



**TEXAS  
REGIONAL  
ENTITY™**

*An Independent Division of ERCOT*

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# 2011 Business Plan and Budget Overview

May 17, 2010

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# 2011 Budget Assumptions - General

- **Texas Reliability Entity will be legally separate and will not receive services from ERCOT ISO**
- **Statutory programs and processes will continue to evolve**
  - Amended and Restated Delegation Agreement
  - Revised NERC Rules of Procedure
  - Responses to FERC Directives
- **Significant Regional Entity support required to develop common infrastructure technology tools with NERC**
- **Expanded training required for Regional Entity staffs – will help improve and address consistency issues**

# 2011 Budget Assumptions – General (cont.)

- **Statutory functions must be appropriately budgeted to:**
  - Discharge all of the NERC Delegation Agreement requirements
  - Ensure Texas RE continues to improve its processes to increase efficiency by utilizing technology to enhance its operations
  - Ensure Texas RE has appropriate cash on hand
    - Maintain a 75-day Statutory cash reserve
    - 2011 assessments will be offset by:
      - ◆ Surplus funds from prior year
      - ◆ Penalty money received prior to July 1, 2010
      - ◆ Will be lower than 3Q & 4Q 2010 assessments

- **Compliance and Enforcement-related activities will increase**
  - Increase timeliness of activities to improve transparency
  - Develop and implement an enforcement process that encourages “good” self-reporting
  - All audits will increase in vigor and length
- **Cyber and critical asset security are a priority**
  - Registered entities must be auditably compliant with CIP standards in 2011 (only 1 entity in 2010)
    - CIP standards have 43 applicable requirements
    - Site visits of critical assets required during audits
      - ◆ Actual audit phase will take 2 weeks per audit (actual audit phase for non-CIP audits takes 3-4 days)
  - Nuclear standard requirements applicable in 2011

## 2011 Budget Assumptions – CMEP (cont.)

- **Number of registered functions will increase with increasing joint registrations and potential expanded Bulk Electric System (BES) definition**
- **Significant additional registration surveys and analysis required for mapping of transmission and generation, including large industrials that are currently not registered**
- **Texas RE will continue to have electronic access to ERCOT region system data through ERCOT ISO IT systems**

# 2011 Budget Assumptions – Reliability Services

- **Events analysis processing and reporting increases**
  - Very valuable and should be a core area for learning
  - Improved timeliness for triage, analysis, and reporting of system events
  - Timely publication of lessons learned, recommendations, and tracking of responses to recommendations
- **Reliability assessments expected to increase in technical rigor**
  - Two special reliability assessments
  - Increased data gathering and collection to perform analyses
- **Implement situation awareness tool utilizing data provided by RCs**

# 2011 Budget Assumptions – Other Programs

- **Standards projects will increase to respond to FERC orders (including 693) and requirement to review each standard every 5 years**
- **Stakeholder Training and Education**
  - Operations Training Seminar and Compliance, Standards, and CIP workshops will continue
    - Charge fee for attendance at Workshops to offset cost of meeting rooms
  - Bi-monthly newsletter will continue
- **Board and Membership support will increase**
  - First full year for new Independent Directors, membership, and Member Representatives Committee

# 2011 Budget Assumptions - Personnel

- **Increase in base compensation for 2011:**
  - Merit increase of 3% and promotion increase of 1% assumed
    - Additional 2% increase to establish a pool for funding market adjustments to bring salaries for targeted positions in-line with industry standard not included
  - Employee benefits estimated at 36% of salary
- **Additional staffing required to:**
  - Meet all new Delegation Agreement and NERC Rules of Procedure requirements and FERC directives
  - Improve efficiency, consistency, transparency, and overall performance
  - Allow for increased staff training
- **3 new headcount for 2011 are funded for 9 months**
- **Assumed a 5% vacancy rate for salary & benefits expense in 2011**



# 2011 Budget Assumptions – Non-statutory

- **Texas RE will not monitor or report on ERCOT Protocol compliance in 2011**
  - Non-statutory budget is included for responding to subpoenas and providing testimony and technical expertise for the PUCT for prior years' activities

# 2010 & 2011 Budget Summary – Statutory and Non-statutory Combined

## ● 2010 Budget

2010 Budget Op. Expenses	\$8,997,967
2010 Op. Capital Expense	388,715
2010 Start Up Expenses	1,308,500
Plus: Adj. to cash reserve	171,694
Less: Depreciation	<u>(329,657)</u>
Net Funding	\$10,537,219
Net Funding per MWH	\$0.034
(Funding w/o start up costs)	\$0.030

- 75-day cash reserve (~\$1,828,000)

## ● 2011 Budget

2011 Budget (Total Expenses)	\$9,727,481
2011 Capital Expense	290,000
Plus: Adj. to cash reserve	117,223
Less: Depreciation	<u>(443,085)</u>
Net Funding	\$9,691,619
Net Funding per MWH	\$0.031

- 75-day cash reserve (~ \$1,945,000)

# 2011 Total Statutory & Non-statutory Budget

**Texas RE  
Total Statutory & Non-Statutory Combined Budget  
2011 Proposed Budget**

	<b>2011 Statutory</b>	<b>2011 Non-Statutory</b>	<b>Total 2011</b>
Operating Expenses	9,467,240	260,241	9,727,481
Capital Expenses	290,000	-	290,000
Less Depreciation	(443,085)	-	(443,085)
Net Capital Funding	(153,085)	-	(153,085)
Change in Working Capital	117,223	-	117,223
<b>Total Funding</b>	<b>9,431,378</b>	<b>260,241</b>	<b>9,691,619</b>

**Texas RE  
Total Statutory & Non-Statutory Combined Budget  
Comparative 2010 vs. 2011**

	<b>2010*</b>	<b>2011 Proposed</b>	<b>Difference</b>
Operating Expenses	9,214,467	9,727,481	(513,014)
Capital Expenses	1,480,715	290,000	1,190,715
Less Depreciation	(329,658)	(443,085)	113,428
Net Capital Funding	1,151,058	(153,085)	1,304,143
Change in Working Capital	171,695	117,223	54,472
<b>Total Funding</b>	<b>10,537,219</b>	<b>9,691,619</b>	<b>845,600</b>

\* Includes \$216,550 in start-up operating expenses, and \$1,092,000 in capital start-up costs.

# 2011 Headcount

- **50 FTEs required in 2011 (49 Statutory)**
  - Approved Amended 2010 Budget includes 46 FTEs (39.5 Statutory FTEs)
- **9.5 additional Statutory FTEs requested**
  - 3.5 – from Non-statutory 2010 personnel (see next page for further analysis)
  - 1 – Board and External Relations Liaison (requested in 2010 as discussed with Board in April 2010)
  - 5 new FTEs for 2011 (includes 2 FTEs currently performing Non-statutory work):
    - 1 – Reliability Services (event analysis, investigations, situation awareness)
    - 2 – Compliance Audits
    - 1 – Organization Registration
    - 1 – Enforcement

# Non-Statutory Headcount Analysis

- **Analysis of Non-statutory FTEs**

- Unable to eliminate 6.5 Non-statutory FTEs (from 2010) and still perform Statutory activities (with no activity changes)
  - Approximately 1 FTE is overhead (executive, legal, finance, IT, etc.)
  - Efficiencies with performing Non-statutory work
    - ◆ Perform both audits in 1 trip; still need to perform full event analysis even if not doing Non-statutory work
- Required non-statutory activities reduced during 2009 and to date in 2010
  - Few significant events, great efficiencies in performing Statutory and Non-statutory compliance monitoring, few active enforcement cases to support
  - 2.5 Non-statutory FTEs will perform Statutory work in 2010 – funded by vacancy savings

# Other 2011 Increases

- **Travel**
  - Additional audits (CIP and new TOPs)
  - Audits will take longer
  - Additional required NERC training and meetings
  - Independent Director travel
- **Rent – required for additional staff and conference space for meetings (to reduce or eliminate cost of renting external space)**

# 2011 Texas RE Base Operating Statutory Budget

(2010 Base Operating Budget excludes operating and capital expenses for start-up)

Total Projected 2011 Budget Increase		
STATUTORY		
2010 Base Operating Budget		2011 Projected Increase Over Base Operating Budget
\$ 3,841,781	Salaries	\$ 856,179
302,981	Payroll Taxes	112,022
408,773	Benefits	247,181
550,669	Retirement Costs	128,479
<b>\$ 5,104,203</b>	<b>Total Personnel Expenses</b>	<b>\$ 1,343,862 26.3%</b>
\$ 228,000	Meetings	\$ 6,300
194,392	Travel	128,361
-	Conference Calls	12,000
<b>\$ 422,392</b>	<b>Total Meeting Expenses</b>	<b>\$ 146,661 34.7%</b>
\$ 404,483	Consultants & Contracts	\$ 203,688
363,900	Office Rent	135,100
48,612	Office Costs	175,883
1,197,746	Professional Services	(447,746)
44,843	Miscellaneous	(44,843)
299,657	Depreciation	143,428
<b>\$ 2,359,240</b>	<b>Total Operating Expenses</b>	<b>\$ 165,511 7.0%</b>
<b>\$ (0)</b>	<b>Indirect Expenses</b>	<b>\$ (74,629) -100.0%</b>
78,761	Computer & Software CapEx	(125,505)
(56,703)	Furniture & Fixtures CapEx	(49,638)
<b>\$ (22,058)</b>	<b>Capital Expenditures (net of depreciation)</b>	<b>\$ (175,143) 794.0%</b>
<b>\$ 7,907,893</b>	<b>Total Base Operating Budget</b>	<b>\$ 1,406,262 17.8%</b>
\$ (72,053)	Working Capital Reserve Funding	\$ (74,324)
209,000	Changes in Other Sources of Funding	34,600
-	Penalty Sanctions	20,000
<b>\$ 8,044,840</b>	<b>Total Funding Requirement</b>	<b>\$ 1,386,538 17.2%</b>

# 2010 FTE Analysis

- **2010 FTEs: 46 Budgeted, 1 Not Budgeted = Total 47.0**
- **Budgeted – Statutory: 39.5 FTEs**
- **Unbudgeted – Statutory: 1.0 FTE (Funded by Vacancy Savings)**
- **Initially Budgeted for Protocols: 2.5 – Performing Statutory Work (Funded by Vacancy Savings)**
- **Budgeted Non-Statutory: 4.0**



# 2011 FTE Analysis

- **Proposed: 50 FTEs Total**
  - 49.0 Statutory
  - 1.0 Non-Statutory
- **Year-Over-Year (based work activities):**
  - 2010 Statutory – 43.0 FTEs
  - 2011 Statutory – 49.0 FTEs
  
  - 2010 Non-statutory – 4.0 FTEs
  - 2011 Non-statutory – 1.0 FTEs

# Major Changes in NERC Budget

- **NERC believes it is 50% under-resourced.**
  - NERC is requesting an increase of 25% for 2011.
  - NERC is using \$4 million of the penalty money received from Florida event to re-establish a cash reserve (~30 days).
  - The remaining \$6 million is being used to keep assessments down in 2011; however, that will not be the case for 2012.
- **NERC's total proposed 2011 budget is \$48 M for Operating and Capital Expense. This represents a 25% increase in funding, year-over-year.**
- **NERC's total proposed headcount for 2011 is 149.75, this is 18.25 higher, or a 14% increase in FTEs from the 2010 budget of 131.50 FTEs.**