
**DRAFT MINUTES OF THE
TEXAS REGIONAL ENTITY ADVISORY COMMITTEE**
Room 206, Met Center, 7620 Metro Center Drive, Austin, Texas 78744

April 19, 2010

Committee Members

Michehl R. Gent, Chair		Unaffiliated
A.D. Patton, Vice Chair		Unaffiliated
Barry T. Smitherman	Chairman, Public Utility Commission of Texas	
Miguel Espinosa		Unaffiliated
Sheri Givens	Office of Public Utility Counsel	Residential Small Consumer
Jan Newton		Unaffiliated

Other Attendees

Larry Grimm, Texas RE CEO and CCO
Susan Vincent, Texas RE Director, Legal Affairs
Victor Barry, Texas RE Director, IT & CIP
Mark Henry, Texas RE Manager, Reliability Services
Jeff Whitmer, Texas RE Manager, Audits
Rashida Caraway, Texas RE Manager, Enforcement
Derrick Davis, Texas RE Corporate Counsel
Paul Curtis, Texas RE Corporate Counsel
Todd Brewer, Texas RE Manager, Finance and Accounting
Sarah Hensley, Texas RE, Reliability Standards Coordinator
Jennifer Taylor, Texas RE Senior Paralegal
Elaine Conces, Texas RE Manager, IT
Bridget Headrick, Public Utility Commission of Texas
Lea Anne Porter, ERCOT ISO
DeAnn Walker, CenterPoint Energy
Kenan Ogelman, CPS Energy
Taylor Sisson, Ernst & Young
Phillip Gunn, Ernst & Young

Call to Order

Pursuant to notice duly given, the meeting of the Texas Regional Entity (“Texas RE”) Advisory Committee (“Committee”) convened on April 19, 2010. Chair Michehl Gent reviewed the Antitrust Admonition with the Committee, ascertained a quorum was present, and called the open session of the meeting to order at approximately 10:05 a.m. Chair Gent reviewed the agenda for the meeting.

Approval of Previous Minutes

Jan Newton made a motion to approve the minutes from the March 22, 2010 meeting; Miguel Espinosa seconded the motion. Susan Vincent noted one typographical error on

page two of the minutes prior to the vote. The motion passed subject to the correction by unanimous voice vote.

Texas RE Administrative Update

Larry Grimm gave a brief administrative update, which included activities undertaken by Texas RE to separate from Electric Reliability Council of Texas (ERCOT ISO) and the pending order from Federal Energy Regulatory Commission (FERC) regarding the new entity's amended delegation agreement and the 2010 business plan and budget. Mr. Grimm stated that he expects FERC to issue the order at its May 20th meeting. Mr. Grimm noted the first draft of the 2011 business plan and budget must be filed with North American Electric Reliability Corporation (NERC) by May 28, 2010.

In response to Chair Gent's question about what items are in the 2011 budget assumptions that were not previously considered, Mr. Grimm noted the following will impact the 2011 budget: new initiatives such as Critical Infrastructure Protection (CIP) audits, additional training, additional work regarding processing of TFEs and CIP violations, nuclear audits starting in 2011 and the need for greater consistency and for violations to be processed faster.

In response to Mr. Espinosa's question related to who would perform the additional training, Mr. Grimm stated NERC is preparing the training and may also hire contractors to help prepare the training. NERC will present the training and it will be consistent among the eight regions.

Mr. Espinosa asked how the training would affect the timing of issuing violations. Mr. Grimm explained to the Committee that he is hopeful that the additional training will help gain efficiencies and that violations might be able to be issued with less paperwork, the so called "traffic ticket". However, the time required for the additional training will almost certainly take time away from performing compliance and enforcement activities. He noted stakeholder feedback indicated stakeholders want the violation process to be quicker and Texas RE will strive to process violations faster.

Mr. Grimm and the Committee generally discussed the delegation agreement. In response to A.D. Patton's question about whether Texas Reliability Entity would utilize a compliance committee for determining violations, Mr. Grimm replied that he does not anticipate the new entity having a compliance committee.

Ms. Newton asked for Mr. Grimm's assessment of FERC's orders that were issued in March. Mr. Grimm stated none of the orders are directly problematic to Texas RE and business will be conducted as usual. Mr. Grimm noted that NERC has some concerns about the FERC orders and that the process to address those concerns is ongoing. Mr. Grimm also noted that Texas RE agrees with NERC's concerns. The Committee generally discussed the FERC orders.

Web Metrics and IT Separation Plan

Victor Barry provided the Committee with an overview of the Information Technology (IT) separation activities from ERCOT ISO. Mr. Barry stated that procurement activities are underway and vendors have been selected. Mr. Barry highlighted top priorities of the IT separation are reliability, performance, security and supporting a mobile work force. In response to Dr. Patton's question about the requirement for the single point of failure strategy, Mr. Barry explained the critical role IT systems play in the day to day business of Texas RE, including the need for disaster recovery. Systems were selected for reliability; however not one

single piece of IT equipment or software will be able to bring down the IT systems used at Texas RE. The Committee and Mr. Barry discussed the design of the new IT systems once Texas RE separates from ERCOT ISO. Mr. Barry reviewed IT services outsourced to vendors: the new phone system, internet feed, server maintenance, security issues with vendors, hackers, firewalls, encryption and the number of staff needed to maintain Texas RE's IT department.

Mr. Espinosa queried whether the 30 day back up plan with ERCOT ISO was enough. Ms. Vincent explained to the Committee that the memorandum of understanding (MOU) with ERCOT ISO would remain in place through the July 1 separation date. In the event ERCOT ISO's IT or technical services were required after that date, Texas RE would need to renegotiate the MOU with ERCOT ISO and gain approval from FERC for the new agreement.

Ms. Newton questioned the costs of the MOU with ERCOT ISO versus the costs of the IT separation. Todd Brewer advised that the MOU costs were approximately \$25K per month and after separation the running costs will be 20% – 40% higher on an annual basis. Total costs are approximately one million for startup and \$500,000 recurring.

2011 Delegation Agreement Update

Mr. Grimm stated that the eight regions and NERC have been negotiating for several months to come up with an agreed upon revised delegation agreement (RDA). Mr. Grimm stated that the new RDA focuses on increasing efficiency, consistency and transparency among the regions and NERC. The RDA provides more specificity and description based on things learned by the regions over the past 3 years, recommendations made by the auditor of NERC when their procedures were reviewed, and stakeholder input.

Chair Gent noted the new board would discuss and vote on the RDA and the information presented to the Committee was informational only.

Financial Report (Q&A)

In response to Mr. Espinosa's question about why the financial report lists 46 full-time employees when only 40 were budgeted for the year, Mr. Brewer replied that the approved 2010 business plan and budget allowed for 40 employees and that the amended 2010 business plan and budget allows for 46 employees. Moreover, Mr. Brewer explained FERC has not yet approved the amended 2010 business plan and budget, but approval is expected soon.

Ms. Newton noted in the best view column of the financial report, it appears Texas RE would end the year two million better than budget and wanted to know if this was due to the cash reserves. Mr. Brewer confirmed that 1.8 million was for operating expenses, plus the capital expenses, therefore the organization would end the year with a positive variance of \$100,000.

In response to Mr. Espinosa's question about how the capital expenses increased from one million to \$1.7 million, Mr. Brewer explained that the total capital expense forecast was approximately \$1.7 million, which included 1 million for IT capital expenses, \$320,000 for furniture, \$75,000 for leasehold improvements, \$200,000 for start-up board recruitment costs, and other assorted relocation expenses. Mr. Espinosa confirmed with Mr. Brewer that the 2010 capital expense forecast, including the transition out of ERCOT, totaled approximately \$1.7 million.

Acceptance of 2009 Financial Audit by Ernst & Young

Phillip Gunn and Taylor Sisson of Ernst & Young provided an overview of the 2009 financial statement audit results. No significant issues were found during the audit. After some discussion, the Committee decided to hold further questions and review of the audit results for the executive session.

2011 Business Plan and Budget Assumptions

In response to Ms. Newton's question on whether ERCOT Protocols Compliance work would be done past 2010, Mr. Grimm stated that at this time Texas RE did not plan to perform any Protocol Compliance work beyond 2010. Mr. Grimm explained that the Public Utility Commission of Texas (PUC) will bid the work out and Texas RE may or may not bid on the work depending on what direction is given by the new board. Costs were built into the budget to cover protocol violations work in 2011 which may carry over from 2010. Ms. Newton noted the current board (Texas Regional Entity) voted to not have Texas RE continue protocol work past 2010. She agreed it would be up to the new board to decide if protocol work would be performed by Texas Reliability Entity, Inc.

Regarding base compensation for 2011, Ms. Newton stated that she does not believe an additional 2% increase for market adjustments to bring salaries in line with industry standards is necessary as a budget assumption. She agreed a 3% merit increase and a 1% promotion increase is fine but disagreed with a 2% across the board increase. Ms. Newton stated that she has reviewed the market survey and she understands that Texas RE staff are the lowest paid of all the regional staffs. She stated more evidence is required to support the 2% increase than just a salary survey. In response to Ms. Newton's question about whether Texas RE is having trouble hiring and/or retaining staff, Mr. Grimm advised the Committee several compliance-related positions have gone unfilled and the organization is having trouble finding qualified employees to perform the work. He noted that recently the CIP related positions have been extremely difficult to fill as all regional entities and NERC, as well as industry and government are competing for the same people.

Mr. Grimm further noted that the salary survey was the basis for the 2% salary increase but he indicated that it was a placeholder. He explained that the 2% increase could be removed from the budget. Ms. Newton stated that she believes a 2% across the board increase for all employees of the organization is too much, especially in light of the fact of the separation and on-going increased costs.

Mr. Grimm reiterated that the 2% adjustment was an average and was not meant to be an across-the-board increase but to create a fund that could be used to give market adjustments to selected staff. Mr. Grimm stated he understands Ms. Newton's concerns. The Committee generally discussed the salary survey.

Dr. Patton asked about the Member Representatives Committee (MRC) and Mr. Grimm explained how the committee would work. Dr. Patton wanted to know what other coordination was done with NERC, FERC, the board, PUC, etc. Mr. Grimm discussed the coordination among the eight regional entities and NERC to come up with the rules of procedure and the pro forma 2011 delegation agreement. Dr. Patton stated that the efforts of NERC and the regional entities should be focused on maintaining system reliability. He said it was essential that Texas RE play a significant role in leading and helping to shape NERC activities to ensure that this goal was maintained and budget dollars were not spent in just "checking off boxes." Dr. Patton and Chair Gent said that they wanted Texas RE to increase its communication, collaboration,

and coordination more with the board, the PUC, the legislature, as well as with the MRC, in 2011.

Chairman Barry Smitherman commented on the salary increases in the 2011 budget assumptions. In response to Chairman Smitherman's question about what coordination existed between Texas RE and ERCOT ISO with regard to determining the appropriate levels of pay, salaries, increases, bonuses and the like, Mr. Grimm stated that ERCOT ISO and Texas RE use the same methodology to evaluate employees and like ERCOT ISO, Texas RE gave 3% merit increases.

Lea Anne Porter, Director of ERCOT ISO Compensation and Benefits confirmed that Texas RE went through the same merit method that ERCOT ISO uses to determine salary increases. Both ERCOT ISO and Texas RE used the "Success Factors" program for employee evaluations. Ms. Porter explained that Texas RE stayed within their budgeted payroll for 2010 and that Texas RE has the same pay grades as ERCOT ISO employees. Ms. Porter acknowledged Texas RE is having trouble recruiting. Ms. Porter stated given the results of previous salary surveys she understands why the market adjustment went into the 2011 budget assumptions.

Chairman Smitherman stated it is still unclear to him whether ERCOT ISO has a consistent and refined pay policy. Chairman Smitherman questioned how compensation has been compared to like organizations around the country and it consistently shows ERCOT ISO underpays. Chairman Smitherman further stated the counter argument is employers in Austin do not have to pay what employers pay in other cities with higher cost of living but lower quality of life. He noted ERCOT ISO has tried to compare their pay grades to LCRA, CPS, Austin Energy and the like and while the data points are valuable, those organizations do not perform the same tasks. Chairman Smitherman stated that the issue may be understanding the amount of salary it takes to keep employees from walking out the door. Chairman Smitherman stated that he believes ERCOT ISO struggles with this and he does not feel like ERCOT ISO has its arm around it. In contrast, Chairman Smitherman explained that state employees do not get a merit increase. He stated that both ERCOT ISO and Texas RE need to figure out how to pay people.

Ms. Porter responded that state employees are different. ERCOT ISO uses a market based system to value the jobs in ERCOT ISO and Texas RE. Ms. Porter further explained that market surveys are done all the time even though this specific survey was done for Texas RE. Surveys are done and positions are re-evaluated anytime an employee leaves.

Chairman Smitherman asked what were the comparables (comps) used in the salary survey. Ms. Porter replied that all ISOs were used as comps, and other utility companies. Ms. Porter explained that the results were that Texas RE's base pay was fairly comparable, but many of the ISOs and the utilities were also giving incentive pay or bonuses and when you add those figures together, ERCOT ISO and Texas RE come out low. In response to Chairman Smitherman's question about if any other not-for-profit businesses were considered when the surveys were conducted, Ms. Porter answered that traditional not for profit organizations were not included in the survey because those organizations typically do not employ engineers and require different skill sets. Chairman Smitherman stated Texas RE is different in that it is not subject to competitive pressures and will not go out of business, such as utility companies might. Chairman Smitherman questioned if competitive pressures are taken into account, if any. Ms. Porter replied that when an employee leaves, they do not necessarily go to another non-profit organization. For example, a planning engineer will go to another company hiring

planning engineers. She went on to state that as far as Austin being a great place to live, Ms. Porter noted many employees are not from Texas and it is debatable whether they would share the same sentiment about Austin and stay in Austin because of the quality of life.

In response to Chair Gent's question about if the Committee needed to do anything regarding the budget assumptions, Mr. Brewer stated the 2011 budget assumptions were informational and were shared to see what ideas or input the Committee may have regarding the 2011 budget.

Sheri Givens stated that she agreed with Dr. Patton on the need for outreach and education from Texas RE. She asked that Texas RE develop bullet points of what they are doing so it could be easily found on the website. She asked that a future agenda item be added to discuss how Texas RE plans to educate and provide information to consumers.

The Committee discussed the cash reserve issue. Chair Gent stated that a 30 day cash reserve is adequate. Ms. Newton stated that after reading the March 31st memo provided by Ms. Vincent, she believes it is prudent to be conservative since the organization would be totally independent. She stated she is in favor of a 75 day cash reserve. Chair Gent stated that he believes pressure should be put on an organization to hold their spending down and to budget properly; he related his experiences with cash reserves. Mr. Brewer described examples of issues which may come up which are not budgeted for. He advised the Committee that a supplemental budget could take four to six months for approval by NERC and FERC and that the reserve is essential since the organization does not have a steady income stream and as a new company, it would not have any established credit. Ms. Vincent reminded the Committee that Texas RE would have to dip into the reserves to pay for the IT separation. Ms. Vincent explained the arduous and lengthy process for obtaining approval for a supplemental budget. Mr. Brewer and the Committee discussed the cash reserve issue and the risks of lowering the cash reserves.

Human Resources & Governance Issues

Ms. Vincent confirmed that everything is still on track for FERC to approve the delegation agreement and business plan and budget on May 20th. Ms. Vincent reviewed the nominating committee progress for nominating independent directors for the new board and the Member Representatives Committee's selection of a chair and vice chair to serve on the new board.

Mr. Grimm discussed the 2010 goals and Key Performance Indicators (KPIs). Mr. Grimm explained that the compliance goals were expanded to provide more detail. Ms. Newton wanted to know where the stretch goals were, above and beyond getting the job done. Mr. Grimm explained that he has given this a lot of thought. Mr. Grimm explained how last year KPIs showed Texas RE is performing very well and that Texas RE is operating more efficiently and at a lower cost than other regional entities. Mr. Grimm asked the Committee if they had any ideas for stretch goals. Ms. Newton suggested Texas RE develop an outreach program to maintain visibility of the organization. She suggested Mr. Grimm think of goals that give higher standard for the organization to stay first in class. She would like to see Mr. Grimm come up with stretch goals for the organization.

Chair Gent stated that he thinks Texas RE's success can be measured by an outreach program and also the way in which Texas RE communicates. Communication must be higher; Texas RE needs plans to educate the board, the public, the stakeholders, the PUC, and the legislature. He wants KPI #6 more directed to getting the message and results out to the populace instead

of meeting NERC's agenda for submitting data.

Chairman Smitherman asked the Committee what is the purpose of the KPIs and what happens if the KPIs are not met, would Larry and his staff be fired? Chairman Smitherman stated if there are no consequences for not meeting goals, then they are of no value. In response to Chairman Smitherman's question for Mr. Grimm's opinion of the KPIs, Mr. Grimm stated that he based the KPIs on the requirements placed on Texas RE by NERC and FERC. The Committee discussed the rationale for the KPIs.

Future Agenda Items

Ms. Newton confirmed the last advisory meeting is on June 14th. She suggested that there be a joint meeting with the old and new board. Mr. Espinosa agreed that a joint meeting should be scheduled to discuss issues with the new board. He asked Ms. Vincent to coordinate this.

Adjournment

Chair Gent adjourned the Committee into executive session at approximately 11:40 a.m.
No further business was conducted in open session.