



Texas Reliability Entity, Inc.
2011 Business Plan &
Budget Overview

June 14, 2010

Introduction, Challenges, and Key Cost Drivers

- **71% of Texas RE's budget is related to personnel costs (salaries, benefits, training, travel, etc.); therefore, managing productivity is essential**
 - All Texas RE employees charge time to different program areas similar to activity-based accounting
 - Shortage of and high industry demand for qualified compliance engineers (wage pressure)
- **50% of the total budget is in Compliance and Enforcement**
- **Reliability assessments expected to increase in technical rigor- Increased data gathering and collection to perform analyses**
- **Events analysis processing and reporting - Improved timeliness for triage, analysis, and reporting of system events, and publication of lessons learned and recommendations**

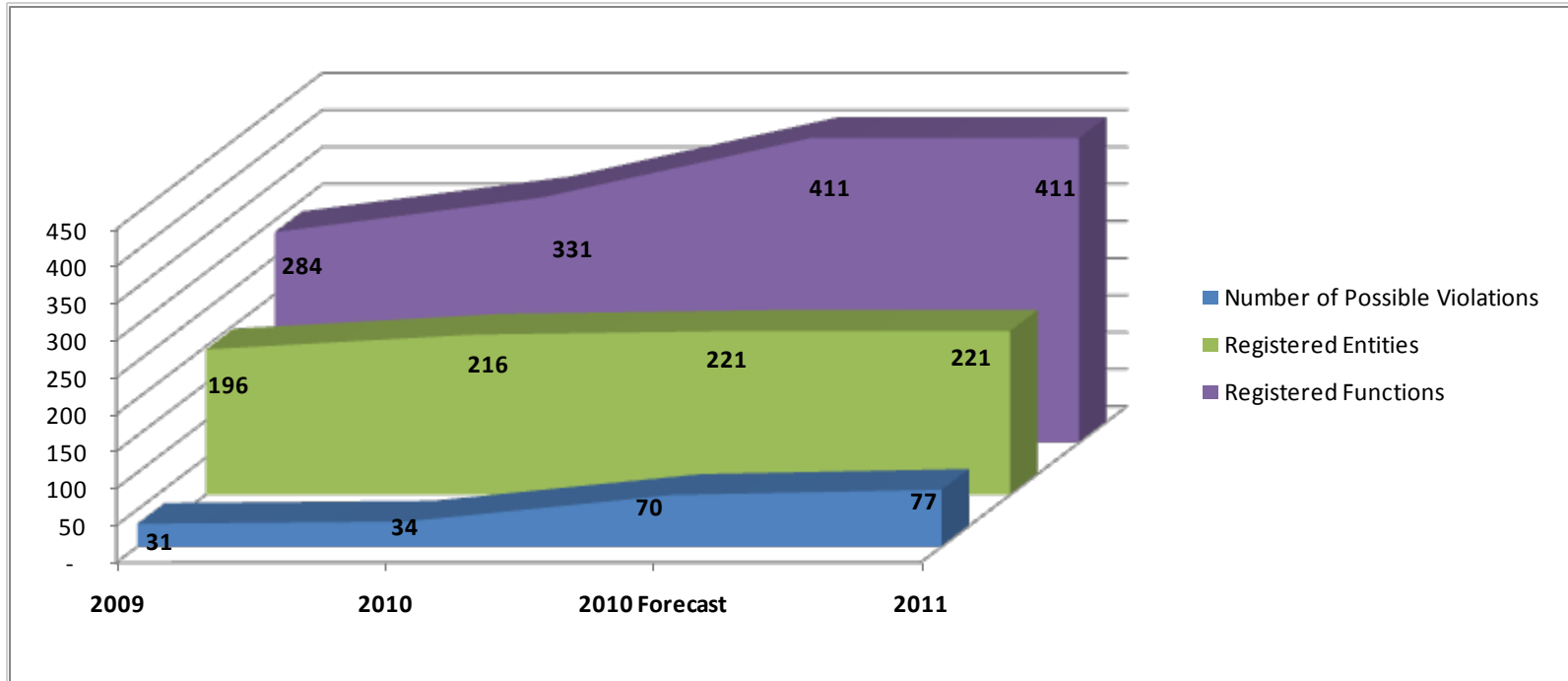
Introduction, Challenges, and Key Cost Drivers

- **Key drivers are simply the quantity of demands: More work, greater expectations from those we serve (industry, regulators, public interests)**
 - Examples of Key Drivers
 - More actively monitored standards and associated requirements
 - Increased number of Registered Functions in our region
 - Increased volume of enforcement activities
 - Expansion in CIP Audits, processing of TFEs (As of May 24th, there have been 537 TFEs submitted to Texas RE)
 - Expanded role to provide more education to Registered Entities on meeting requirements, enhancing compliance programs, addressing key areas (ex. protection systems)

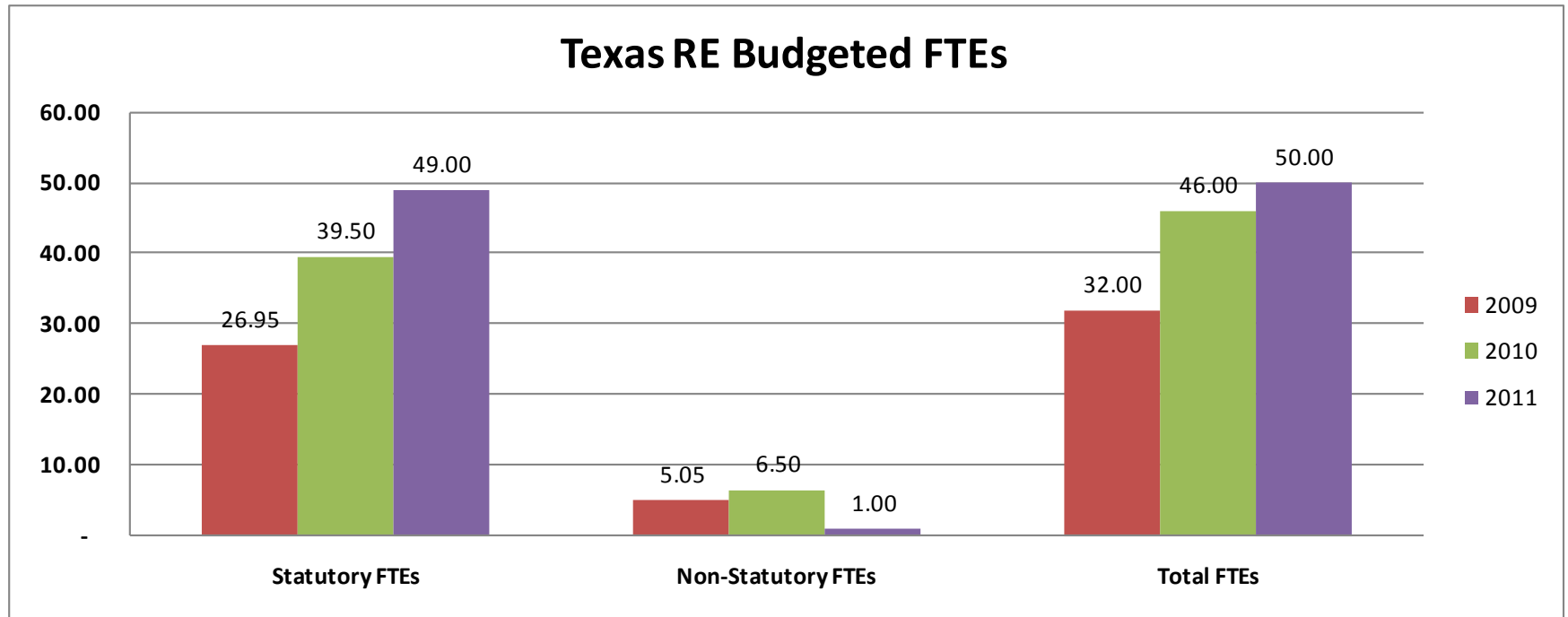
Introduction, Challenges, and Key Cost Drivers

- **Decrease in funding from 2010 Total Statutory & Non-statutory to 2011 Total Statutory & Non-statutory is -\$921K, or -8.7%; excluding start-up costs from 2010, there is an increase of \$387K, or 4.2%**
 - Increase in 2011 Statutory from 2010 Statutory is \$133, or 0.0%, excluding start-up costs from 2010, there is an increase of \$1,309K, or 16.7%
 - Decrease in 2011 Non-statutory from 2010 Non-statutory is -\$921K, or -77.8%
- **Cash reserves are set at 75 days, Texas RE does not have access to a line of credit**

Key Drivers: Violations, Registered Entities & Functions

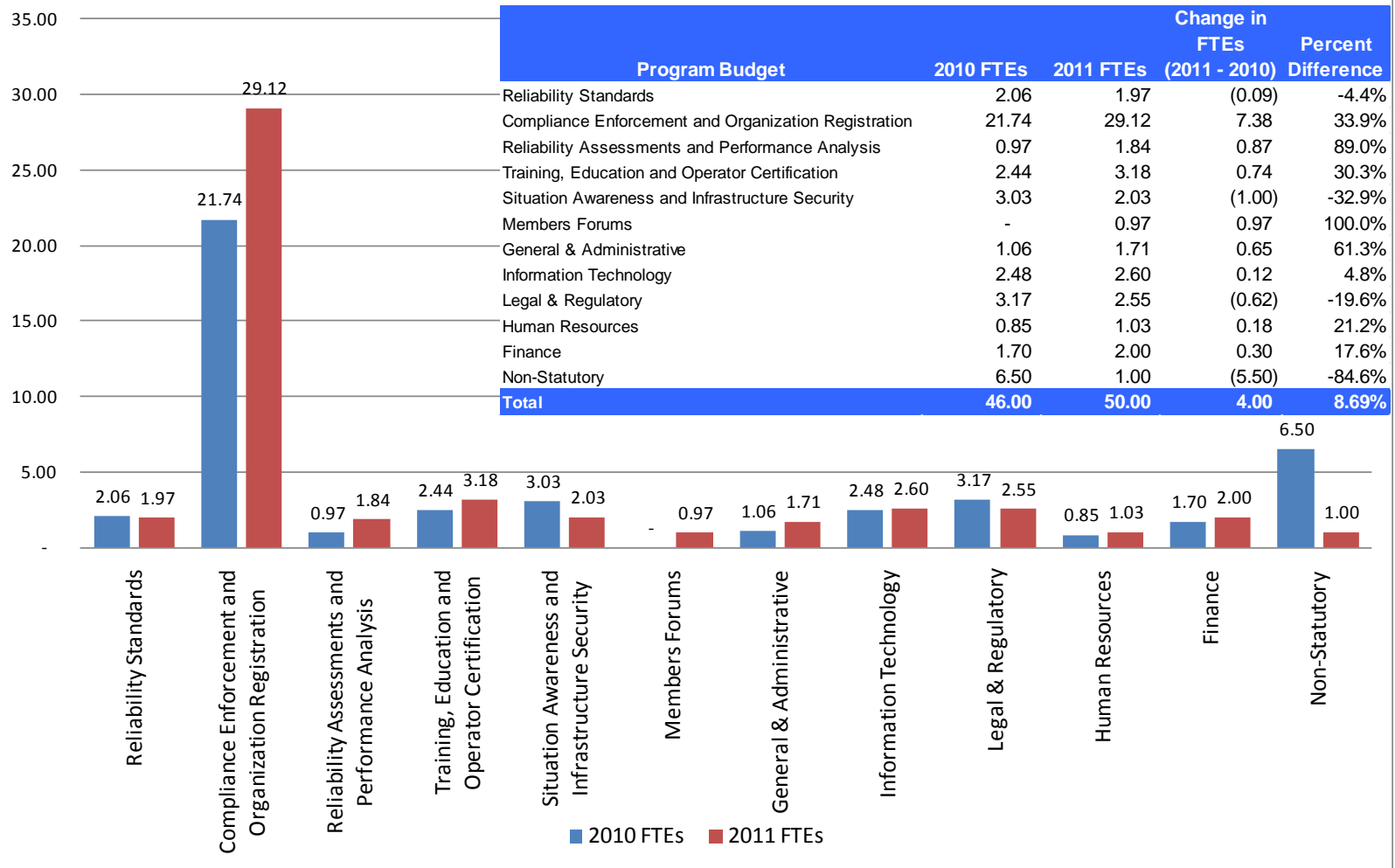


Staffing – Change in Full-Time Equivalents (FTEs)

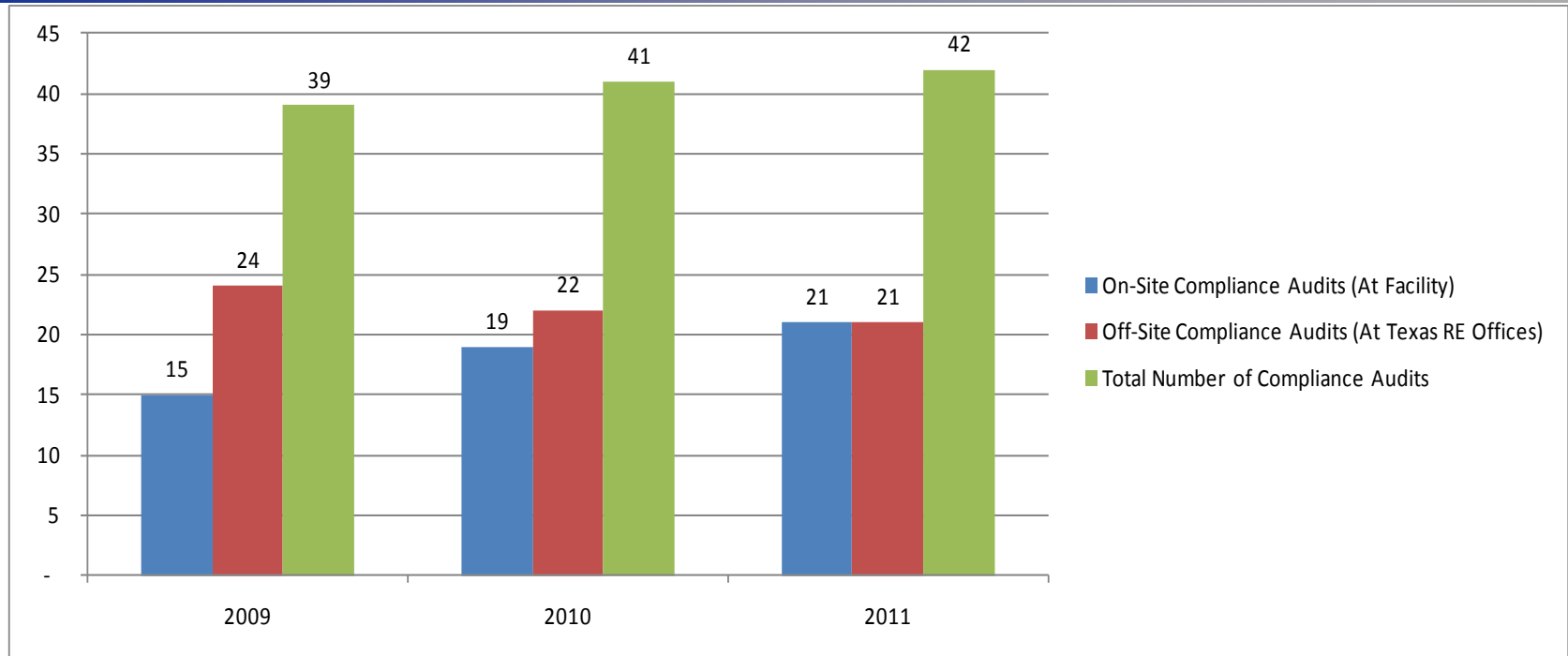


Comparison of FTEs

2010 FTEs Compared to 2011 FTEs

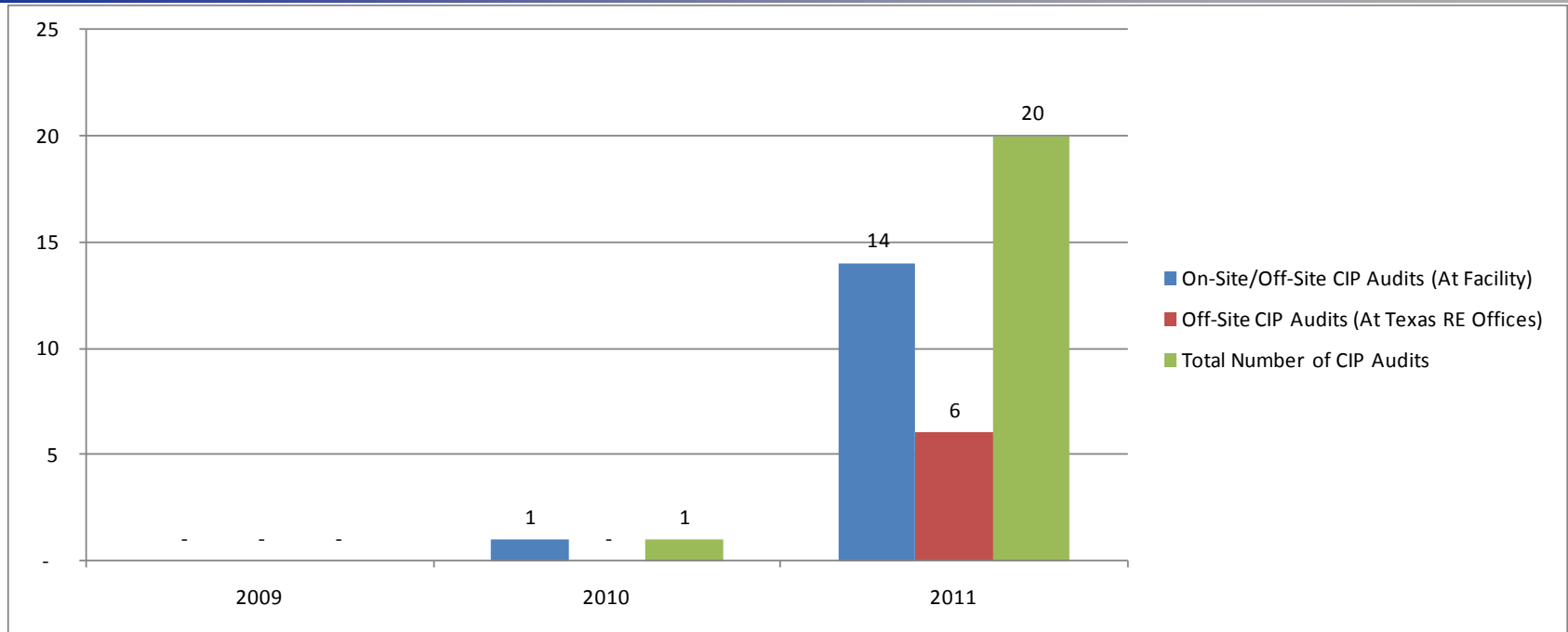


Key Drivers: Compliance Audits



- **All audits will increase in vigor and length**
- **Expect the number of Actively Monitored Standards to increase in the CMEP**

Key Drivers: CIP Audits



- **Virtual 100% increase in workflow/workload**
- **CIP audits are expected to be a longer duration audit at the facility than a compliance audit**
 - CIP audit expected to be 2 weeks, 1 week off-site and 1 week on-site
 - Compliance audit is estimated to be 3-5 days onsite

Comparison of Funding

Program Budget	2010 Total Funding	2011 Total Funding	Change in Funding (2011 - 2010)	Percent Difference
Reliability Standards	332,961	328,451	(4,509)	-1.4%
Compliance Enforcement and Organization Registration	4,336,577	4,811,748	475,171	11.0%
Reliability Assessments and Performance Analysis	359,951	429,596	69,645	19.3%
Training, Education and Operator Certification	356,608	416,284	59,676	16.7%
Situation Awareness and Infrastructure Security	478,513	313,499	(165,013)	-34.5%
General & Administrative	2,627,656	1,198,727	(1,428,930)	-54.4%
Information Technology	275,401	1,025,045	749,644	272.2%
Legal & Regulatory	172,564	360,122	187,558	108.7%
Human Resources	146,721	9,123	(137,598)	-93.8%
Finance	266,388	460,878	194,490	73.0%
Non-Statutory	1,183,879	262,595	(921,284)	-77.8%
Total	10,537,219	9,616,068	(921,151)	-8.7%

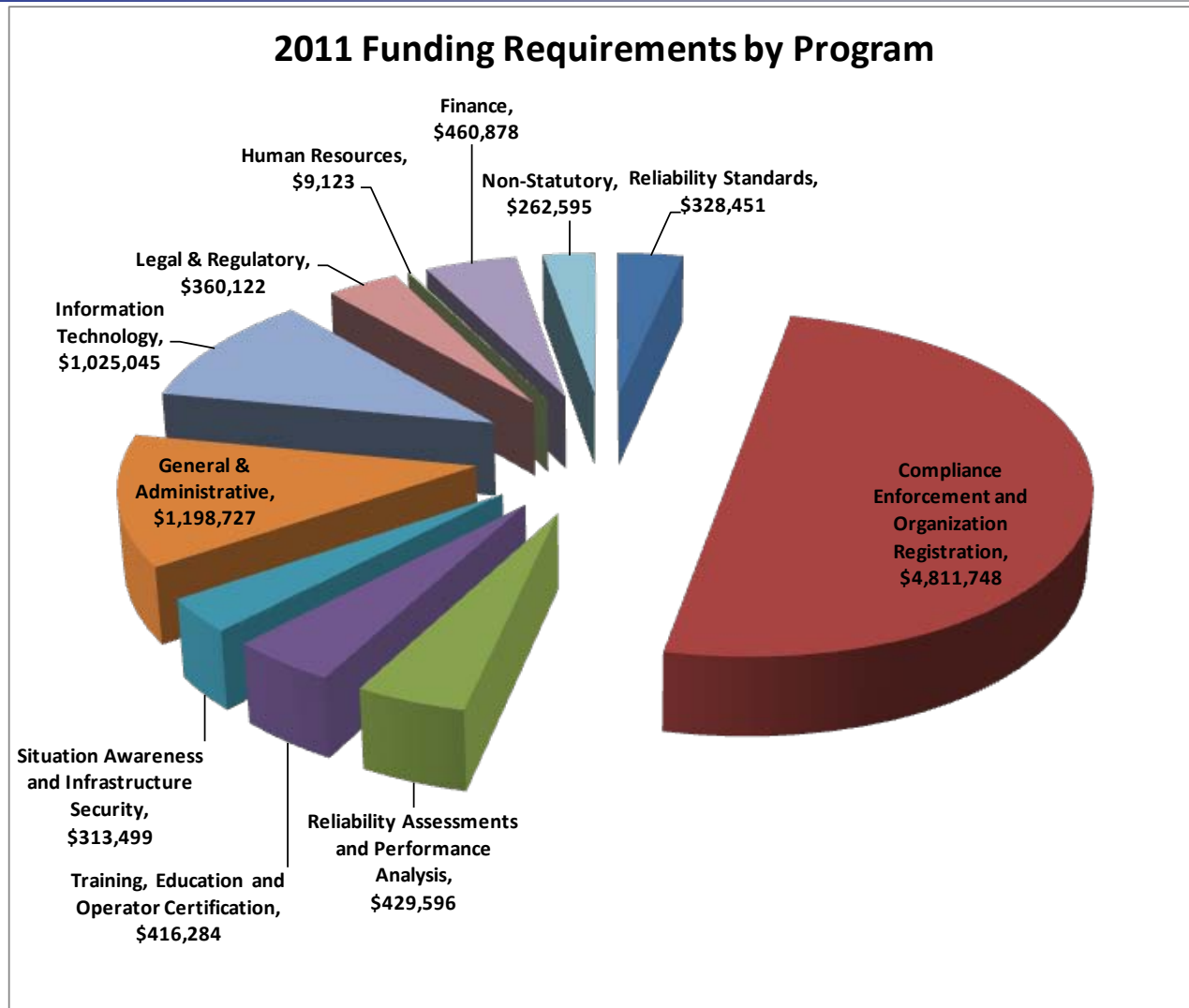
NOTE: G&A in 2010 reflected all Salary & Benefit expenses for G&A, Legal, IT, HR and Finance. In 2011, G&A reflects Salary & Benefit expenses for G&A, HR and Members Forums. The Legal, IT, and Finance areas are reflecting their own Salary & Benefit expenses.

Comparison of Funding – Excluding 2010 Start-Up

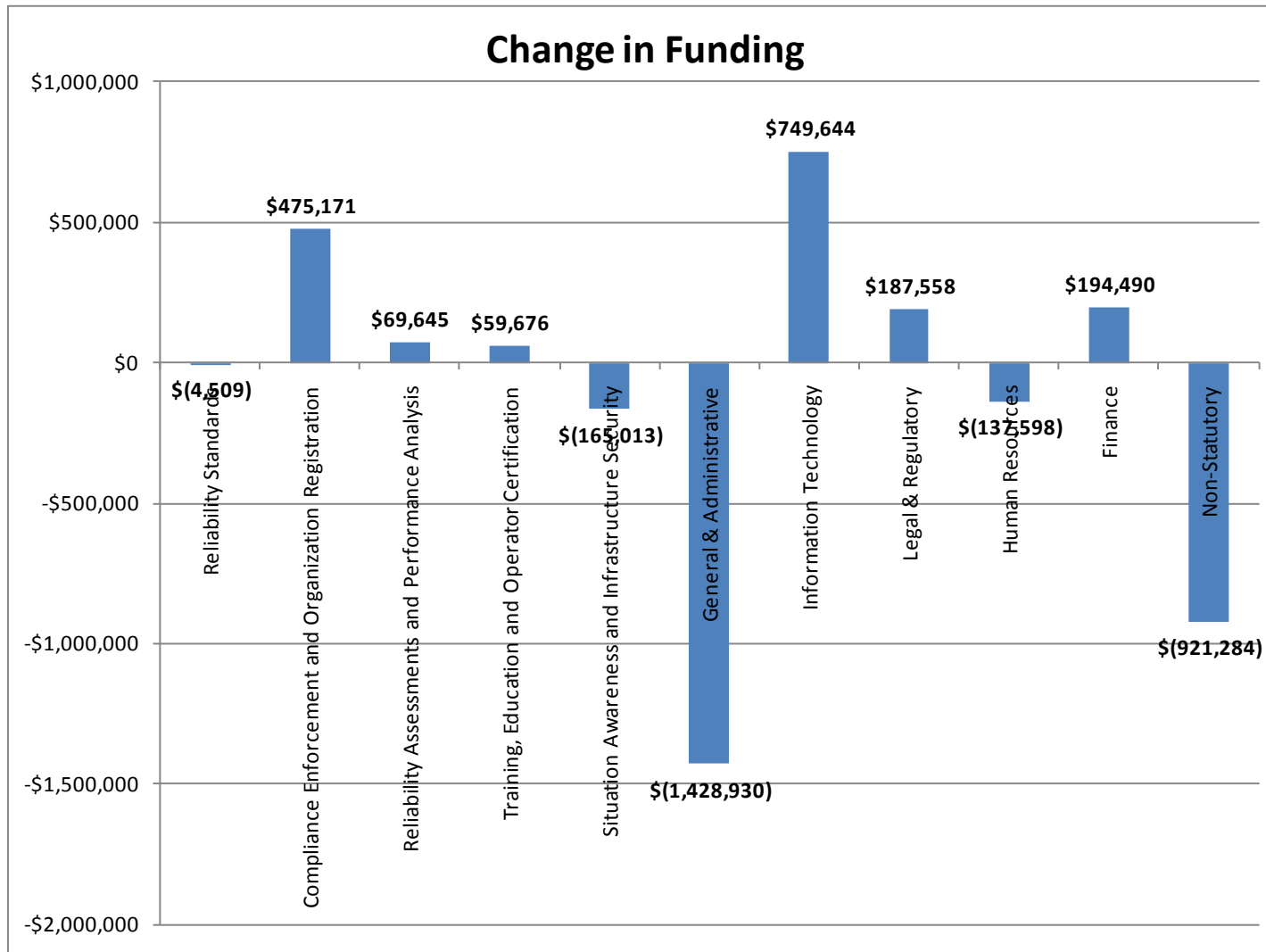
Base Program Budget (Excludes 2010 Start-Up Expenses)	2010 Total Funding	2011 Total Funding	Change in Funding (2011 - 2010)	Percent Difference
Reliability Standards	332,961	328,451	(4,509)	-1.4%
Compliance Enforcement and Organization Registration	4,336,577	4,811,748	475,171	11.0%
Reliability Assessments and Performance Analysis	359,951	429,596	69,645	19.3%
Training, Education and Operator Certification	356,608	416,284	59,676	16.7%
Situation Awareness and Infrastructure Security	478,513	313,499	(165,013)	-34.5%
General & Administrative	1,319,156	1,198,727	(120,430)	-9.1%
Information Technology	275,401	1,025,045	749,644	272.2%
Legal & Regulatory	172,564	360,122	187,558	108.7%
Human Resources	146,721	9,123	(137,598)	-93.8%
Finance	266,388	460,878	194,490	73.0%
Non-Statutory	1,183,879	262,595	(921,284)	-77.8%
Total	9,228,719	9,616,068	387,349	4.2%

NOTE: G&A in 2010 reflected all Salary & Benefit expenses for G&A, Legal, IT, HR and Finance. In 2011, G&A reflects Salary & Benefit expenses for G&A, HR and Members Forums. The Legal, IT, and Finance areas are reflecting their own Salary & Benefit expenses.

Comparison of Funding – By Program






Change in Funding - By Program



Highlight of Variances

Statutory FTEs	Non-Statutory FTEs	Total FTEs	Total Change in the Budgeted Funding	2011 Statutory \$	2011 Non-Statutory \$	2011 Total \$
			Personnel Expenses (See Next Slide for Detail)			
39.5	6.5	46.0	Existing Employee Merit & Promotion Increase	233,930	7,462	241,392
9.5	(5.5)	4.0	New Employees Salary & Benefits	1,048,026	(736,415)	311,611
49.0	1.0	50.0		1,281,956	(728,953)	553,004
			Meeting Expenses			
			Meetings	6,300	(5,600)	700
			Travel (See Next Slide for Detail)	128,361	(624)	127,737
			Conference Calls	12,000	-	12,000
			Operating Expenses			
			Consultants & Contracts	3,688	(82,467)	(78,779)
			Office Rent	135,100	(60,600)	74,500
			Office Costs	175,883	(810)	175,073
			Professional Services	(464,246)	(9,684)	(473,930)
			Miscellaneous	(44,843)	(8,148)	(52,991)
			Depreciation	143,428	(30,000)	113,428
			Indirect Expense Funding	(77,349)	77,349	-
			Fixed Assets	(1,123,715)	(67,000)	(1,190,715)
			Depreciation Variance	(143,428)	30,000	(113,428)
			Increase in Cash Reserves	(33,003)	(34,748)	(67,751)


 Statutory Budget increasing \$133, or 0.0%

 Non-statutory Budget decreasing -\$921,284, or -77.8%

 Total Budget decreasing -\$921,151, or -8.7%

2011 Budget Assumptions - Personnel

- **Increase in base compensation for 2011:**
 - Merit increase of 3% and promotion increase of 1% assumed
 - 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
- **4.0 new headcount for 2011, 3.0 are funded for 9 months, 1.0 is funded for 12 months**
- **Assumed a 5% vacancy rate for salary & benefits expense in 2011**

2011 Budget Assumptions – CMEP Personnel

3.0 Net New Hires–4.38 Transfers from Non-Stat

	2010	2011	Difference
Compliance Audits	7.50	9.00	1.50
CIP Audits	-	2.50	2.50
TFE/CIP	3.50	5.77	2.27
Enforcement	5.00	6.00	1.00
Registration	2.19	2.19	-
Compliance Other	3.55	3.66	0.11
Total Statutory CMEP Staff	21.74	29.12	7.38
Non-Statutory Compliance (transferred in 2011)	4.88	0.50	(4.38)
Total Compliance Headcount (FTEs)	26.62	29.62	3.00

- **The time to perform the compliance audits will continue to increase due to an increase in depth and complexity**
- **Approximately 20% more requirements will be included in non-CIP compliance audits in 2011**
- **There are 43 requirements that have multiple sub-requirements which will be addressed in each on-site CIP audit**
- **The number of violations resulting from audits and self-reports has increased this year and there is an expectation that this trend will also be seen in 2011 for Enforcement**
 - Texas RE will also spend additional time processing each NERC violation than assumed in the 2010 budget
 - Settlement takes more Texas RE enforcement staff time than the NAVAPS process
 - Texas RE staff will now primarily draft and provide more assistance regarding the Notices of Penalty

2011 Budget Assumptions – External Relations

1.0 New Hire

- **Texas RE staff will provide limited administrative support for the Member Representatives Committee (MRC) and other membership activities**
 - Includes the scheduling and coordination of meetings
 - Distribution and posting of meeting materials and minutes
 - Maintenance of applicable areas of the Texas RE website
 - Facilitating of membership announcements and communications

2011 Travel Increases

- **Travel**

- Additional audits (CIP and new TOPs)
- Audits will take longer
- Additional required NERC training and meetings
- Independent Director travel

Travel Expenses	2010	2011	Difference
Audit Related	\$ 97,534	\$ 103,492	\$ 5,958
CIP Audit Related (New)	-	63,285	63,285
Workgroup/NERC Related	89,634	107,896	18,262
Standards	7,224	9,987	2,763
Board (New)	-	38,093	38,093
Total Travel	\$ 194,392	\$ 322,753	\$128,361

Other 2011 Increases

- **Rent – required for additional staff and conference space for meetings (to reduce or eliminate cost of renting external space)**
 - Rented space expected to increase from 11,000 square feet to 15,000 square feet
 - Additional space needed for additional staff, growth, and meeting space
 - Expected rent will increase year-over-year by approximately \$74K in total; however, the Statutory budget is increasing \$135K (\$61K due to the elimination of Non-statutory rent and the \$74K increase for space)