TEXAS REGIONAL ENTITY
An Independent Division of ERCOT

Date: April 9, 2010
To: Texas Regional Entity Board of Directors
From: Larry D. Grimm, Chief Executive Officer & Chief Compliance Officer
Subject: Acceptance of 2009 Texas RE Audited Financial Statements

Texas RE Board of Directors Meeting Date: April 19, 2010
Agenda Item No.: 5b

Issue:
Acceptance of the 2009 audit of the Texas Regional Entity (Texas RE) financial statements.

Background/History:
Section 10.6 of the Bylaws provides that "[a]t least annually, an audit of the financial statements of ERCOT shall be performed by the Auditor approved by the Board." Ernst & Young (E&Y) was engaged by Texas RE, subsequent to Board approval, to perform the annual audit of Texas RE's financial books and records and has completed this audit. Texas Regional Entity is required by its Delegation Agreement with NERC to obtain and provide to NERC annual audited financial statements of Texas RE and, so long as it is a division of ERCOT, annual audited financial statements of ERCOT.

On April 19, 2010, it is expected, E&Y personnel will meet with the Texas RE Advisory Committee to discuss the proposed audit report for year 2009 and E&Y's assessment of the internal controls, recommendations, and other business items raised by the Texas RE Advisory Committee.

The audit opinion is expected to be unqualified or "clean", and the Texas RE Advisory Committee is expected to recommend acceptance of the audited financial statements as presented by E&Y during the April 19, 2010 Texas RE Advisory Committee meeting.

Key Factors Influencing Issue:
- The Bylaws requirement for the annual audit of financial statements
- The Delegation Agreement requirement for Texas RE to submit to NERC annual audited financial statements of Texas RE and ERCOT

Alternatives:
- Accept the 2009 Audited Financial Statements
- Request E&Y take further action to review Texas RE financials.

Conclusion/Recommendation:
Texas RE respectfully requests that the Board accept the Texas RE audited financials and Report on Audit of Financial Statements for the Year Ending December 31, 2009.

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

April 19, 2010

WHEREAS, the Board of Directors of Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc., a Texas non-profit corporation, deems it desirable and in the best interest of Texas Regional Entity to accept the Texas Regional Entity audited financial statements and Ernst & Young Report on Audit of Financial Statements for the Year Ending December 31, 2009 ("Report"); and

NOW, THEREFORE be it RESOLVED, that the Board hereby accepts the Texas Regional Entity 2009 financial statements and the Report.

CORPORATE SECRETARY'S CERTIFICATE

I, Susan Vincent, Corporate Secretary of Texas Regional Entity, do hereby certify that, at the April 19, 2010 Texas Regional Entity Board of Directors Meeting, the Board of Directors of Texas Regional Entity approved the above referenced resolution. The motion passed by ______________.

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

____

Susan Vincent
Corporate Secretary

Texas Regional Entity

2009 financial statement audit results

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The Advisory Committee
Texas Regional Entity

April 7, 2010

Dear Members of the Advisory Committee

We are pleased to present the results of our audit of the 2009 financial statements of Texas Regional Entity (Texas RE). This report also includes the status of our final procedures, which we anticipate will be completed on or about April 19, 2010.

We received the full support and assistance of Texas RE's personnel in conducting our audit. We appreciate this opportunity to share our insights resulting from our audit of Texas RE.

This report is intended solely for the information and use of the Advisory Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We look forward to meeting with you to discuss the contents of this report and answer any questions you may have about the results of our audit.

Very truly yours,

Philip Gunn
Partner

Taylor Sisson
Senior Manager

Table of contents

Overview of the 2009 audit
Executive summary

Key observations

- Status of the 2009 audit is on track as planned. EY is substantially complete with procedures and plans to issue an unqualified opinion.
- Audit scope is consistent with what was planned; we continually reassess for changes in risk throughout the audit
- Company's analysis of significant accounting matters is appropriate
- Reasonable judgments and consistency used by management in accounting estimates
- No unrecorded audit differences were identified

2009 audit results

Financial statement accounts and disclosures

Key issue/risk area	Summary of procedures and findings
Revenue recognition, including testing of statutory revenues	In order to determine that revenue is recorded appropriately, we performed various procedures including the review of receipts, as well as performing revenue cut-off testing to determine that revenue is recognized in the proper period. Additionally, we tested the Deferred Revenue at December 31, 2009 and assessed the appropriateness of the continued deferral of remaining exit fees within the deferred revenue account.
Expenses, including allocations	We reviewed expenses for the 2009 fiscal year, including review of disbursements. In addition, we tested the allocation of statutory and non-statutory expenses.
Cash and equivalents	We confirmed significant bank balances as of September 30, 2009. In addition, we reviewed bank reconciliations and testing cash cut-off to determine that cash balances were appropriately stated at December 31, 2009.
Fixed assets	We tested the significant additions and disposals, reviewed depreciation expense and assessed the appropriateness of capitalized interest.
Accrued liabilities	We performed various procedures to test accrued liabilities, including a review of invoices and testing various payroll accruals (vacation, dental, medical) to determine that each was appropriately stated at December 31, 2009.
Market participant liability	We performed various procedures to test the market settlement liability and the TCR market liability, noting no exceptions.
Regulatory liabilities	We obtained the progression of these accounts from January 1 through December 31, 2009 and reviewed the 2009 activity.
Beginning balance review	We reviewed the 2008 audited workpapers of the predecessor auditors.

Required communications

Area	Comments
Auditor's responsibilities under generally accepted auditing standards	Our responsibilities are included in our audit engagement letter.
The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants, to obtain reasonable, rather than absolute assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we will express no such opinion.	Upon completion of our remaining audit procedures, we currently expect to issue an unqualified opinion on the Company's financial statements for the year ended December 31, 2009.
Our views about the qualitative aspects of the Company's significant accounting practices	The Company's significant accounting practices appear appropriate.
We have open and constructive discussions with those charged with governance about qualitative aspects of the entity's significant accounting practices, including acceptability. These discussions may include: ▸ The appropriateness of accounting policies to the particular circumstances of the company, including the adoption of, or a change in, an accounting policy ▸ The effect of significant accounting polices in controversial or emerging areas ▸ Significant accounting estimates ▸ Financial statement disclosures and other related matters	

Required communications

Area	Comments
Our views about the qualitative aspects of the Company's significant accounting practices: • **The appropriateness of accounting policies to the particular circumstances of the company including, the adoption of, or a change in, an accounting policy**	Adoption of new accounting policies did not result in significant impact on the Company
Our views about the qualitative aspects of the Company's significant accounting practices: • **The effect of significant accounting polices in controversial or emerging areas**	We are not aware of any significant transactions recorded by the Company based on significant accounting policies used by the Company in controversial or emerging areas for which there is a lack of authoritative guidance.
Our views about the qualitative aspects of the Company's significant accounting practices: • **Significant accounting estimates**	Significant accounting estimates by the Company appear appropriate.
Our views about the qualitative aspects of the Company's significant accounting practices: • **Financial statement disclosures and related matters**	Financial statement disclosures in the Company's financial statement appear proper.

Required communications

Area	Comments
Significant difficulties encountered in dealing with management when performing the audit We inform those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit which may include such matters as: ▸ Significant delays in management providing required information ▸ An unnecessarily brief time within which to complete the audit ▸ The unavailability of expected information ▸ Restrictions imposed on us by management ▸ Management's unwillingness to provide information about management's plans for dealing with the adverse effects of the conditions or events that lead us to believe there is substantial doubt about the entity's ability to continue as a going concern.	None
Unrecorded misstatements We discuss with those charge with governance uncorrected misstatements and the effect that they may have on our opinion in the auditor's. We also discuss with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. In addition, we discuss with those charged with governance the implications of a failure to correct known and likely misstatements, if any, considering qualitative as well as quantitative considerations, including the possible implications in relation to future financial statements.	There were no material unrecorded misstatements identified.
Material corrected misstatements We discuss with those charged with governance material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. In addition, we may discuss with those charge with governance other corrected immaterial misstatements, such as frequently recurring immaterial misstatements that may indicate a particular bias in the preparation of the financial statements.	There was one minor adjustment related to recording of accrued liabilities in the current year.

Required communications

Area	Comments
Disagreements with management We discuss with those charged with governance any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the Company's financial statements or our auditor's report. For purposes of this discussion, disagreements do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.	None
Representations we are requesting from management We discuss with those charged with governance representation we are requesting from management.	We will provide to you a copy of the representations letter we are requesting from management related to the year end audit.
Management's consultation with other accountants When we are aware that management has consulted with other accountants about auditing or accounting matters, we discuss with those charged with governance our views about significant matters that were the subject of such consultation.	None of which we are aware.
Significant issues, if any, arising from the audit that were discussed, or the subject of, correspondence with management We discuss with those charged with governance any significant matters that were discussed with, or the subject of correspondence, with management, including: • Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatements • Discussions or correspondence in connection with our initial or recurring retention as the auditor, including, among other matters, any discussions regarding the application of accounting principles and auditing standards	None

Required communications

Area	Comments
Communication of independence matters Although the auditor's report affirms our independence, in certain situations, we discuss with those charged with governance circumstances of relationships (e.g. financial interests, business or family relationships, or nonaudit services provided or expected to be provided) that in our professional judgment may reasonably be thought to bear on independence and that we gave significant consideration to in reaching the conclusion that independence has not been impaired.	There are no matters that, in our professional judgment, may reasonably be thought to bear on our independence or that we gave significant consideration to in reaching the conclusion that independence has not been impaired.
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements We communicate with those charged with governance fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements. In addition, we discuss any misappropriations perpetrated by lower level employees, based on our understanding with those charged with governance regarding the nature and extent of communications with them about such matters. *[Client team to consider - refer to SAG section 3.1 for more information. We are also required under AICPA AU section 316 to make inquiries of those charged with governance related to fraud, including both (1) its views about the risks of fraud, and (2) its knowledge of any actual or suspected fraud–see EY Form U103 Internal Control and Fraud Considerations.]*	We are not aware of any matters that require communication.

Required communications

Area	Comments
Significant deficiencies and material weaknesses in internal control We communicate all significant deficiencies and material weaknesses in internal control that were identified during the course of our audit. *[Client team to consider - teams should include a reference here to separate letters that contain our required communications. Regardless of the team's presentation and discussion herein, teams are required to communicate separately, in writing, all material weaknesses and significant deficiencies to management and those charged with governance. Refer to IL120 through IL123 for example written communications.* *We do NOT report or communicate with our clients that "no significant deficiencies were identified."]*	No material weaknesses were identified.
Other findings or issues regarding the oversight of the financial reporting process We communicate other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process.	There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

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FINANCIAL STATEMENTS

Texas Regional Entity (An Independent Division of Electric Reliability Council of Texas, Inc.)
December 31, 2009
With Report of Independent Auditors

Texas Regional Entity (An Independent Division of Electric Reliability Council of Texas, Inc.)

Financial Statements

December 31, 2009

Contents

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Report of Independent Auditors

We have audited the accompanying statement of financial position of Texas Regional Entity ("Texas RE") as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Texas RE's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Texas RE's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Texas RE's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Regional Entity at December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

April XX, 2009

Texas Regional Entity (An Independent Division of Electric Reliability Council of Texas, Inc.)

Statement of Financial Position

		2009
		(In Thousands)
Assets		
Current assets:		
Cash and cash equivalents	$	2,551
Accounts receivable		1,757
Total current assets		4,308
Property and equipment, net		536
Total assets	$	4,844
Liabilities and unrestricted net assets (deficit)		
Current liabilities:		
Accounts payable	$	490
Accrued liabilities		414
Deferred revenue		1,667
Current regulatory liabilities		78
Total current liabilities		2,649
Regulatory liabilities		1,658
Total liabilities		4,307
Unrestricted net assets		537
Total liabilities and unrestricted net assets	$	4,844

The accompanying notes are an integral part of these financial statements.

Texas Regional Entity (An Independent Division of Electric Reliability Council of Texas, Inc.)

Statement of Activities

	2009
	(In Thousands)
Operating revenues:	
System administration fees (non-statutory)	$ 654
Statutory revenue	4,979
Total operating revenues	5,633
Operating expenses:	
Salaries and related benefits	4,130
Facility and equipment costs	491
Consulting and legal services	376
Depreciation	79
Administrative and other	319
Total operating expenses	5,395
Income from operations	238
Other income (expense):	
Interest income	3
Interest expense	(1)
Change in unrestricted net assets	240
Unrestricted net assets, beginning of year	297
Unrestricted net assets, end of year	$ 537

The accompanying notes are an integral part of these financial statements.

Texas Regional Entity (An Independent Division of Electric Reliability Council of Texas, Inc.)

Statement of Cash Flows

	2009 *(In Thousands)*
Cash flows from operating activities	
Change in unrestricted net assets	$ 240
Adjustments to reconcile change in unrestricted net deficit to net cash used in operating activities:	
Depreciation	79
Changes in operating assets and liabilities:	
Accounts receivable	(1,477)
Other Current Assets	418
Accounts payable	(401)
Deferred revenue	1,667
Accrued liabilities	231
Regulatory liabilities	(1,359)
Net cash used in operating activities	(602)
Cash flows from investing activities	
Capital expenditures for property and equipment and systems under development	(388)
Net cash used in investing activities	(388)
Net decrease in cash and cash equivalents	(990)
Cash and cash equivalents, beginning of year	3,541
Cash and cash equivalents, end of year	$ 2,551
Supplemental disclosure of non-cash investing and financing activities	
Change in accrued capital expenditures	$ (70)

Texas Regional Entity (An Independent Division of Electric Reliability Council of Texas, Inc.)

Notes to Financial Statements

December 31, 2009
(Dollars in Thousands)

1. Organization and Operations

Texas Regional Entity (Texas RE) is an independent division of Electric Reliability Council of Texas, Inc. (ERCOT), a Texas non-profit corporation. Since July 31, 2001, ERCOT has functioned as the independent system operator for its reliability region which comprises about 85% of the electrical load in Texas. Texas RE is not a separate legal entity from ERCOT and therefore does not have separate Corporate By-Laws.

The North American Electric Reliability Corporation (NERC) has been designated as the Electric Reliability Organization (ERO). In its capacity as ERO, NERC has been authorized to develop standards for the reliable operation and planning of the Bulk-Power System, to enforce compliance with those standards, and to conduct periodic assessments of the reliability and adequacy of the Bulk-Power System in North America. NERC must prepare an annual operating budget and submit the budget to the Federal Energy Regulatory Commission (FERC) for regulatory approval. During 2007, Texas RE was approved by FERC to contract with and perform certain activities for NERC. Texas RE performs those activities pursuant to the Delegation Agreement it signed with NERC, which was approved by FERC. In response to subsequent orders by FERC, Texas RE and NERC signed an Amended and Restated Delegation Agreement in both March 2008 and January 2009 (Delegation Agreement). Texas RE's activities under the Delegation Agreement are referred to herein as statutory activities.

Statutory activities authorize Texas RE to develop, monitor, assess, and enforce compliance with NERC reliability standards within the geographic boundaries of the ERCOT region. Texas RE monitors compliance with the reliability standards, and it may direct violators to comply with the standards and impose penalties for violations, subject to NERC and FERC approval.

In addition to Texas RE's statutory activities, Texas RE has been authorized by the Public Utility Commission of Texas (PUCT) and is permitted by NERC to monitor and investigate compliance with the ERCOT protocols and operating guides, working with PUCT staff regarding enforcement of potential violations. Texas RE's activities under PUCT authorization are referred to herein as non-statutory activities. The PUCT is responsible for enforcement of potential protocol and operating guide violations, but Texas RE coordinates with PUCT staff, as requested, regarding such enforcement, and the PUCT is responsible for penalties and sanctions that result from such violations.

(Dollars in Thousands)

1. Organization and Operations (continued)

Although Texas RE has been in existence since 2007, and had audited financial statements prepared for the year-ended December 31, 2008, these financial statements reflect a single year of activity in accordance with NERC requirements.

Membership and Governance

Because Texas RE is an independent division of ERCOT, members of ERCOT are also members of Texas RE. These members can be from any ERCOT segment and, except for members in the Consumer Segment, must have an actual financial interest in the retail or wholesale electric market in the ERCOT Region and be able to do business in one of these markets. Texas RE is governed by a Board of Directors composed of the same 16 members who comprise the ERCOT board, including the Chair of the PUCT and ERCOT's Chief Executive Officer. The Texas RE directors maintain independence from their role as ERCOT directors by holding board and committee meetings separately from ERCOT meetings and by not having any role regarding Texas RE's statutory compliance and enforcement activities.

2. Summary of Significant Accounting Policies

Method of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Texas RE and ERCOT have entered into a Memorandum of Understanding (MOU), effective January 1, 2008 and amended February 16, 2009, to set forth agreed upon terms and conditions relating to the provision of administrative support services conducted by ERCOT staff for Texas RE. The MOU establishes procedures for the allocation of costs for administrative services (such as human resources, information technology, finance, procurement, etc.), facility and equipment, and administrative and other expenses. The MOU is intended solely to address how support services and other activities provided by ERCOT staff on behalf of Texas RE should be charged to Texas RE.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Accounting for the Effects of Regulation

Texas RE performs its accounting with respect to the effects of certain types of regulation, which requires regulated entities, in appropriate circumstances, to establish regulatory assets and/or liabilities, and thereby defer the income statement impact of certain revenues and charges because it is probable they will be recognized, recovered, or repaid in future periods.

Unrestricted Net Assets

Unrestricted net assets are those that are not subject to restrictions or stipulations and that may be expendable for any purpose in performing Texas RE's objectives. Accordingly, net assets of Texas RE and changes therein are classified and reported as unrestricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities of the financial statements and reported amounts of revenues, expenses, and capital expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in banks, money market investment accounts and overnight deposits in government-backed securities and other highly liquid investments with an original maturity date of 90 days or less. Deposits may exceed the Federal Deposit Insurance Corporation's insured limit of $250 for each account.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Texas RE funds its statutory operations primarily from assessments collected from NERC. Texas RE collected $3,431 from NERC during 2009. NERC disperses funds collected for Texas RE at or near the beginning of each quarter. Regulatory orders issued by FERC, include a requirement that NERC and entities to whom NERC has delegated some of its responsibility as the ERO are not entitled to keep financial variances realized as a result of their activity. If revenues exceed expenses incurred in a given year (favorable financial variance), the excess revenue realized in the year must be returned to rate payers in future years. Similarly, if revenues recorded are less than expenses incurred in a given year (unfavorable financial variance), the revenue shortfall realized in the year must be recovered from rate payers in future years. These variances are settled by FERC through an annual true-up function whereby the variances are added to or deducted from planned FERC funding levels in future budget years. Statutory revenues include $1,359 of under collections in 2009, related to regulatory activities performed by Texas RE. Additionally, Texas RE collected $189 for meeting fees and other.

Texas RE funds its non-statutory operations from revenues collected by ERCOT from a PUCT approved system administration fee. Texas RE collected revenue of $654 to cover all operating expense and capital expenses incurred by Texas RE limited by its annual non-statutory budget. This funding arrangement for non-statutory activities is managed on a cost reimbursement approach based on actual expenses incurred whereby there is no surplus or shortfall except with regard to funding capital assets. As capital assets are funded by ERCOT but owned by Texas RE, the net book value of non-statutory fixed assets of $100 is a component of the net asset balance of the organization. All non-statutory budgeted expenditures are approved by the Texas RE Board.

Property and Equipment

Property and equipment consists primarily of computer software and is recorded at cost of development. In 2009, Texas RE completed development of its website and a web-based compliance portal. Depreciation is computed on the straight-line method using the half-year convention over the estimated life of the asset. The cost of betterments to, or replacement of, property and equipment is capitalized. When assets are retired or otherwise disposed of, the cost

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

and related depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of activities for the period. Repairs and maintenance costs are expensed when incurred. The depreciable life of software is 5 years from the date placed in service.

Related Party Transactions

Texas RE collects revenue to cover all operating expenses and capital expenses incurred for non-statutory activities (referenced in Note 2, Revenue Recognition). All funding for non-statutory activities is provided by ERCOT based on actual expenses incurred. Texas RE settles its related party transactions generally one month in arrears. Texas RE is reflecting $78 as an intercompany receivable in the accounts receivable line. This represents the expenses incurred by Texas RE that are reimbursable by ERCOT (e.g. non-statutory revenue). Additionally, Texas RE is reflecting $487 as an intercompany payable in the accounts payable line. This represents expenses incurred by ERCOT for the benefit of Texas RE that must be settled. The expenses in this category generally include payroll, MOU expenses, etc.

Impairment

Texas RE evaluates long-lived assets for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is identified by comparing expected future cash flows, undiscounted and before interest, to the carrying value of the asset. If impairment exists, it is measured as the difference between the net book value of the asset and its estimated fair value. No impairments requiring write-offs were identified in 2009.

Recent Accounting Pronouncements

Effective for financial statements issued after June 15, 2009, Texas RE adopted Statement of Financial Accounting Standard (SFAS) No. 165, Subsequent Events, which is codified in the Subsequent Events Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). SFAS No. 165 does not significantly change the prior accounting practice for subsequent events, except for the requirement to disclose the date through which an entity has evaluated subsequent events and the basis for that date. Texas RE has evaluated material subsequent events through April 21, 2010, the date the Company's Financial Statements were available to be issued.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Effective for financial statements issued after July 1, 2009, Texas RE adopted Accounting Standards Update (ASU) No. 2009-1, Topic 105: Generally Accepted Accounting Principles – amendments based on Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles." ASU No. 2009-1 re-defines authoritative generally accepted accounting principles (GAAP) for nongovernmental entities to comprise only the FASB ASC and, for Securities Exchange Commission (SEC) registrants, guidance issued by the SEC. Adoption of ASC No. 2009-01 only changed the referencing convention of GAAP in the Texas RE Financial Statements.

3. Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for a fair value measurement. As a means to illustrate the inputs used, a three-tier fair value hierarchy that prioritizes inputs to valuation techniques was used for fair value measurement.

- Level 1 valuations use quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 valuations use inputs, other than those included in Level 1, that are observable for the asset or liability, either directly or indirectly.

- Level 3 valuations use unobservable inputs for the asset or liability. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The input may reflect the assumptions of the reporting entity of what a market participant would use in pricing an asset or liability.

(Dollars in Thousands)

3. Fair Value Measurement (continued)

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

The following table sets forth by level within the fair value hierarchy Texas RE's financial assets that were accounted for at fair value on a recurring basis for the year ended December 31, 2009.

As of December 31, 2009	Total	Level 1	Level 2	Level 3
Assets				
Cash equivalents (a)	$ 2,551	$ 2,551	$ –	$ –
Total assets	$ 2,551	$ 2,551	$ –	$ –

(a) Amounts consist of deposits in banks and money market investments with an original maturity of 90 days or less. The company calculates fair value these money market funds using the market approach.

As of December 31, 2008, Texas RE had money market investments of $418 in The Reserves Primary Fund. As The Reserve imposed redemption restrictions on all cash held in the Primary Fund, Texas RE classified these investments as Level 3 in the fair value hierarchy. In 2009, Texas RE received distribution of all money market investments (net of losses) classified as Level 3 at December 31, 2008. Changes in the fair value measurement of these investments recognized for the year ended December 31, 2009 are as follows:

Balance as of January 1, 2009	$ 418
Collections and settlements	(418)
Ending balance as of December 31, 2009	$ –

4. Fixed Assets

Fixed assets consist of the following for the year ended December 31, 2009:

Computer equipment and software	$ 630
Less: accumulated depreciation	(93)
Property and equipment, net	536

(Dollars in Thousands)

Total fixed assets	$ 536

5. Employee Benefit Plans

Texas RE employee's are sponsored under the ERCOT Defined Contribution 401(k) Plan (the 401(k) Plan) which is subject to the provisions of the Employee Retirement Income Security Act of 1974. The 401(k) Plan utilized a third-party administrator to assist in the administration. Employees must be 21 years of age to be eligible to participate. ERCOT matches 75% of the employee's contribution up to 6% of eligible compensation as defined in the 401(k) Plan document. Employees are fully vested for the ERCOT match of 75% after five years. In addition, ERCOT contributes 10% of a participant's eligible compensation as defined in the 401(k) Plan document. Employees are fully vested for the ERCOT contributions of 10% after three years. Contributions related to Texas RE employees are allocated to Texas RE and are included in salaries and related benefits in the statement of activities. Employer contributions to the 401(k) plans were $367 in 2009.

6. Accounting for the Effects of Regulation

In 2009, Texas RE collected $3,431 from NERC, collected $189 from meeting fees and fines, and earned $3 in interest income. Texas RE incurred expenses of $4,982 in performing functions delegated by NERC. This resulted in a decrease to the regulatory liability of $1,359 in 2009. As such, Texas RE has deferred recognition of $1,736 in revenues with the regulatory liability in the same amount at December 31, 2009. The NERC budgeting and true-up process provides that a portion of the deferred liability be applied toward the future budget year. Consistent with NERC's process, the amount of Texas RE's deferred liability to be applied toward 2010 funding will be $78. As such, these amounts are classified as current with the remaining $1,658 classified as non-current at December 31, 2009.

The following is a reconciliation of Texas RE's regulatory liability for the year ended December 31:

(Dollars in Thousands)

6. Accounting for the Effects of Regulation (continued)

	2009
Texas RE collections	$ 3,620
Texas RE interest income	3
Less: Texas RE costs	4,982
(Over) under collections	1,359
Regulatory liabilities, beginning of year	(3,095)
Regulatory liabilities, end of year	$ (1,736)
Current portion	$ (78)
Long term portion	$ (1,658)

7. Contingencies

Texas RE is party to regulatory and legal proceedings that management considers to be normal actions to which an enterprise of its size and nature might be subject. Such proceedings are not anticipated to have a material impact on Texas RE's financial condition, results of operations, or cash flow.

8. Subsequent Disclosures

On January 1, 2010, a new nonprofit Texas corporation called Texas Reliability Entity, Inc. (New Texas RE) was formed to assume the business, rights and obligations of Texas Regional Entity, an independent division of ERCOT (Original Texas RE). On February 19, 2010, NERC filed a petition with FERC requesting: (1) approval of an Amended and Restated Delegation Agreement between NERC and the New Texas RE to develop, and to monitor and enforce compliance with, reliability standards in the ERCOT Region; (2) termination of the existing Amended and Restated Delegation Agreement between NERC and Original Texas RE, to be effective on the date New Texas RE takes over such functions; and (3) approval of an Amended 2010 Business Plan and Budget for New Texas RE, and increased assessments to load-serving entities and their designees within the ERCOT Region. NERC and Texas RE have requested FERC approval of the petition by May 20, 2010. If the petition is approved, Texas RE plans to transfer its assets and liabilities to New Texas RE during the summer of 2010.