	-	5,400
Professional Services	48,000	-	90,000	-	90,000	138,000
Miscellaneous	6,200	-	-	-	-	6,200
Depreciation	-	-	-	-	-	-
Total Operating Expenses	\$ 59,600	\$ -	\$ 90,000	\$ -	\$ 90,000	\$ 149,600
Total Direct Expenses	\$ 64,078	\$ -	\$ 90,000	\$ -	\$ 90,000	\$ 154,078
Indirect Expenses	\$ (64,078)	\$ -	\$ (90,000)	\$ -	\$ (90,000)	\$ (154,078)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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.

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ [January 18, 2010](#)

Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- Texas RE is adding one (1) Attorney and one (1) Member Services Administrator, due to the increased workload that was formerly performed for Original Texas RE under the MOU with ERCOT ISO. However, those employees are reflected under G&A for personnel confidentiality purposes. The detail for the headcount is reflected in Table 2 within Section B.

Meeting Expenses

- No additional travel is anticipated.

Operating Expenses

- Legal and Regulatory requires an additional \$90K to pay for outside legal counsel expenses. [This increased expense is not related to the formation of Texas RE as a separate legal entity.](#) This is to ensure that there are sufficient funds to cover the anticipated additional registration or enforcement disputes.

Indirect Expenses

- None.

Other Non-Operating Expenses

- None.

Fixed Asset Additions

- None.

Information Technology

Program Scope and Functional Description

Texas RE's IT employees 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 employees will outsource a mix of services to third-party vendors. This will require a great deal of time and resources during the early part of 2010, as Texas RE competitively resources and acquires the information technology equipment and services that were performed for Original Texas RE by ERCOT ISO under the MOU. 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 external IT vendors on day-to-day support, administration, and future requirements.

IT staff also has the general responsibility to keep Texas RE systems up-to-date with evolving industry standards and 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 email boxes and lists, and Web-based training.

IT staff will also manage the design, implementation, support, and maintenance of 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 RE Entity Portal and associated tools for management and tracking, the Reliability Standards tracking tool, the compliance and enforcement data management system, 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

- Original Texas RE will continue to procure key IT equipment and services (such as computers and support, email and support, phone service and support, enterprise servers, and WebEx, but not including any services relating to the portal) from ERCOT ISO for at least several months of 2010, until these services can be performed by new employees or third-party vendors, which will occur prior to Implementation.
- Texas RE will receive no IT services from ERCOT ISO.
- Original Texas RE is in the process of competitively procuring its IT equipment (including computers, servers, telephone systems, etc.), software, and all required IT services from qualified third-parties, and it will implement a transition of the IT services from ERCOT ISO as part of the Texas RE start up costs.

Section B — 2010 Regional Entity Budget

- Texas RE will require two (2) additional IT employees to perform services that are currently provided by ERCOT ISO under the MOU.
- Texas RE will outsource many key IT services (email server hosting and service, desk side support services, telecommunications services, etc.) to third parties, at a cost greater than Original Texas RE paid to ERCOT ISO under the MOU.
- Texas RE will be 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. Implement and monitor long-term strategy in response to business needs.
2. Continue to 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. Provide vendor management support / IT department management support (security, disaster recovery, service management, self-assessment, lifecycle management)
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.
7. Provide or oversee desk side support to Texas RE staff.
8. Support specialized software and applications.
9. Oversee project scheduling and priority project lists.
10. Engineer project requirements.
11. Ensure documentation (policies, procedures) creation and management for IT operations.
12. Train and support staff on software and applications.
13. Implement and oversee all Texas RE electronic systems and tools.

Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget

~~The funding requirement is increasing \$37K because of Texas RE's required start-up costs and the increased cost of obtaining IT services from third-party vendors instead of ERCOT ISO (which indirect program costs are partially allocated to other programs). Indirect programs allocate their costs to the direct programs.~~

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ [January 18, 2010](#)

Section B — 2010 Regional Entity Budget

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						
2010 Approved Budget & 2010 Amended Budget						
Information Technology - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-					
Total ERO Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	-					
Testing Fees	-					
Services & Software	-					
Workshops	-					
Interest	-					
Miscellaneous	-					
Total Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses						
Personnel Expenses						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-					
Benefits	-					
Retirement Costs	-					
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,057					4,057
Conference Calls	-					
Total Meeting Expenses	\$ 4,057	\$ -	\$ -	\$ -	\$ -	\$ 4,057
Operating Expenses						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-					
Office Costs	960					960
Professional Services	33,860		180,873		180,873	214,733
Miscellaneous	6,500					6,500
Depreciation	12,000					12,000
Total Operating Expenses	\$ 53,320	\$ -	\$ 180,873	\$ -	\$ 180,873	\$ 234,193
Total Direct Expenses	\$ 57,377	\$ -	\$ 180,873	\$ -	\$ 180,873	\$ 238,250
Indirect Expenses	\$ (57,377)	\$ -	\$ (180,873)	\$ -	\$ (180,873)	\$ (238,250)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Assets						
Depreciation	\$ (12,000)	\$ -	\$ -	\$ -	\$ -	\$ (12,000)
Computer & Software CapEx	32,263	634,000			634,000	666,263
Furniture & Fixtures CapEx	-					
Equipment CapEx	-					
Leasehold Improvements	-					
(Incr)Dec in Fixed Assets	\$ (20,263)	\$ (634,000)	\$ -	\$ -	\$ (634,000)	\$ (654,263)
Allocation of Fixed Assets	\$ 20,263	\$ 634,000	\$ -	\$ -	\$ 634,000	\$ 654,263
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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.

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ [January 18, 2010](#)

Explanations of Variances – [Proposed 2010 Amended Budget versus 2010 Approved Budget](#)

Funding Sources

- ~~The funding requirement is increasing \$37K because of Texas RE's required start-up costs and the increased cost of obtaining IT services from third-party vendors instead through the MOU with ERCOT ISO (which indirect program costs are partially allocated to other programs). Indirect programs allocate their costs to~~ the direct programs.

Personnel Expenses

- There are two (2) additional IT positions included in Texas RE's budget for 2010, to perform some of the services provided to Original Texas RE under the MOU with ERCOT ISO. These positions have been reflected under G&A for personnel confidentiality purposes. However, the detail for the headcount is reflected in Table 2 within Section B.

Meeting Expenses

- No additional [meeting and travel expense](#) is ~~anticipated~~[provided](#) for ~~this supplemental budget request~~[in the 2010 Amended Budget](#).

Operating Expenses

- Professional IT services (hosting and professional services) for Microsoft Exchange and other servers, desk side support, maintenance, etc. are expected to increase \$181K over Original Texas RE's ~~approved 2010 budget~~[2010 Approved Budget, due to the higher costs of obtaining these services from outside providers](#). These expenses which are within this indirect program are administrative services required to maintain the IT functionality for all of Texas RE's Statutory activities and should be allocated as an indirect expense.

Indirect Expenses

- None.

Other Non-Operating Expenses

- None.

Fixed Asset Additions

- The IT start-up fixed asset ~~expenses~~[additions](#) include computer systems for all employees, servers, LAN, software, telephone systems (PBX), monitors, and printers.

Section B — 2010 Regional Entity Budget

There is an expected one-time start-up cost for these items totaling \$634K, [which is allocated to the direct programs.](#)

Human Resources

Program Scope and Functional Description

The Original Texas RE has not had a Human Resources Department, as all Human Resources services are obtained from ERCOT under the MOU. The Texas RE Human Resources department will provide a broad range of support and human resources advice to all Texas RE employees. The HR function consists of overseeing all employee benefit programs and performing or overseeing all traditional human resources activities, including recruiting, on-boarding, developing, and counseling employees, maintaining job descriptions and market salary information, maintaining personnel policies and procedures, tracking existing employee data which traditionally includes personnel histories, skills, capabilities, accomplishments and salary. The HR function also encompasses such responsibilities as maintaining the Payroll Master File, benefits administration, HR Management Information Systems oversight, Training/Learning Management System, and overseeing and managing the employee performance review process and records. This department will play a pivotal role in the structural separation process, as the benefits programs and HR tools are established, and will also coordinate all of the HR-related filings and reporting with all governmental entities.

The Human Resources function will oversee the on-boarding and off-boarding of employees in a manner that ensures company policies are appropriately followed. This department is critical to ensure that Texas RE attracts and retains top talent within the company. Texas RE intends to have one HR Manager and to outsource many of its HR and employee benefit duties to third parties, under the guidance of the HR Manager.

2010 Key Assumptions

- Texas RE will formally hire employees upon the Implementation.
- Texas RE will hire a dedicated HR Manager to support Texas RE's human resource needs and oversee the vendors that provide human resources and benefit plan administration services to Texas RE.
- The HR Manager will be hired by Original Texas RE in early 2010 and prior to Implementation, to oversee the selection and implementation of the third-party vendors that will provide the human resource services and benefits programs for Texas RE staff upon Implementation and to help finalize personnel policies and procedures.
- Appropriate employee benefits will be provided for all Texas RE employees, similarly to similar to the benefits that were provided by ERCOT to employees of Original Texas RE.

Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget

- The funding requirement is increasing by \$25K, which is HR's 75-day cash-on-hand requirement. Original Texas RE did not have an HR function. Indirect programs allocate their program costs are allocated to the direct programs.

Section B — 2010 Regional Entity Budget

Section B — 2010 Regional Entity Budget

Human Resources – After Structural Separation

Funding sources and related expenses for the [accounting and finance](#) [Human Resources](#) section of the 2010 [Supplemental HR](#) business plan are shown in the table below.

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Human Resources - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses						
Personnel Expenses						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-	-
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenses						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	-	-	-	-	-	-
Professional Services	-	-	121,720	-	121,720	121,720
Miscellaneous	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Total Operating Expenses	\$ -	\$ -	\$ 121,720	\$ -	\$ 121,720	\$ 121,720
Total Direct Expenses	\$ -	\$ -	\$ 121,720	\$ -	\$ 121,720	\$ 121,720
Indirect Expenses	\$ -	\$ -	\$ (121,720)	\$ -	\$ (121,720)	\$ (121,720)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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 – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

- ~~The funding requirement is increasing \$25K for HR's portion of cash reserves.~~

Indirect program costs are allocated to the direct programs.

Personnel Expenses

- There is an HR Manager position that will be hired to perform this function; however that position has been reflected under G&A for personnel confidentiality purposes. The detail for the headcount is reflected in Table 2 within Section B.

Meeting Expenses

- None.

Operating Expenses

- ~~Professional services related to The increased cost for benefits design/administration; and incremental benefits cost of \$71K. Additionally, employee recruitment will be necessary during the course of the year \$71K and \$51K. These services were previously, respectively. The Human Resources program code is new for Texas RE, because benefits administration was provided by ERCOT ISO for Original Texas RE under the MOU at (for a lower cost) and was reflected in the 2010 Approved Budget under the General and Administrative Statement of Activities. These increased benefits administration and recruitment costs are net of the amounts paid by Original Texas RE to ERCOT under the MOU, which are included in the amounts reflected under column 4 of the General and Administrative Statement of Activities. Texas RE will use the Human Resource program code in future budgets.~~

Indirect Expenses

- None.

Other Non-Operating Expenses

- None.

Fixed Asset Additions

- None.

Finance and Accounting

Program Scope and Functional Description

The **BudgetFinance** and Accounting staff will provide a broad range of support to Texas RE management and personnel. **BudgetFinance** and Accounting 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. **BudgetFinance** and Accounting 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. Texas RE's monthly general ledger close activities will be managed by Texas RE **BudgetFinance** and Accounting personnel. The **BudgetFinance** and Accounting staff are 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.

After ~~structural separation~~ **Implementation**, Texas RE **BudgetFinance** and Accounting will also direct the financial affairs of the organization and prepare financial analyses of operations, including interim and final financial statements with supporting schedules, for the guidance of management. Additionally, Texas RE **BudgetFinance** and Accounting will have responsibility for the company's financial plans and policies, its accounting practices, the conduct of its relationships with banking institutions, the maintenance of its fiscal records, and the preparation of financial reports. Texas RE **BudgetFinance** and Accounting will be centrally responsible for general accounting, accounts payable, accounts receivable, payroll processing, fixed asset accounting, cost accounting, and budgetary controls.

The **BudgetFinance** and Accounting staff are 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 be required to hire an additional employee to manage this function prior to Implementation, to transition the services that were previously provided to Texas RE through the MOU with ERCOT ISO.

2010 Goals and Key Deliverables

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ [January 18, 2010](#)

Section B — 2010 Regional Entity Budget

1. Ensure that the accounting, finance, and budgeting 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 and coordinate with NERC finance staff to meet 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) Over 2010 Approved Budget

~~The funding requirement is increasing \$34K.~~ Indirect ~~programs allocate their program~~ costs are allocated to the direct programs.

Section B — 2010 Regional Entity Budget

Finance and Accounting — Proposed 2010 Budget versus Approved 2010 Budget

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						
2010 Approved Budget & 2010 Amended Budget						
Finance and Accounting - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]-[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses						
Personnel Expenses						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	2,145	-	-	-	-	2,145
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	\$ 2,145	\$ -	\$ -	\$ -	\$ -	\$ 2,145
Operating Expenses						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	880	-	-	-	-	880
Professional Services	45,281	16,500	189,190	(33,961)	171,729	217,010
Miscellaneous	4,095	-	8,606	-	8,606	12,701
Depreciation	-	-	-	-	-	-
Total Operating Expenses	\$ 50,256	\$ 16,500	\$ 197,796	\$ (33,961)	\$ 180,335	\$ 230,591
Total Direct Expenses	\$ 52,401	\$ 16,500	\$ 197,796	\$ (33,961)	\$ 180,335	\$ 232,736
Indirect Expenses	\$ (52,401)	\$ (16,500)	\$ (197,796)	\$ 33,961	\$ (180,335)	\$ (232,736)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Assets						
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	41,000	-	-	41,000	41,000
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ (41,000)	\$ -	\$ -	\$ (41,000)	\$ (41,000)
Allocation of Fixed Assets	\$ -	\$ 41,000	\$ -	\$ -	\$ 41,000	\$ 41,000
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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.

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ [January 18, 2010](#)

Explanations of Variances – ~~Proposed~~ 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

- ~~The funding requirement is increasing \$34K, because the services were previously provided at a reduced cost through the Original Texas RE's MOU with ERCOT ISO.~~

Indirect program costs are allocated to the direct programs.

Personnel Expenses

- Texas RE is hiring one (1) Budget Finance and Accounting Manager which is reflected under G&A for personnel confidentiality purposes. However, the detail for the employee is reflected in Table 2 within Section B.
- The new employee will need to be hired in early 2010 and prior to the approval by FERC of the Delegation Agreement, so that this employee can provide assistance in procuring the needed financial tools and preparing for the transition of the finance and accounting services from ERCOT ISO (under the MOU) to be performed by Texas RE.

Meeting Expenses

- None.

Operating Expenses

- Professional services will need to be procured to supplement the Budget Finance and Accounting function, including: electronic expense reporting of \$21K, timekeeping and processing payroll of \$26K, outsourced internal audit function (~~external service~~) of \$43K, and increased insurance coverage costs of \$82K. Insurance coverage was previously included in the Original Texas RE's MOU with ERCOT ISO, and so this is a new expense in this category for 2010.
- Additionally, the treasury function set-up and maintenance fees are budgeted in miscellaneous expenses and this is expected to be approximately \$9K for ~~the supplemental budget period~~ 2010.

Indirect Expenses

- None.

Other Non-Operating Expenses

- None.

Fixed Asset Additions

Section B — 2010 Regional Entity Budget

- Texas RE will need to deploy an accounting system and will need to procure the software as well as implement the software. The cost for this is approximately \$41K and is a start-up [expensecost](#) in year one.

**Section B — 2010 Budget
2009 Budget and Projection and 2010 Budget Comparisons**

Table 1

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
STATUTORY + STRUCTURAL SEPARATION BUDGET						
	[1] 2010 Approved Budget	[2] 2010 Budget Start-Up Costs	[3] 2010 Budget Recurring Costs	[4] 2010 Base Budget Reductions	[2]+[3]+[4]=[5] 2010 Adjustment to the Approved Budget	[1]+[5]=[6] 2010 Base + Adjustment to the Approved Budget
Funding						
ERO Funding						
ERO Assessments	\$ 6,660,377	\$ 1,308,500	\$ 2,124,004	\$ (948,540)	\$ 2,483,964	\$ 9,144,340
Penalty Sanctions ⁽¹⁾	-	-	-	-	-	-
Total ERO Funding	\$ 6,660,377	\$ 1,308,500	\$ 2,124,004	\$ (948,540)	\$ 2,483,964	\$ 9,144,340
Membership Dues	-	-	27,000	-	27,000	27,000
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	180,000	-	-	-	-	180,000
Interest	2,000	-	-	-	-	2,000
Miscellaneous	-	-	-	-	-	-
Total Funding	\$ 6,842,377	\$ 1,308,500	\$ 2,151,004	\$ (948,540)	\$ 2,510,964	\$ 9,353,340
Expenses						
Personnel Expenses						
Salaries	\$ 3,351,291	\$ -	\$ 490,490	\$ -	\$ 490,490	\$ 3,841,781
Payroll Taxes	265,543	-	37,438	-	37,438	302,981
Benefits	360,813	-	47,960	-	47,960	408,773
Retirement Costs	480,075	-	70,594	-	70,594	550,669
Total Personnel Expenses	\$ 4,457,721	\$ -	\$ 646,482	\$ -	\$ 646,482	\$ 5,104,203
Meeting Expenses						
Meetings	\$ 228,000	\$ -	\$ -	\$ -	\$ -	\$ 228,000
Travel	194,392	-	-	-	-	194,392
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	\$ 422,392	\$ -	\$ -	\$ -	\$ -	\$ 422,392
Operating Expenses						
Consultants & Contracts	\$ 676,331	\$ 200,000	\$ 287,675	\$ (559,523)	\$ (71,848)	\$ 604,483
Office Rent	327,600	-	229,725	(193,425)	36,300	363,900
Office Costs	44,022	-	4,590	-	4,590	48,612
Professional Services	634,625	16,500	597,083	(33,961)	579,622	1,214,246
Miscellaneous	36,236	-	8,606	-	8,606	44,843
Depreciation	153,107	-	146,550	-	146,550	299,657
Total Operating Expenses	\$ 1,871,921	\$ 216,500	\$ 1,274,229	\$ (786,909)	\$ 703,820	\$ 2,575,740
Total Direct Expenses	\$ 6,752,034	\$ 216,500	\$ 1,920,711	\$ (786,909)	\$ 1,350,302	\$ 8,102,336
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 6,752,034	\$ 216,500	\$ 1,920,711	\$ (786,909)	\$ 1,350,302	\$ 8,102,336
Change in Assets	\$ 90,343	\$ 1,092,000	\$ 230,293	\$ (161,631)	\$ 1,160,662	\$ 1,251,005
Fixed Assets						
Depreciation	\$ (153,107)	\$ -	\$ (146,550)	\$ -	\$ (146,550)	\$ (299,657)
Computer & Software CapEx	306,500	775,000	-	-	775,000	1,081,500
Furniture & Fixtures CapEx	15,215	317,000	-	-	317,000	332,215
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
Change in Fixed Assets	\$ (168,608)	\$ (1,092,000)	\$ 146,550	\$ -	\$ (945,450)	\$ (1,114,058)
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	\$ (168,608)	\$ (1,092,000)	\$ 146,550	\$ -	\$ (945,450)	\$ (1,114,058)
TOTAL CHANGE IN ASSETS	\$ (78,265)	\$ -	\$ 376,843	\$ (161,631)	\$ 215,212	\$ 136,947

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

Personnel Analysis

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ [January 18, 2010](#)

Section B — 2010 Regional Entity Budget

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

Table 2

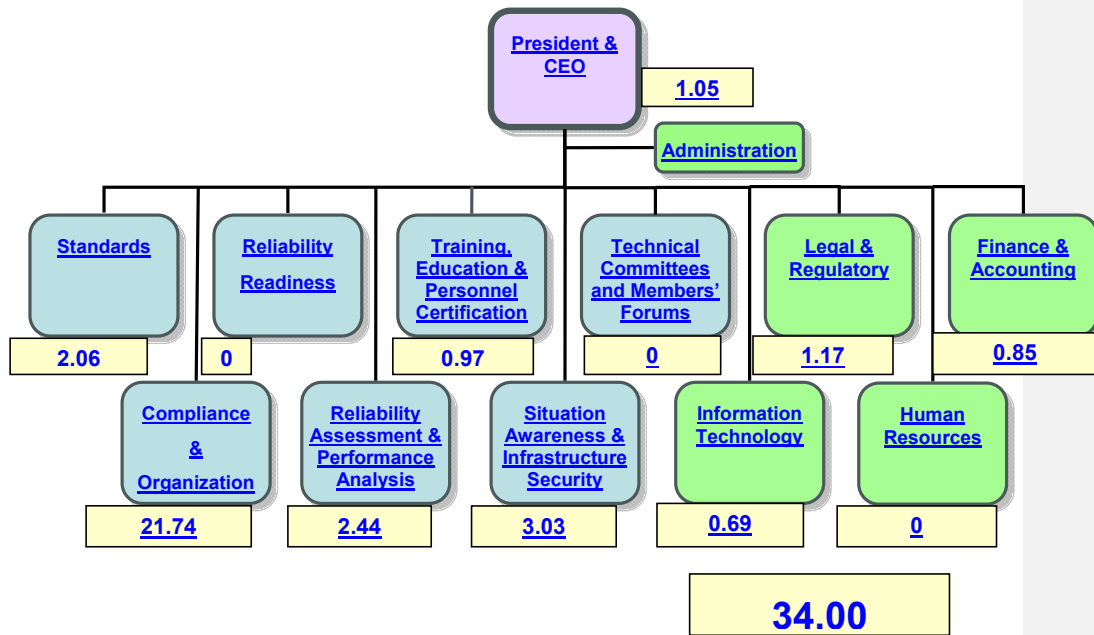
Total FTE's by Program Area	Approved 2010	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change From Approved 2010 Budget
STATUTORY					
Operational Programs					
Reliability Standards	2.06	0.00	2.06	2.06	0.00
Compliance and Organization Registration and Certification	21.74	0.00	21.74	21.74	0.00
Training and Education	0.97	0.00	0.97	0.97	0.00
Reliability Assessment and Performance Analysis	2.44	0.00	2.44	2.44	0.00
Situational Awareness and Infrastructure Security	3.03	0.00	3.03	3.03	0.00
Total FTEs Operational Programs	30.24	0.00	30.24	30.24	0.00
Administrative Programs					
Member Forums	0.00	0.00	0.00	0.00	0.00
General & Administrative	1.05	0.00	1.05	1.05	0.00
Information Technology	0.69	0.00	2.49	2.49	1.80
Legal and Regulatory	1.17	0.00	3.17	3.17	2.00
Human Resources	0.00	0.00	0.85	0.85	0.85
Accounting	0.85	0.00	1.70	1.70	0.85
Total FTEs Administrative Programs	3.76	0.00	9.26	9.26	5.50
Total FTEs	34.00	0.00	39.50	39.50	5.50

¹A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

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

2010 Organizational Chart (Statutory) – ~~After Structural Separation~~ Approved 2010 Budget

Table 3

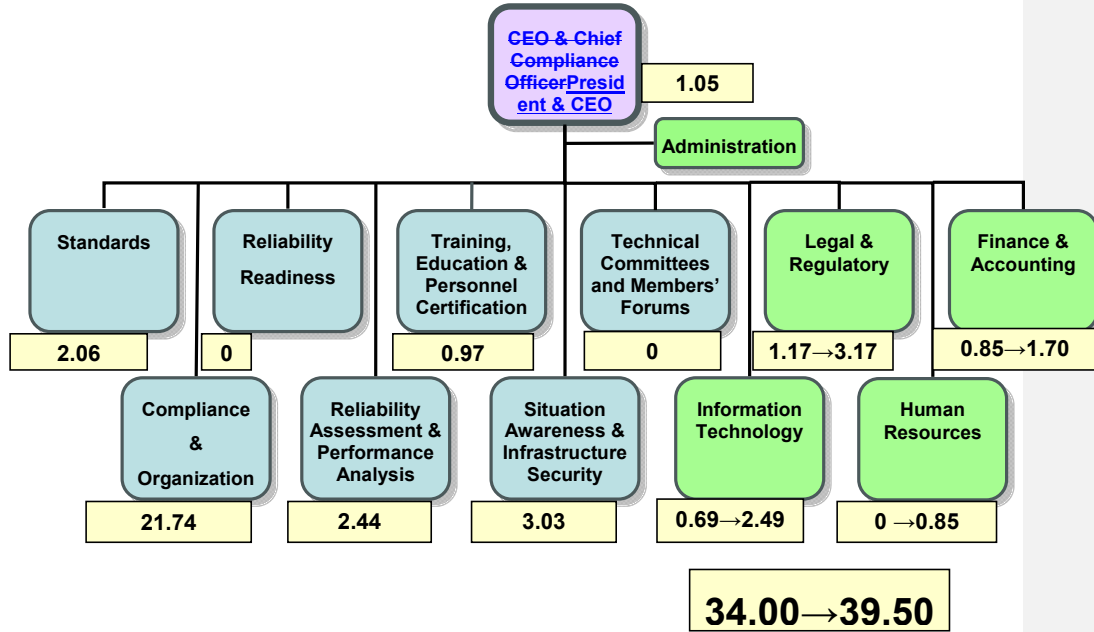


Formatted: Heading 3

Formatted: Heading 3, Left

2010 Organizational Chart (Statutory) – Proposed 2010 Budget versus Approved 2010 Budget

Table 4



Section B — 2010 Regional Entity Budget

Reserve Balance

Table 45

Working Capital Reserve Analysis 2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	2,666,325
Penalty sanctions being held 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	1,664,194
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
Less: LT Regulatory Liability Release	(593,983)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	215,212
2010 Assessment for Expenses and Capital Expenditures	9,138,129
Less: Penalty Sanctions ¹	0
Less: Other Funding Sources ²	(209,000)
Adjustment to achieve desired Working Capital Reserve	215,212
2010 Assessment	9,144,340

¹ Represents collections prior to June 30, 2009.

² Represents an approximately 75-day cash reserve.

Regional Entity Assessment Analysis

Assessments by Country

Table 56

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	310,856,852	310,856,852			100.0%	100.0%		
2008	WECC	-							
	TOTAL	310,856,852	310,856,852	-	-	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	\$	-

Section B — 2010 Regional Entity Budget

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Training and Education				
Operations Training Seminar	\$ 180,000	\$ 180,000	\$ -	0.00%
Total	\$ 180,000	\$ 180,000	\$ -	0.00%
General and Administrative				
Membership Fees	\$ -	\$ 27,000	\$ 27,000	100.00%
Interest Income	2,000	2,000	-	0.00%
Total	\$ 2,000	\$ 29,000	\$ 27,000	1350.00%
Total Outside Funding	\$ 182,000	\$ 209,000	\$ 27,000	14.84%

Explanation of Significant Variances – 2010 ~~Approved~~Proposed ~~Amended~~ Budget versus 2010 ~~Proposed~~Approved Budget

- Texas RE members will pay nominal annual membership fee. Original Texas RE did not receive any portion of the ERCOT ISO membership fees.

Section B — 2010 Regional Entity Budget

Personnel Expenses

Table B-3

Personnel Expenses	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Salaries				
Salary	\$ 3,351,291	\$ 3,841,781	\$ 490,490	14.6%
Total Salaries	\$ 3,351,291	\$ 3,841,781	\$ 490,490	14.6%
Total Payroll Taxes	\$ 265,543	\$ 302,981	\$ 37,438	14.1%
Benefits				
Life, Health, Vision, etc.	\$ 360,813	\$ 408,773	\$ 47,960	13.3%
Total Benefits	\$ 360,813	\$ 408,773	\$ 47,960	13.3%
Retirement				
401(k) Contr. & Employee Matching	\$ 480,075	\$ 550,669	\$ 70,594	14.7%
Total Retirement	\$ 480,075	\$ 550,669	\$ 70,594	14.7%
Total Personnel Costs	\$ 4,457,721	\$ 5,104,203	\$ 646,482	14.5%
FTEs	34.00	39.50	5.50	16.2%
Cost per FTE				
Salaries	\$ 98,561	\$ 97,255	(1,306)	-1.3%
Payroll Taxes	7,810	7,670	(140)	-1.8%
Benefits	10,611	10,348	(263)	-2.5%
Retirement	14,119	13,940	(179)	-1.3%
Total Cost per FTE	\$ 131,101	\$ 129,213	\$ (1,888)	-1.4%

Explanation of Significant Variances – 2010 ~~Approved~~Proposed Amended Budget versus 2010 ~~Proposed~~Approved Budget

- The reason for the 1.4% decrease is that the average salary of the existing professional staff is higher than the additional corporate support staff being hired to perform the administrative services that were performed for Original Texas RE under its MOU with ERCOT ISO.

Consultants and Contracts

Table B-4

Consultants	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Consultants				
Recruitment	\$ -	\$ -	\$ -	
Consultants Total	\$ -	\$ -	\$ -	

Contracts	Budget 2010	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Contracts				
Corporate Support Allocation (MOU)	\$ 388,205	\$ 44,777	\$ (343,428)	-88.47%
Board Related Search & Support Fees	-	487,675	487,675	100.00%
IT Administration (MOU)	288,126	72,032	(216,095)	-75.00%
Contracts Total	\$ 676,331	\$ 604,483	\$ (71,848)	-10.62%
Total Consulting and Contracts	\$ 676,331	\$ 604,483	\$ (71,848)	-10.62%

Explanation of Significant Variances – 2010 ~~Approved~~Proposed ~~Amended~~ Budget versus 2010 ~~Proposed~~Approved Budget

- Board related costs are increasing due to the recruitment expenses included for start-up including four independent directors, as well as having overlapping board fees (Original Texas RE and Texas RE) during a portion of year one. The board related increase is offset by reductions in HR support, Finance support, Insurance coverage, and IT administration provided under the MOU. The net reduction is ~~\$74K~~72K

Section B — 2010 Regional Entity Budget

Table B-5

Office Rent	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Office Rent & Facilities	\$ 327,600	\$ 261,900	(65,700)	-20.05%
2010 Office Move and Improvements	-	50,000	50,000	100.00%
2010 Office Move Project Management Expense	-	25,000	25,000	100.00%
MRC, Standards, and Board Meeting Room	-	27,000	27,000	100.00%
Total Office Rent	\$ 327,600	\$ 363,900	\$ 36,300	11.08%

Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget ~~versus 2010 Proposed Budget~~

- Texas RE expects that Office Rent & Facilities support will be more than the approved budget amount after Texas RE structurally separates, due to the need for Texas RE to acquire additional space and the expiration of the lease at the end of 2010.

Table B-6

Office Costs	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Office Supplies	\$ 16,002	\$ 16,766	\$ 764	4.77%
Cellular Phones	14,040	14,040	-	0.00%
Postage	1,800	3,713	1,913	106.28%
Express Shipping	7,980	7,980	-	0.00%
Stationary Forms	3,000	4,913	1,913	63.77%
Reports - Graphics	1,200	1,200	-	0.00%
Total Office Costs	\$ 44,022	\$ 48,612	\$ 4,590	10.43%

Explanation of Significant Variances – 2010 Approved ~~Proposed Amended~~ Budget versus 2010 Proposed ~~Approved~~ Budget

- Texas RE is increasing the amount for office supplies to reflect the additional employees \$1K.
- Additionally, postage costs are estimated to be higher due to additional mailings required related to tax filings, corporate governance, and employee communications. The estimated increase is expected to be approximately \$2K.
- Finally, employee forms needed for HR purposes, financial documents, and check stock will be result in approximately a \$2K increase in office costs for Texas RE.

Table B-7

Professional Services	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Outside Legal	\$ 300,000	\$ 390,000	\$ 90,000	30.00%
Accounting & Auditing Fees	45,281	87,820	42,539	93.95%
Accounting Services Fees	-	46,582	46,582	100.00%
Insurance / Risk Management	-	82,608	82,608	100.00%
IT Professional Services	207,344	388,217	180,873	87.23%
RSVP Hosting	10,000	10,000	-	0.00%
Recruitment	12,000	63,000	51,000	425.00%
Other Professional Services	60,000	60,000	-	0.00%
Benefits Administration	-	70,720	70,720	100.00%
Security	-	15,300	15,300	100.00%
Total Services	\$ 634,625	\$ 1,214,246	\$ 579,621	115.62%

Explanation of Significant Variances – 2010 ~~Approved~~Proposed Amended Budget versus 2010 ~~Proposed~~Approved Budget

- Outside legal expenses are expected to increase \$90K over the approved 2010 budget due to the ~~expectation for a greater need to utilize outside counsel in connection with the projected increased~~ number of enforcement or registration disputes. ~~- This increased cost is not due to the formation of Texas RE as a separate entity.~~
- Audit fees are increasing in 2010 by \$43K related to ~~establishing an~~ internal audit ~~(function for which an external service provider) will be used.~~ Additionally, accounting services expenses for timekeeping, expense reporting, payroll processing are expected to increase ~~to~~by \$47K, because the costs for these are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- Insurance/Risk Management is slated to increase approximately \$83K because the costs are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- IT professional services are increasing \$181K because these costs are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- Texas RE recruitment expenses are expected to increase \$51K in professional services. Recruitment expense was previously included in the Original Texas RE's MOU costs under ~~consultants~~Consultants and ~~contracts~~Contracts which reflects a decrease in expense.
- Benefits Administration will increase \$71K, because the cost of similar benefits is higher than when provided to Original Texas RE through the MOU with ERCOT ISO. This is as a result of the structural separation of Texas RE from ERCOT ISO.
- Security is being estimated to increase to \$15K, because this cost is higher than when provided to Original Texas RE through the MOU with ERCOT ISO.

Table B-8

Other Non-Operating Expenses	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Cash Reserve	\$ -	\$ -	\$ -	
Total Non-Operating Expenses	\$ -	\$ -	\$ -	

Explanation of Significant Variances – 2010 ~~Approved~~Proposed ~~Amended~~ Budget versus 2010 ~~Proposed~~Approved Budget

- N/A

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

(in whole dollars)			
(Decrease)	2010 Approved Budget	2010 Proposed Amended Budget	Increase
Total FTEs	6.00	6.50	0.50
Total Direct Expenses	\$1,086,772	\$1,112,132	\$25,360
Total Indirect Expenses			
Total Expenses	\$1,086,772	\$1,112,132	\$25,360

Non-statutory Functional Scope

In addition to the Statutory functions, Texas RE will provide compliance support to the Public Utility Commission of Texas (PUC) through December 31, 2010. These services include auditing, event analysis, complaint investigations and monthly metric monitoring to identify violations of protocols. In addition, Texas RE also monitors the stakeholder market rules creation and modification process and comments on proposed changes to the protocols that affect reliability. Texas RE also works closely with the PUC 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 PUC. Once a potential violation is identified by Texas RE it is reported to the PUC ~~and they follow,~~ which follows up with all enforcement activities. Texas RE may be required to assist the PUC with analysis of our findings and will support the PUC in ~~their~~ the enforcement processes, if needed; however, all enforcement is at the sole discretion of the PUC.

Original Texas RE added one-half of an FTE (0.5 FTEs) in its 2010 Approved Budget to support the Non-statutory corporate support work in 2010. Texas RE estimates approximately (14%) 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 PUC to support ERCOT activities and Texas RE Non-statutory activities which are subject to PUC oversight.

Texas RE generated its budget to include the Non-statutory related work of the PUC in its 2010 ~~proposed budget.~~ Amended Budget. However, the Non-statutory work performed by Texas RE may potentially transition to another entity selected by the PUC effective December 31, 2010.

Major 2010 Cost Impacts – Proposed 2010 Amended Budget versus Approved 2010 Budget

Funding Sources

- Funding will be received through a contract with the PUCT or a three-way contract with the PUCT and ERCOT ISO.

Personnel Expenses

- Non-statutory Personnel ~~expenses~~ Expenses are increasing primarily due to adding .50 FTEs of labor to the Non-statutory function for structural separation. This results in a \$70K increase to expenses (which is offset by the \$45K reduction in operating expenses), resulting in a change of a \$25K increase.

Operating Expenses

- Support service expenses incurred for consulting, and other professional services related to Texas RE's new corporate structure will require \$45K less expense, due to the elimination of the MOU expenses paid to ERCOT and a reduction to outside legal expenses.

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.

Section C — Non-Statutory

2010 Approved Budget and 2010 Proposed Amended Budget Comparisons

Table 1

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
NON-STATUTORY + STRUCTURAL SEPARATION BUDGET						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Base + Adjustment
	Budget	Start-Up	Recurring	Reductions	to the Approved	to the
		Costs	Costs		Budget	Approved Budget
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions ⁽¹⁾	-	-	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	1,153,772	-	195,064	(164,956)	30,108	1,183,879
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Funding	\$ 1,153,772	\$ -	\$ 195,064	\$ (164,956)	\$ 30,108	\$ 1,183,879
Expenses						
Personnel Expenses						
Salaries	\$ 608,104	\$ -	\$ 48,510	\$ -	\$ 48,510	\$ 656,614
Payroll Taxes	48,059	-	5,123	-	5,123	53,181
Benefits	66,079	-	7,044	-	7,044	73,123
Retirement Costs	86,102	-	9,178	-	9,178	95,280
Total Personnel Expenses	\$ 808,345	\$ -	\$ 69,854	\$ -	\$ 69,854	\$ 878,199
Meeting Expenses						
Meetings	\$ 5,600	\$ -	\$ -	\$ -	\$ -	\$ 5,600
Travel	624	-	-	-	-	624
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	\$ 6,224	\$ -	\$ -	\$ -	\$ -	\$ 6,224
Operating Expenses						
Consultants & Contracts	\$ 120,064	\$ -	\$ 21,677	\$ (99,273)	\$ (77,596)	\$ 42,467
Office Rent	62,400	-	40,540	(37,575)	2,965	65,365
Office Costs	-	-	810	-	810	810
Professional Services	57,875	-	27,809	-	27,809	85,684
Miscellaneous	1,865	-	1,519	-	1,519	3,383
Depreciation	30,000	-	-	-	-	30,000
Total Operating Expenses	\$ 272,203	\$ -	\$ 92,354	\$ (136,848)	\$ (44,494)	\$ 227,709
Total Direct Expenses	\$ 1,086,772	\$ -	\$ 162,208	\$ (136,848)	\$ 25,360	\$ 1,112,132
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 1,086,772	\$ -	\$ 162,208	\$ (136,848)	\$ 25,360	\$ 1,112,132
Change in Assets	\$ 67,000	\$ -	\$ 32,856	\$ (28,109)	\$ 4,748	\$ 71,748
Fixed Assets						
Depreciation	\$ (30,000)	\$ -	\$ -	\$ -	\$ -	\$ (30,000)
Computer & Software CapEx	67,000	-	-	-	-	67,000
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
Change in Fixed Assets	\$ (37,000)	\$ -	\$ -	\$ -	\$ -	\$ (37,000)
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	\$ (37,000)	\$ -	\$ -	\$ -	\$ -	\$ (37,000)
TOTAL CHANGE IN ASSETS	\$ 30,000	\$ -	\$ 32,856	\$ (28,109)	\$ 4,748	\$ 34,748

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

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~XXXXXXXXXX~~ January 18, 2010

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	Approved 2010	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change From Approved 2010 Budget
NON-STATUTORY					
Operational Programs					
Protocol	5.04	0.00	5.04	5.04	0.00
Total FTEs Operational Programs	5.04	0.00	5.04	5.04	0.00
Administrative Programs					
General & Administrative	0.96	0.00	1.46	1.46	0.50
Total FTEs Administrative Programs	0.96	0.00	1.46	1.46	0.50
Total FTEs	6.00	0.00	6.50	6.50	0.50

¹A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (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	1,929,309	
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	1,696,208	
Total Assets	4,527,267	2,259,247	3,625,518	
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	3,360,403	
Total Liabilities and Net Assets	4,527,267	2,259,247	3,625,518	

Section D — Other Exhibits

Texas Regional Entity 2010 Budget				Functions in Delegation Agreement											Non-Statutory Functions		
Statement of Activities 2010 Budget	Total	Statutory Total	Non-Statutory Total	Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 600)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Non-Statutory Total	
Funding																	
ERO Funding																	
ERO Assessments	9,144,340	9,144,340	-	9,144,340	561,400	6,746,229	630,416	284,526	813,822	-	(6,343)	18,486	37,151	25,001	33,652	-	-
Penalty Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total ERO Funding	9,144,340	9,144,340	-	9,144,340	561,400	6,746,229	630,416	284,526	813,822	-	(6,343)	18,486	37,151	25,001	33,652	-	-
Membership Dues	27,000	27,000	-	27,000	-	-	-	-	-	-	27,000	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	1,183,879	-	1,183,879	-	-	-	-	-	-	-	-	-	-	-	-	-	1,183,879
Workshops	180,000	180,000	-	180,000	-	-	-	180,000	-	-	-	-	-	-	-	-	-
Interest	2,000	2,000	-	2,000	-	-	-	-	-	-	2,000	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding	10,537,219	9,353,340	1,183,879	9,353,340	561,400	6,746,229	630,416	464,526	813,822	-	22,657	18,486	37,151	25,001	33,652	-	1,183,879
Expenses																	
Personnel Expenses																	
Salaries	4,498,395	3,841,781	656,614	3,841,781	184,729	2,037,418	217,004	81,122	291,164	-	1,030,345	-	-	-	-	-	656,614
Payroll Taxes	356,162	302,981	53,181	302,981	14,901	161,372	17,187	6,425	23,060	-	80,036	-	-	-	-	-	53,181
Benefits	481,896	408,773	73,123	408,773	20,489	221,580	23,632	8,834	31,708	-	102,530	-	-	-	-	-	73,123
Retirement Costs	645,949	550,669	95,280	550,669	26,697	289,434	30,793	11,511	41,316	-	150,918	-	-	-	-	-	95,280
Total Personnel Expenses	5,982,402	5,104,203	878,199	5,104,203	246,816	2,709,803	288,615	107,893	387,247	-	1,363,829	-	-	-	-	-	878,199
Meeting Expenses																	
Meetings	233,600	228,000	5,600	228,000	400	4,000	-	220,000	-	-	3,600	-	-	-	-	-	5,600
Travel	195,016	194,392	624	194,392	6,824	154,664	806	-	4,260	-	17,158	154,478	4,057	-	2,145	-	624
Conference Calls	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Meeting Expenses	428,616	422,392	6,224	422,392	7,224	158,664	806	220,000	4,260	-	20,758	4,478	4,057	-	2,145	-	6,224
Operating Expenses																	
Consultants & Contracts	686,950	604,483	82,467	604,483	-	-	-	-	-	-	604,483	-	-	-	-	-	82,467
Office Rent	424,500	363,900	60,600	363,900	-	-	-	-	-	-	363,900	-	-	-	-	-	60,600
Office Costs	49,422	48,612	810	48,612	480	12,062	-	-	-	-	28,830	5,400	960	-	-	880	810
Professional Services	1,259,930	1,214,246	45,684	1,214,246	18,824	428,660	-	-	-	-	75,300	138,000	214,733	121,720	217,010	45,684	
Miscellaneous	52,991	44,843	8,148	44,843	615	15,561	673	842	400	-	1,350	6,200	12,000	-	12,701	-	8,148
Depreciation	329,657	299,657	30,000	299,657	-	141,107	-	-	-	-	146,550	-	12,000	-	30,000	-	30,000
Total Operating Expenses	2,803,449	2,575,740	227,709	2,575,740	19,919	597,389	673	842	400	-	1,220,413	149,600	234,193	121,720	230,591	-	227,709
Total Direct Expenses	9,214,467	8,102,335	1,112,132	8,102,335	273,959	3,465,857	290,095	328,735	391,907	-	2,605,000	154,078	238,250	121,720	232,736	-	1,112,132
Indirect Expenses																	
	-	-	-	-	228,439	2,409,652	270,464	107,918	335,309	-	(2,605,000)	(154,078)	(238,250)	(121,720)	(232,736)	-	-
Other Non-Operating Expenses																	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	9,214,467	8,102,335	1,112,132	8,102,335	502,398	5,875,509	560,559	436,653	727,217	-	(0)	-	-	-	-	-	1,112,132
Change in Assets	1,322,752	1,251,005	71,748	1,251,005	59,002	870,720	69,857	27,874	86,605	-	22,657	18,486	37,151	25,001	33,652	-	71,748
Fixed Assets																	
Depreciation	(329,657)	(299,657)	(30,000)	(299,657)	-	(141,107)	-	-	-	-	(146,550)	-	(12,000)	-	-	-	(30,000)
Computer & Software CapEx	1,148,500	1,081,500	67,000	1,081,500	-	374,237	-	-	-	-	-	-	666,263	-	41,000	-	67,000
Furniture & Fixtures CapEx	332,215	332,215	-	332,215	-	15,215	-	-	0	-	317,000	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Increase) / Decrease in Fixed Assets	(1,151,058)	(1,114,058)	(37,000)	(1,114,058)	-	(248,345)	-	-	-	-	(170,450)	-	(654,263)	-	(41,000)	-	(37,000)
Allocation of Fixed Assets	-	-	-	-	(59,002)	(622,375)	(69,857)	(27,874)	(86,605)	-	170,450	-	654,263	-	41,000	-	-
Change in Fixed Assets	(1,151,058)	(1,114,058)	(37,000)	(1,114,058)	(59,002)	(870,720)	(69,857)	(27,874)	(86,605)	-	-	-	-	-	-	-	(37,000)
TOTAL CHANGE IN ASSETS	171,694	136,947	34,748	136,947	-	-	-	-	-	-	22,657	18,486	37,151	25,001	33,652	-	34,748
	(0)	0															
FTE's	46.00	39.50	6.50	39.50	2.06	21.74	2.44	0.97	3.03	-	1.05	3.17	2.49	0.85	1.70	-	6.50

Formatted: Left: 0.5", Right: 0.5", Top: 1", Bottom: 1", Width: 11", Height: 8.5"

