



**2010 Business Plan and Budget**  
**Final Version 4.0**

**Texas Regional Entity**

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

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## Introduction

<b>Total Texas RE Resources</b> (in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	35.00			
Non-statutory FTEs	6.00			
Total FTEs	41.00			
Statutory Expenses	\$7,171,844	\$7,171,844		
Non-statutory Expenses	\$1,123,772	\$1,123,772		
Total Expenses	\$8,295,616	\$8,295,616		
Statutory Funding	\$7,226,529	\$7,226,529		
Non-statutory(Member) Funding	\$1,153,772	\$1,153,772		
Total Funding	\$8,380,301	\$8,380,301		
NEL	310,856,852	310,856,852		
NEL %	100%	100%		

## Organizational Overview

Texas Regional Entity (Texas RE) is an independent and functionally separate division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), a Texas non-profit corporation. The vision and purpose of Texas RE is 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, Texas RE executed a Delegation Agreement with North American Electric Reliability Corporation (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, 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 Delegation Agreement"), NERC delegates to 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). Texas RE's activities under the Delegation Agreement are referred to herein as Statutory activities.

## Introduction

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In addition to Texas RE's Statutory activities, Texas RE monitors, investigates, audits, and reports on compliance with the ERCOT region reliability-based Protocols and Operating Guides (Protocols) for the PUCT, pursuant to the PUCT-approved ERCOT Compliance Process. Texas RE's Protocol compliance activities are referred to herein as Non-Statutory activities. Texas RE coordinates with PUCT staff regarding enforcement of potential Protocol violations, but the PUCT prosecutes 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.

## Membership and Governance

Because Texas RE is an independent division of ERCOT ISO, members of ERCOT ISO are also members of Texas RE. These members can be from any ERCOT ISO Segment (as listed below), and, except for 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. ERCOT ISO 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.

In order to maintain clear independence from and not be unduly influenced by the owners, operators, and users of the BPS being monitored, Texas RE operates as a functionally separate division of ERCOT ISO. Texas RE is led by a chief executive officer with the title Chief Executive Officer and Chief Compliance Officer (CEO) who manages the general affairs of Texas RE as its chief executive officer and reports to the Board of Directors or a subcommittee thereof for administrative purposes. Texas RE maintains office space that is separate from the ERCOT ISO office space. Texas RE and its employees function independently of the ERCOT ISO and its officers, and Texas RE creates, monitors, and operates under an independent budget and maintains separate books and records from ERCOT ISO. Texas RE contracts for certain administrative services by ERCOT ISO at a rate agreed to in a Memorandum of Understanding which was executed in 2008, and amended as of 2/16/2009.

Texas RE's board is comprised of the sixteen (16) directors of the ERCOT ISO board, including the Chair of the PUCT, as an ex officio non-voting member, the ERCOT ISO CEO as an ex-officio voting member, five (5) Unaffiliated Directors (not affiliated with any ERCOT ISO market participant), and directors from the following market Segments:

- Three (3) Consumers:
  - Texas Public Utility Counsel (representing residential consumers and small commercial consumers, as an ex officio voting member)
  - Large Commercial Consumer (peak demand >1000 kilowatts)
  - Industrial Consumer
- One (1) Independent Retail Electric Provider (and one segment alternate)
- One (1) Generator (and one segment alternate)
- One (1) Independent Power Marketer (and one segment alternate)
- One (1) Investor Owned Utility (and one segment alternate)
- One (1) Municipal (and one segment alternate)
- One (1) Cooperative (and one segment alternate)

The Texas RE directors maintain independence from their role as ERCOT ISO directors by holding board and committee meetings separately from ERCOT ISO meetings and by not

having any role regarding Texas RE's Statutory compliance and enforcement activities (as described below).

## **Statutory Functional Scope**

In accordance with the Delegation Agreement and in compliance with the 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 Budget include the following:

- Texas RE will remain functionally separate from ERCOT ISO and will continue to receive administrative services and support from ERCOT ISO through a memorandum of understanding which was amended as of February 16, 2009 and is attached with the 2010 Business Plan & Budget filing as exhibit A.
- Texas RE will enhance its 60-day cash reserve established in 2009 with a 75-day cash reserve in 2010. Texas RE still possesses unspent funds that will offset this amount.
- The Delegation Agreement requirements and NERC expectations will be constant.
- Texas RE will use any surplus funds from the prior year and any penalty funds received prior to July 1, 2009, to offset 2010 funding requirements.
- The number of registered entities is expected to remain fairly constant, except as specifically described herein (e.g. the Load-Serving Entity function) and the current audit frequency will remain constant.
- The number of contested enforcement and registration cases will remain low – one large or two 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 coordination and review of such assessments.
- 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.

- Texas RE will lead the audits & other compliance monitoring processes of ERCOT ISO. Although NERC will participate, NERC will not charge Texas RE a fee for NERC's participation.
- Texas RE has not budgeted to conduct CIP audits of nuclear facilities.
- Texas RE estimated the budget 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 new 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

In 2010, total direct Statutory expenses are increasing by 38% or \$1,925K from the 2009 budget. This increase includes the required effort to support the new Technical Feasibility Exception (TFE) evaluation activity, which is 12% of the total increase. The total increase is primarily being driven by the following items:

1. Increased personnel expenses resulting from adding nine (9) additional staff (8.05 FTEs Statutory, .95 FTEs Non-statutory) and salary and benefit increases for existing staff. The total increase for personnel expenses is approximately \$1,334K.
2. Increased technology and capital expenditures, including the Texas Regional Entity Compliance Portal projects, document management system project, and other management and reporting tools to improve quality, efficiency and consistency of reporting total \$158K
3. Increased cash reserves total \$649K which in 2010, does not impact expenses. This cash reserve is being funded through unspent funds from prior years (Texas RE's regulatory liability) appearing on Texas RE's balance sheet and does not appear on the statement of activities. We are listing it for disclosure purposes.
4. Increased travel costs associated with NERC and Regional Entity meetings and compliance audits total \$100K.
5. Increased cost of administrative services received from ERCOT ISO through the MOU total \$207K offset by reductions in rent expense and facilities services year-over-year of \$190K.
6. The Operations Training Seminar is budgeted in 2010 to accommodate a venue change that occurred in 2009. This resulted in increased costs; however those costs were funded by seminar attendees through the registration fee. For 2010, the expected increase year-over-year is approximately \$110K. This amount is also expected to be similarly funded through the seminar registration fees attendees pay.

## 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

<b>Reliability Standards Program Resources</b> (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.70	2.06	0.36
Total Direct Expenses	\$176,491	\$273,959	\$97,468
Total Indirect Expenses <sup>1</sup>	\$287,778	\$133,504	(\$154,274)
Total Expenses	\$464,269	\$407,463	(\$56,806)

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 and a requirement of a vote of at least two-thirds of the segments 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 can approve, and no single segment can defeat any matter. In addition, each of the current seven segments has at least 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. 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

<sup>1</sup> Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

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 program 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. A presentation on NERC Project 2006-03 System Restoration and Blackstart (EOP-005, 006, 007 and 009) was made at the March RSC meeting.

Certain stakeholders submitted comments requesting improvements to the Texas RE website. The new Texas RE website (which is expected to publicly launch by the end of July, 2009) will have a Standards section that is intended to have improved clarity and navigation.

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 2009. Otherwise, Texas RE Standards staff will continue to include a standards section in the Compliance Workshop.

Stakeholders also 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 segments. 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)**

The Reliability Standards funding requirements reflects an increase of \$232K year-over-year for two (2) reasons:

1. 2009 was lowered because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and
2. In 2010, indirect program expenses are fully allocated to the direct program areas.

**Reliability Standards Program**

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

Section A — 2010 Business Plan

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Reliability Standards</b>					
	<b>2009 Budget</b>	<b>2009 Projection</b>	<b>Variance 2009 Projection v 2009 Budget Over(Under)</b>	<b>2010 Budget</b>	<b>Variance 2010 Budget v 2009 Budget Over(Under)</b>
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 176,491	\$ 176,491	\$ -	\$ 408,800	\$ 232,309
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 176,491</b>	<b>\$ 176,491</b>	<b>\$ -</b>	<b>\$ 408,800</b>	<b>\$ 232,309</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 176,491</b>	<b>\$ 176,491</b>	<b>\$ -</b>	<b>\$ 408,800</b>	<b>\$ 232,309</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 127,238	\$ 159,073	\$ 31,835	\$ 184,729	\$ 57,491
Payroll Taxes	10,179	11,949	1,770	14,901	4,722
Benefits	14,320	10,126	(4,194)	20,489	6,169
Retirement Costs	18,450	21,800	3,350	26,697	8,248
<b>Total Personnel Expenses</b>	<b>\$ 170,187</b>	<b>\$ 202,948</b>	<b>\$ 32,762</b>	<b>\$ 246,816</b>	<b>\$ 76,629</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ 304	\$ 304	\$ 400	\$ 400
Travel	4,344	3,389	(955)	6,824	2,480
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 4,344</b>	<b>\$ 3,693</b>	<b>\$ (651)</b>	<b>\$ 7,224</b>	<b>\$ 2,880</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	1,960	456	(1,504)	480	(1,480)
Professional Services	-	10,938	10,938	18,824	18,824
Miscellaneous	-	470	470	615	615
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 1,960</b>	<b>\$ 11,864</b>	<b>\$ 9,904</b>	<b>\$ 19,919</b>	<b>\$ 17,959</b>
<b>Total Direct Expenses</b>	<b>\$ 176,491</b>	<b>\$ 218,506</b>	<b>\$ 42,015</b>	<b>\$ 273,959</b>	<b>\$ 97,468</b>
<b>Indirect Expenses</b>	<b>\$ 287,778</b>	<b>\$ 211,201</b>	<b>\$ (76,578)</b>	<b>\$ 133,504</b>	<b>\$ (154,274)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 464,269</b>	<b>\$ 429,707</b>	<b>\$ (34,562)</b>	<b>\$ 407,463</b>	<b>\$ (56,806)</b>
<b>Change in Assets</b>	<b>\$ (287,778)</b>	<b>\$ (253,216)</b>	<b>\$ 34,562</b>	<b>\$ 1,337</b>	<b>\$ 289,115</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (20,746)	\$ (20,746)	\$ -	\$ (1,337)	\$ 19,409
<b>Change in Fixed Assets</b>	<b>\$ (20,746)</b>	<b>\$ (20,746)</b>	<b>\$ -</b>	<b>\$ (1,337)</b>	<b>\$ 19,409</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (308,524)</b>	<b>\$ (273,962)</b>	<b>\$ 34,562</b>	<b>\$ (0)</b>	<b>\$ 308,524</b>

## **Explanations of Variances – 2010 Budget versus 2009 Budget**

### **Funding Sources**

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

### **Personnel Expenses**

- 2010 personnel expenses are increasing to accommodate additional FTEs of work in the Reliability Standards area. The primary increase is resulting from increased management, IT, Compliance, and other personnel working on Reliability Standards activities \$77K.

### **Meeting Expenses**

- The \$3K increase in meeting expenses is primarily driven by increases in travel. Reliability Standards expects to attend at least 3 additional standards workgroup meetings in the coming year.

### **Operating Expenses**

- The \$18K increase in operating expenses is attributed to expenses associated with the Texas Regional Entity Portal, the Reliability Standards Tracking site that relate to Reliability Standards and the Texas RE Website. These types of expenses were budgeted in administrative services last year; however, these are more appropriately direct costs to this program.

### **Indirect Expenses**

- Indirect expenses are decreasing by \$154K year-over-year, through the identification of direct expenses that were previously budgeted in administrative services.

### **Other Non-Operating Expenses**

- N/A

### **Fixed Asset Additions**

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

## Compliance Monitoring and Enforcement and Organization Registration and Certification Program

<b>Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources</b>			
<i>(in whole dollars)</i>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	14.15	22.74	8.59
Total Direct Expenses	\$1,628,802	\$3,682,163	\$2,053,361
Total Indirect Expenses	\$2,404,881	\$1,473,029	(\$931,852)
Total Expenses	\$4,033,683	\$5,155,192	\$1,121,508

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 our 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. The reliability of the BPS always remains the unquestionable number one priority of the organization.

### 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 216 registered entities representing 334 functions as of May 15, 2009. The list of registered entities in the ERCOT region continues to evolve and currently includes:

- 112 Generator Owners
- 77 Generator Operators
- 24 Transmission Planners
- 29 Transmission Owners
- 43 Distribution Providers
- 42 Purchasing Selling Entities
- 1 ISO with seven (7) registrations: Transmission Operator, Reliability Coordinator, Balancing Authority, Planning Authority, Resource Planner, Transmission Service Provider, and Interchange Authority (ERCOT ISO)

Texas RE created the Stakeholder Management Department in 2008 as the primary organization in Texas RE with responsibility for registration, certification, training, communications, reporting, document management and reliability assessments (discussed later). The plan was to provide organizational focus for Stakeholder management and services. In practice in 2009, staffing levels have not been adequate to properly manage registration and certification in a timely fashion and some dissatisfaction was expressed by registered entities in the 2009 NERC survey.

In December 2008, Texas RE launched its portal. The portal 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 should reduce some of the administrative burdens on this program.

The management of Joint Registration Organizations (JRO) agreements adversely impacted work load in 2009 as this work has taken significant attention from staff to coordinate and approve. In addition, the implementation of the modified LSE registration criteria 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). To avoid gaps, overlaps and registration appeals, Texas RE has spent approximately six (6) months working with stakeholders to obtain stakeholder feedback and facilitate a JRO design for LSE registration that eliminates all gaps, minimizes overlap, and reduces potential registration appeals. This process has been extremely beneficial with respect to improved communications and coordination with registered entities and is planned to be used again should a similar problem arise. 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.

Registration work is expected to remain at the current level (which is higher than anticipated for 2009) 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 also have the potential to adversely impact work load in the registration area. Texas RE should finalize its second significant registration dispute in 2009. The time

expended on each registration appeal has been significant. Texas RE anticipates that registration disputes should reduce over time once the NERC functions and registration criteria stabilize. This budget anticipates no significant changes in registration criteria in 2010. Stakeholder Management has remained relatively constant in 2009 and is adequately staffed. Stakeholder Management has a records coordinator who is helping to organize and maintain the records and procedures that are important to Texas RE's internal compliance and enforcement case management. Texas RE plans to install document management software in late 2009, which will require transitioning of existing files and revisions to internal procedures but is expected to enable Texas RE to more efficiently manage documents and evidence, even as the volume of evidence maintained increases.

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 expect extensive reporting obligations through 2010.

To improve the organization's ability to address the dissatisfaction with timely registration responses, the ongoing support of the registration and certification process, including JROs, appeals and coordination with NERC and the other regions, Texas RE is planning to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) to Stakeholder Management in 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 any year that a registered entity does not receive a Compliance Audit, Texas RE requires the entity to complete a compliance Self-Certification using electronic forms developed in coordination with NERC and distributed by Texas RE. 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.

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.

Prior to 2009, most on-site audits took two days at the registered entity's site. In 2009, these audits have been extended to three days due to the increase in work brought about by the need to verify completion of past mitigation plans and to investigate potential issues of reliability concern, including recent violations or events. The growth in the audit duration directly impacts audit staffing and travel costs.

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 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 additional 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.

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 audit for a maximum of 4 TOPs (registered by JRO) might be performed.
- 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 2009 and fully operational in 2010.

### Compliance Audit

- Audits will require 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, similarly to 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 six (6) Spot checks of CIP 002 – 009 standards listed below) conducted in the second half of the year.

### Compliance Enforcement

- The number of alleged violations 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.

- 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 still under development – 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. Maintain the document management system to 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 TRE'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)**

The Compliance funding requirements reflects an increase of \$3,702K year-over-year due to 2009 being lower because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, there are personnel increases (including those associated with supporting TFE evaluations) proposed for 2010 as detailed below.

Compliance will have increased personnel expenses as a result of adding 7.0 staff (6.55 FTEs Statutory, .45 FTEs Non-statutory) and additional management, legal, IT, and other personnel work on compliance activities.

#### Organization Registration and Certification

Staffing levels are inadequate to provide reasonable response times on registration and certification issues including JRO activity. The department only has one professional staff (currently vacant) member to address all work in this area, which has proven to be inadequate. Adding one professional level staff member will help correct uneven response times in this area. More focus on regional consistency will be made possible by shifting registration duties away from the manager. In addition, the new staff member will effectively address special requests for data and reports from NERC/FERC. Based on the supporting Registration and Certification business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, .15 Non-statutory) for 2010 to be hired at the beginning of the 2<sup>nd</sup> quarter.

#### Compliance Enforcement

Current staff levels and workload don't allow for timely completion of the tasks associated with the required CMEP processes. Documentation requirements for each of these processes continue to increase. Adding one additional staff will allow the organization to reduce enforcement processing delays to more reasonable durations. Based on supporting the Compliance Enforcement business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, and .15 Non-statutory) for 2010 to be hired in the middle of the first quarter.

#### Audits

The audit team is requesting the addition of a ninth staff member in 2010 due to the required increases in audit time. Typical on-site audits are requiring a third day, and the overall time for an audit is increasing commensurately. The audit team will also be supporting spot checks of the CIP 002-009 standards during the second half of 2010. These CIP spot checks are also anticipated to require significant additional effort. Based on supporting the Audit business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, and .15 Non-statutory) for 2010 to be hired in the middle of the first quarter.

In addition to the headcount additions, direct legal expenses are increasing \$257K. The Texas RE Compliance Portal hosting expenses are increasing \$160K. Both of these expenses were recognized under administrative services in prior years, but are more appropriately reflected in 2010 as direct costs.

## **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 the 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 (this number may increase in light of recent NERC efforts to educate registered entities), and each of these registered entities must be audited against the CIP standards requirements over the course of the next three (3) years. 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). These staff additions would be such that these personnel could be reassigned in future years if the TFE workload diminished. All staffing commitments will be made only on the basis of actual TFE required workload. This estimate is simply for the purpose of budgeting and all staffing decisions would be made on actual need and not estimated needs. This estimate may need to be revised later based upon actual experience.

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.

If the total number of TFEs or the anticipated workload required to process the TFEs significantly exceeds this estimate, additional resources will be required, and Texas RE would either use its cash reserves or would request a budget supplement. If the total number of TFEs is significantly less than this estimate or if the workload for completing TFEs is significantly less than anticipated, any savings would be applied to a future budget year.

## 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. 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, 3.2, 4, 4.1, 5.3, 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.
- 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 four additional FTEs, as follows:

- Add three (3.0) FTEs to the Compliance Staff for TFE screening and verification, and mitigation plan review and follow-up.
- Add one (1.0) FTE to the Compliance Staff 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) and will evaluate staffing needs going forward. Texas RE believes the four (4.0) new TFE-related staff would 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**

The overall cost of implementing TFE processing by Texas RE in 2010 is projected to be \$651K excluding cash reserves (\$133K).

Section A — 2010 Business Plan

**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.

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Compliance and Organization Registration and Certification</b>					
	<b>2009 Budget</b>	<b>2009 Projection</b>	<b>Variance 2009 Projection v 2009 Budget Over(Under)</b>	<b>2010 Budget</b>	<b>Variance 2010 Budget v 2009 Budget Over(Under)</b>
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 5,331,036	\$ 3,702,101
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 1,628,935</b>	<b>\$ 1,628,935</b>	<b>\$ -</b>	<b>\$ 5,331,036</b>	<b>\$ 3,702,101</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 1,628,935</b>	<b>\$ 1,628,935</b>	<b>\$ -</b>	<b>\$ 5,331,036</b>	<b>\$ 3,702,101</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 1,164,106	\$ 1,221,917	\$ 57,811	\$ 2,179,918	\$ 1,015,812
Payroll Taxes	93,128	97,661	4,532	172,663	79,535
Benefits	134,510	100,088	(34,422)	236,921	102,411
Retirement Costs	163,258	161,664	(1,594)	309,848	146,590
<b>Total Personnel Expenses</b>	<b>\$ 1,555,003</b>	<b>\$ 1,581,331</b>	<b>\$ 26,327</b>	<b>\$ 2,899,350</b>	<b>\$ 1,344,347</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ 634	\$ 634	\$ 4,000	\$ 4,000
Travel	73,199	85,850	12,651	167,287	94,088
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 73,199</b>	<b>\$ 86,484</b>	<b>\$ 13,285</b>	<b>\$ 171,287</b>	<b>\$ 98,088</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	600	2,630	2,030	13,162	12,562
Professional Services	-	22,108	22,108	440,660	440,660
Miscellaneous	-	171	171	15,561	15,561
Depreciation	-	-	-	142,143	142,143
<b>Total Operating Expenses</b>	<b>\$ 600</b>	<b>\$ 24,909</b>	<b>\$ 24,309</b>	<b>\$ 611,526</b>	<b>\$ 610,926</b>
<b>Total Direct Expenses</b>	<b>\$ 1,628,802</b>	<b>\$ 1,692,723</b>	<b>\$ 63,921</b>	<b>\$ 3,682,163</b>	<b>\$ 2,053,361</b>
<b>Indirect Expenses</b>	<b>\$ 2,404,881</b>	<b>\$ 1,722,893</b>	<b>\$ (681,988)</b>	<b>\$ 1,473,029</b>	<b>\$ (931,852)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 4,033,683</b>	<b>\$ 3,415,617</b>	<b>\$ (618,067)</b>	<b>\$ 5,155,192</b>	<b>\$ 1,121,508</b>
<b>Change in Assets</b>	<b>\$ (2,404,749)</b>	<b>\$ (1,786,682)</b>	<b>\$ 618,067</b>	<b>\$ 175,844</b>	<b>\$ 2,580,593</b>

## **Explanations of Variances – 2010 Budget versus 2009 Budget**

### **Funding Sources**

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

### **Personnel Expenses**

- Personnel costs are increasing \$1,344K for 2010 due to increasing staff by 7.00 (6.55 FTEs Statutory, .45 FTEs Non-statutory) in this area to enhance functional performance (improved response times and increased effectiveness); as well as providing the resources required by the TFE process. Also, there are additional management, legal and project personnel costs that are associated with these functions that are also reflected in the total FTEs (as reported on table 2 of Section B) for these programs.

### **Meeting Expenses**

- Meeting expenses are increasing year-over-year primarily related to travel expenses. The length of audits has been extended resulting in a 16% increase in travel \$15K. Additionally, there are a significant number of NERC working group meetings that are planned based on the 2009 meeting schedule, expected increase \$59K. The additional working group meetings are expected to result in a more consistent compliance implementation across the regions. TFE staff travel is included in the budget to support training; meetings and any required travel for the TFE process \$20K.

### **Operating Expenses**

- Professional services expenses are increasing in 2010 due to the direct costing of external legal (for enforcement hearings and registration appeals - \$257K) and other professional service expenses directly attributed to hosting Texas RE's portal \$160K for the benefit of the program. To support the TFE process, there is \$24K for recruiting, and \$4K for office costs.
- Additionally, there is approximately \$138K in depreciation expense attributed to the Texas RE Portal for 2010, as well as an additional \$4K for TFE cube depreciation. Please see Fixed Asset Additions for more detail.

### **Indirect Expenses**

- Indirect expenses are decreasing \$932K year-over-year, through the identification of direct expenses that were previously budgeted in administrative services.

### **Other Non-Operating Expenses**

- N/A

### **Fixed Asset Additions**

- The majority of this capital expense is attributed to Texas RE Portal projects and enhancements in 2010, \$274K. The projects such as, Portal Project - System Management User Interfaces: Forms, Security, Notifications/Emails, Portal Switch Lookup, Master Account Summary Report (TRE Registration), CIP Forms 2010 (CIP annual update), Portal Communications GUI (allows non-developers to administer portal home page announcements), and an Audit Tracking Module (TRE Compliance Audits) will enhance Texas RE's ability to perform its delegated responsibilities by utilizing technology to enhance performance.
- Texas RE will also need to expend approximately \$29K for cubicles and associated furniture for the additional FTEs related to TFE processing.

## Training, Education, and Operator Certification Program

<b>Training, Education, and Operator Certification Program Resources</b>			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	0.60	0.97	0.37
Total Direct Expenses	\$176,415	\$328,735	\$152,320
Total Indirect Expenses	\$99,243	\$63,069	(\$36,173)
Total Expenses	\$275,658	\$391,804	\$116,145

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

Texas RE's training program continues to improve and consistently receives favorable reviews from participants. With few exceptions the Texas RE workshops and seminars are fully subscribed and support remote attendance using call-in numbers and WebEx presentations.

### 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 partially offsetting 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)**

The Training, Education and Operator Certification funding requirements reflects an increase of \$216K year-over-year because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, expenses associated with the Operations Training Seminar are increasing due to increases in the cost of the venue for the six (6) week seminar facilitated by Texas RE. The increase in costs from 2009 to 2010 for the OTS is expected to be \$110K year-over-year. This additional expense is expected to be offset by registration fees collected from OTS attendees.

## 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.

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Training and Education</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 106,415	\$ 106,415	\$ -	\$ 212,436	\$ 106,021
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 106,415</b>	<b>\$ 106,415</b>	<b>\$ -</b>	<b>\$ 212,436</b>	<b>\$ 106,021</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	70,000	174,029	104,029	180,000	110,000
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 176,415</b>	<b>\$ 280,444</b>	<b>\$ 104,029</b>	<b>\$ 392,436</b>	<b>\$ 216,021</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 52,608	\$ 76,339	\$ 23,731	\$ 81,122	\$ 28,514
Payroll Taxes	4,209	5,594	1,385	6,425	2,216
Benefits	5,524	7,747	2,222	8,834	3,310
Retirement Costs	7,628	9,673	2,044	11,511	3,883
<b>Total Personnel Expenses</b>	<b>\$ 69,969</b>	<b>\$ 99,352</b>	<b>\$ 29,383</b>	<b>\$ 107,893</b>	<b>\$ 37,924</b>
<b>Meeting Expenses</b>					
Meetings	\$ 105,000	\$ 154,928	\$ 49,928	\$ 220,000	\$ 115,000
Travel	1,446	1,700	254	-	(1,446)
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 106,446</b>	<b>\$ 156,628</b>	<b>\$ 50,182</b>	<b>\$ 220,000</b>	<b>\$ 113,554</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	270	270	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	646	646	842	842
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ 916</b>	<b>\$ 916</b>	<b>\$ 842</b>	<b>\$ 842</b>
<b>Total Direct Expenses</b>	<b>\$ 176,415</b>	<b>\$ 256,896</b>	<b>\$ 80,481</b>	<b>\$ 328,735</b>	<b>\$ 152,320</b>
<b>Indirect Expenses</b>	<b>\$ 99,243</b>	<b>\$ 96,418</b>	<b>\$ (2,825)</b>	<b>\$ 63,069</b>	<b>\$ (36,173)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 275,658</b>	<b>\$ 353,314</b>	<b>\$ 77,656</b>	<b>\$ 391,804</b>	<b>\$ 116,146</b>
<b>Change in Assets</b>	<b>\$ (99,243)</b>	<b>\$ (72,870)</b>	<b>\$ 26,373</b>	<b>\$ 632</b>	<b>\$ 99,874</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (7,154)	\$ (7,154)	\$ -	\$ (632)	\$ 6,523
<b>Change in Fixed Assets</b>	<b>\$ (7,154)</b>	<b>\$ (7,154)</b>	<b>\$ -</b>	<b>\$ (632)</b>	<b>\$ 6,523</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (106,397)</b>	<b>\$ (80,024)</b>	<b>\$ 26,373</b>	<b>\$ -</b>	<b>\$ 106,397</b>

## Explanations of Variances – 2010 Budget versus 2009 Budget

### Funding Sources

- Training, Education and Operator Certification is planned to be nearly 45% self-funded in 2010 through registration fees from attendees of the OTS. The remaining 55% of this program is funded through assessments.

### Personnel Expenses

- 2010 personnel expenses are increasing to accommodate additional FTEs of work in the Training area. The primary increase is resulting from increased management, support and other staff to conduct Texas RE's training workshops and the Operations Training Seminar.

### Meeting Expenses

- Meeting expenses are increasing primarily for the Operations Training Seminar. Due to a venue change to an offsite location, the costs of conducting the seminar are \$110K higher.
- Additionally, Texas RE is increasing its budget for workshops from \$35K to \$40K to allow for venue changes as needed for larger attendance.

### Operating Expenses

- The primary expense budgeted in this area relates to training seminars, dues, and training in direct support for the training staff.

### Indirect Expenses

- Indirect expenses are reflecting a decline of \$36K year-over-year due to reductions in the administrative costs.

### Other Non-Operating Expenses

- N/A

### Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

## Reliability Assessment and Performance Analysis Program

<b>Reliability Assessment and Performance Analysis Program Resources</b>			
<small>(in whole dollars)</small>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.20	2.44	0.24
Total Direct Expenses	\$365,180	\$290,095	(\$75,085)
Total Indirect Expenses	\$372,419	\$158,065	(\$214,354)
Total Expenses	\$737,599	\$448,159	(\$289,439)

### 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, 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
- Review approximately 80 reports of incidents, complaints, and disturbances

**2010 Goals and Key Deliverables:**

1. Texas RE will increase its participation in the Regional Planning Group activities
2. Timely review and submit all required assessments to NERC (or ensure required assessments are submitted to NERC on schedule).
3. Timely review all required incidents, complaints and disturbances
4. Communicate and coordinate issues of reliability concern with NERC

**Funding Requirements — Explanation of Increase (Decrease)**

The Reliability Assessment and Performance Analysis program funding requirements reflects an increase of \$85K year-over-year for two (2) reasons:

1. 2009 was lowered because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and
2. In 2010, indirect program expenses are fully allocated to the direct program areas.

## 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.

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Reliability Assessment and Performance Analysis</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 365,180	\$ 365,180	\$ -	\$ 449,742	\$ 84,562
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 365,180</b>	<b>\$ 365,180</b>	<b>\$ -</b>	<b>\$ 449,742</b>	<b>\$ 84,562</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 365,180</b>	<b>\$ 365,180</b>	<b>\$ -</b>	<b>\$ 449,742</b>	<b>\$ 84,562</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 270,100	\$ 157,007	\$ (113,093)	\$ 217,004	\$ (53,096)
Payroll Taxes	21,608	11,922	(9,686)	17,187	(4,421)
Benefits	31,191	13,181	(18,010)	23,632	(7,559)
Retirement Costs	39,165	21,247	(17,918)	30,793	(8,372)
<b>Total Personnel Expenses</b>	<b>\$ 362,063</b>	<b>\$ 203,356</b>	<b>\$ (158,707)</b>	<b>\$ 288,615</b>	<b>\$ (73,448)</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	3,117	850	(2,267)	806	(2,311)
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 3,117</b>	<b>\$ 850</b>	<b>\$ (2,267)</b>	<b>\$ 806</b>	<b>\$ (2,311)</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	1	1	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	136	136	673	673
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ 137</b>	<b>\$ 137</b>	<b>\$ 673</b>	<b>\$ 673</b>
<b>Total Direct Expenses</b>	<b>\$ 365,180</b>	<b>\$ 204,343</b>	<b>\$ (160,837)</b>	<b>\$ 290,095</b>	<b>\$ (75,085)</b>
<b>Indirect Expenses</b>	<b>\$ 372,419</b>	<b>\$ 246,784</b>	<b>\$ (125,635)</b>	<b>\$ 158,065</b>	<b>\$ (214,354)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 737,599</b>	<b>\$ 451,127</b>	<b>\$ (286,472)</b>	<b>\$ 448,159</b>	<b>\$ (289,439)</b>
<b>Change in Assets</b>	<b>\$ (372,419)</b>	<b>\$ (85,947)</b>	<b>\$ 286,472</b>	<b>\$ 1,583</b>	<b>\$ 374,002</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (26,847)	\$ (26,847)	\$ -	\$ (1,583)	\$ 25,264
<b>Change in Fixed Assets</b>	<b>\$ (26,847)</b>	<b>\$ (26,847)</b>	<b>\$ -</b>	<b>\$ (1,583)</b>	<b>\$ 25,264</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (399,266)</b>	<b>\$ (112,794)</b>	<b>\$ 286,472</b>	<b>\$ (0)</b>	<b>\$ 399,266</b>

## **Explanations of Variances – 2010 Budget versus 2009 Budget**

### **Funding Sources**

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

### **Personnel Expenses**

- FTEs are increasing .24 FTEs in 2010 due to expected time to be spent on performance analysis and reliability assessment.
- Personnel expenses in 2010 are expected to be less than those reflected in the 2009 budget by \$73K year-over-year. This is primarily due to a different mix of staff in this program.

### **Meeting Expenses**

- Meeting expenses are decreasing \$2K due to all expected travel within this program to be within driving distance of Texas RE's offices.

### **Operating Expenses**

- Material changes to operating expenses are not planned for 2010.

### **Indirect Expenses**

- Indirect expenses are declining \$214K year-over-year, due to a reduction in administrative services costs.

### **Other Non-Operating Expenses**

- N/A

### **Fixed Asset Additions**

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

## Situational Awareness and Infrastructure Security Program

<b>Situational Awareness and Infrastructure Security Program Resources</b>			
<small>(in whole dollars)</small>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.50	3.03	1.53
Total Direct Expenses	\$159,129	\$391,907	\$232,778
Total Indirect Expenses	\$250,393	\$195,961	(\$54,431)
Total Expenses	\$409,522	\$587,869	\$178,347

### 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 Key Assumptions

#### Situational Awareness

Phase 1 of the SAFNR Project will be completed by the 2009 summer. Phase 1 includes the RCs making information available for FERC, NERC, and the Regional Entities by summer 2009 via data servers at the RC location.

## 2010 Goals and Key Deliverables

### Situational Awareness

SAFNR's subsequent 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)**

The Situational Awareness and Critical Infrastructure Protection funding requirements reflects an increase of \$431K year-over-year, in part due to 2009 being lower because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, expenses associated with the program are increasing as detailed in the variances section.

### Situational Awareness

Based on supporting the SAFNR Project and the regular communication of event details to NERC and FERC (and PUCT for Non-statutory reporting) as outlined in this business plan, Texas RE will require an additional 1.0 staff (.74 FTEs Statutory, .26 FTEs Non-statutory) for 2010.

*Exhibit not completed due to personnel salary confidentiality as would be compared to 2009.*

<b>Critical Infrastructure Protection Resources</b>			
<b>(Included in Total Situational Awareness and Infrastructure Security)</b>			
(in whole dollars)			
	2009 Budget	2010 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

### **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 the only designated Balancing Authority (BA), Transmission Operator (TOP), and Reliability Coordinator (RC) in the ERCOT region and was required to self-certify compliance to NERC's Urgent Action Cyber Security Standard 1200. As such, 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 conduct CIP audits of nuclear facilities, as contemplated by NERC's draft 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).
  - a. Last CIP Workshops before entities enter audibly compliant phase and CIP audits begin.
7. Enhance the Texas RE website with CIP information and links.

### **Funding Requirements — Explanation of Increase (Decrease)**

#### Critical Infrastructure Protection

The addition of one IT Security subject matter expert (SME) will provide a skill set that Texas RE currently does not possess. Specific knowledge of how to assess the security of EMS and SCADA systems, networks, and electronic security perimeters (ESP) is needed. Incorporating this knowledge into the Texas RE CIP process will be a primary deliverable for the IT Security SME in 2010, as well as participating in the 2010 CIP audit of the ERCOT ISO. The IT Security SME will be participating (and eventually leading) on CIP audits in 2011 and spot-checks in 2010. In preparation for participating in CIP audits, the IT Security SME will have to attend NERC Auditor Training and NERC CIP Auditor Training. These two training sessions will be the only required travel for this position in 2010. Based on supporting CIP business plan, Texas RE will require 1.0 additional staff position for 2010 (.98 FTEs Statutory and .02 FTEs Non-statutory) starting in the second quarter.

## 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.

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Situational Awareness and Infrastructure Security</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 159,129	\$ 159,129	\$ -	\$ 589,831	\$ 430,702
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 159,129</b>	<b>\$ 159,129</b>	<b>\$ -</b>	<b>\$ 589,831</b>	<b>\$ 430,702</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 159,129</b>	<b>\$ 159,129</b>	<b>\$ -</b>	<b>\$ 589,831</b>	<b>\$ 430,702</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 118,842	\$ 127,966	\$ 9,124	\$ 291,164	\$ 172,322
Payroll Taxes	9,507	9,142	(365)	23,060	13,553
Benefits	12,479	5,533	(6,945)	31,708	19,229
Retirement Costs	17,232	16,713	(519)	41,316	24,084
<b>Total Personnel Expenses</b>	<b>\$ 158,060</b>	<b>\$ 159,354</b>	<b>\$ 1,294</b>	<b>\$ 387,247</b>	<b>\$ 229,187</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	1,069	3,597	2,528	4,260	3,191
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 1,069</b>	<b>\$ 3,597</b>	<b>\$ 2,528</b>	<b>\$ 4,260</b>	<b>\$ 3,191</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	397	397	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	400	400
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ 397</b>	<b>\$ 397</b>	<b>\$ 400</b>	<b>\$ 400</b>
<b>Total Direct Expenses</b>	<b>\$ 159,129</b>	<b>\$ 163,348</b>	<b>\$ 4,219</b>	<b>\$ 391,907</b>	<b>\$ 232,778</b>
<b>Indirect Expenses</b>	<b>\$ 250,393</b>	<b>\$ 164,140</b>	<b>\$ (86,253)</b>	<b>\$ 195,961</b>	<b>\$ (54,431)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 409,522</b>	<b>\$ 327,488</b>	<b>\$ (82,034)</b>	<b>\$ 587,869</b>	<b>\$ 178,347</b>
<b>Change in Assets</b>	<b>\$ (250,393)</b>	<b>\$ (168,359)</b>	<b>\$ 82,034</b>	<b>\$ 1,962</b>	<b>\$ 252,355</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (18,050)	\$ (18,050)	\$ -	\$ (1,962)	\$ 16,088
<b>Change in Fixed Assets</b>	<b>\$ (18,050)</b>	<b>\$ (18,050)</b>	<b>\$ -</b>	<b>\$ (1,962)</b>	<b>\$ 16,088</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (268,443)</b>	<b>\$ (186,409)</b>	<b>\$ 82,034</b>	<b>\$ 0</b>	<b>\$ 268,443</b>

## **Explanations of Variances – 2010 Budget versus 2009 Budget**

### **Funding Sources**

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

### **Personnel Expenses**

- Texas RE is adding approximately 2.0 employees (1.53 FTEs Statutory, .28 Non-statutory) to this program. In addition, there are other activities performed in Compliance, Audit, and Enforcement, the result of which is .19 FTEs and funding reflected in those activities and not in the CIP activity. The increased personnel expenses of \$229K year-over-year are a direct result of the changes in FTEs working in the Situational Awareness and Infrastructure Security Programs.

### **Meeting Expenses**

- Meeting expenses are primarily driven by travel costs associated with CIP. The costs are increasing \$3K year-over-year for CIP related training travel and NERC working group meetings travel.

### **Operating Expenses**

- Operating expenses are flat year-over-year.

### **Indirect Expenses**

- Indirect expenses are declining \$54K year-over-year, due to a reduction in administrative services costs.

### **Other Non-Operating Expenses**

- N/A

### **Fixed Asset Additions**

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

## Administrative Services

<b>Administrative Services</b> (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	6.80	3.76	(3.04)
Total Direct Expenses	\$2,559,847	\$2,023,629	(\$536,218)

### Program Scope and Functional Description

#### 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 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

- Texas RE total staff will increase to 41 staff (35.00 FTEs Statutory, 6.00 FTEs Non-statutory).
- Texas RE will continue to operate as an independent division of ERCOT ISO.
- Where possible, all appropriate direct program expenses will be a direct cost to their respective program and function. Only corporate services expenses and personnel will remain in administrative services.
- Texas RE will establish a cash reserve of 75 days cash on hand (totaling \$1,505K, with \$855K on hand from 2009, for a difference of \$650K, or a 20% reserve for contingency planning purposes. This will not result in an increased assessment for 2010. Texas RE projects a balance of \$572K in its regulatory liability (unspent prior-year funds) that it will release in 2010.

### **2010 Goals and Key Deliverables**

1. Communicate and maintain effective relationships with the board, industry, regulators, and other stakeholders.
2. Conduct base operations with the approved budget.
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)**

- In the 2010 budget, the funding requirement is decreasing \$203K. Indirect programs allocate their costs to the direct programs.

Section A — 2010 Business Plan

**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.

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>General and Administrative</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 257,531	\$ 257,531	\$ -	\$ 52,685	\$ (204,847)
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 257,531</b>	<b>\$ 257,531</b>	<b>\$ -</b>	<b>\$ 52,685</b>	<b>\$ (204,847)</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	4,125	4,125	2,000	2,000
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 257,531</b>	<b>\$ 261,656</b>	<b>\$ 4,125</b>	<b>\$ 54,685</b>	<b>\$ (202,847)</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 764,074	\$ 737,553	\$ (26,522)	\$ 539,855	\$ (224,219)
Payroll Taxes	61,126	55,400	(5,726)	42,598	(18,528)
Benefits	61,605	57,729	(3,876)	54,570	(7,034)
Retirement Costs	110,791	98,644	(12,147)	80,324	(30,467)
<b>Total Personnel Expenses</b>	<b>\$ 997,596</b>	<b>\$ 949,325</b>	<b>\$ (48,271)</b>	<b>\$ 717,347</b>	<b>\$ (280,249)</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ 870	\$ 870	\$ 3,600	\$ 3,600
Travel	12,820	13,404	584	17,158	4,338
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 12,820</b>	<b>\$ 14,274</b>	<b>\$ 1,454</b>	<b>\$ 20,758</b>	<b>\$ 7,938</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 487,054	\$ 539,074	\$ 52,020	\$ 698,478	\$ 211,424
Office Rent	517,550	287,392	(230,158)	327,600	(189,950)
Office Costs	13,320	15,506	2,186	24,240	10,920
Professional Services	30,000	82,462	52,462	60,000	30,000
Miscellaneous	10,515	8,410	(2,105)	1,350	(9,165)
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 1,058,439</b>	<b>\$ 932,844</b>	<b>\$ (125,595)</b>	<b>\$ 1,111,668</b>	<b>\$ 53,229</b>
<b>Total Direct Expenses</b>	<b>\$ 2,068,855</b>	<b>\$ 1,896,443</b>	<b>\$ (172,412)</b>	<b>\$ 1,849,773</b>	<b>\$ (219,082)</b>
<b>Indirect Expenses</b>	<b>\$ (2,923,855)</b>	<b>\$ (1,896,443)</b>	<b>\$ 1,027,412</b>	<b>\$ (1,849,773)</b>	<b>\$ 1,074,082</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 855,000</b>	<b>\$ -</b>	<b>\$ (855,000)</b>	<b>\$ -</b>	<b>\$ (855,000)</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>	<b>\$ (0)</b>
<b>Change in Assets</b>	<b>\$ 257,531</b>	<b>\$ 261,656</b>	<b>\$ 4,125</b>	<b>\$ 54,685</b>	<b>\$ (202,847)</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 257,531</b>	<b>\$ 261,656</b>	<b>\$ 4,125</b>	<b>\$ 54,685</b>	<b>\$ (202,847)</b>

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 Budget versus 2009 Budget

### Funding Sources

- In the 2010 budget, the funding requirement is decreasing (\$203K). Indirect programs allocate their costs to the direct programs.

### Personnel Expenses

- The primary reason for the decrease of \$280K is resulting from increased management, legal and other direct work in Reliability Standards, Compliance Monitoring and Enforcement and Organization Registration and Certification Program, Reliability Assessment, Training, Situational Awareness, and Critical Infrastructure Protection areas. Texas RE uses time tracking to better enable the recording of direct labor expenses to the program level. Those tasks that are considered administrative services are allocated as an indirect expense to the program areas.

### Meeting Expenses

- Meeting expenses are increasing primarily related to additional travel demands of the CEO and his staff. There are additional NERC, FERC and Regional meetings that are required and an increase was necessary to facilitate this. The result is an increase of \$8K year-over-year.

### Operating Expenses

- Consulting and contract expenses are increasing in direct response to employee increases as well as trended actual expenses. This expense increase is related to the MOU between Texas RE and ERCOT ISO. The resulting increase is expected to be \$211K. Office costs are increasing \$11K primarily related to trends in office supply consumption as well as expected increases. There is an additional \$30K being provisioned for professional outside services as may be required by program use. Offsetting the increases are a reduction in training expenses (\$9K), these expenses are now budgeted in their respective programs, as well as a reduction in the rent expense in 2010 (\$190K). The reduction is rent reflected a lower rentable square foot rate obtained by Texas RE for its office space as well as a reduction in the facilities services expenses paid through the MOU.

### Indirect Expenses

- Indirect expense is decreasing significantly \$1,074K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in G&A in the 2009 budget. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

### Other Non-Operating Expenses

- Non-Operating expenses are decreasing from 2009 to 2010. Due to the change from cash-based to GAAP based budgeting; the cash reserve is no longer funded as a non-operating expense, this resulted in a decrease year-over-year of \$855K.

### Fixed Asset Additions

- N/A

## 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.

### 2010 Key Assumptions

Texas RE Legal and Regulatory has the following key assumptions:

- A. Texas RE will remain functionally separate from ERCOT ISO and will not undergo any significant board or governance changes (caused by board or membership decisions, the NERC three-year Assessment, the FERC audit of Texas RE, or otherwise).
- B. The Delegation Agreement requirements and NERC expectations will remain constant.
- C. The majority of possible violations will be handled through the settlement process.
- D. The number of contested registration and enforcement cases will remain low – one large or two 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, advisory committee, and departments, as needed on corporate, contract, and transactional, 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.

Section A — 2010 Business Plan

**Funding Requirements — Explanation of Increase (Decrease)**

- In the 2010 budget, the funding requirement is decreasing (\$314K). Indirect programs allocate their costs to the direct.

**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.

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Legal and Regulatory</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 314,394	\$ 314,394	\$ -	\$ -	\$ (314,394)
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 314,394</b>	<b>\$ 314,394</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (314,394)</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 314,394</b>	<b>\$ 314,394</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (314,394)</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
<b>Total Personnel Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	8,994	6,821	(2,173)	4,478	(4,516)
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 8,994</b>	<b>\$ 6,821</b>	<b>\$ (2,173)</b>	<b>\$ 4,478</b>	<b>\$ (4,516)</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	2,400	6,597	4,197	5,400	3,000
Professional Services	300,000	253,538	(46,462)	48,000	(252,000)
Miscellaneous	-	2,195	2,195	6,200	6,200
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 302,400</b>	<b>\$ 262,330</b>	<b>\$ (40,070)</b>	<b>\$ 59,600</b>	<b>\$ (242,800)</b>
<b>Total Direct Expenses</b>	<b>\$ 311,394</b>	<b>\$ 269,151</b>	<b>\$ (42,243)</b>	<b>\$ 64,078</b>	<b>\$ (247,316)</b>
<b>Indirect Expenses</b>	<b>\$ (314,394)</b>	<b>\$ (269,151)</b>	<b>\$ 45,243</b>	<b>\$ (64,078)</b>	<b>\$ 250,316</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ (3,000)</b>	<b>\$ -</b>	<b>\$ 3,000</b>	<b>\$ -</b>	<b>\$ 3,000</b>
<b>Change in Assets</b>	<b>\$ 317,394</b>	<b>\$ 314,394</b>	<b>\$ (3,000)</b>	<b>\$ -</b>	<b>\$ (317,394)</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 317,394</b>	<b>\$ 314,394</b>	<b>\$ (3,000)</b>	<b>\$ -</b>	<b>\$ (317,394)</b>

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 Budget versus 2009 Budget**

### **Funding Sources**

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

### **Personnel Expenses**

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

### **Meeting Expenses**

- Travel costs are decreasing approximately \$5K. This is primarily related to training expenses budgeted under travel. For 2010, all training, seminars, continuing education and professional dues are being budgeted under miscellaneous.

### **Operating Expenses**

- Professional services (external legal) expenses are now budgeted where they are likely to be incurred \$252K, which is in support of the direct program functions. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.

### **Indirect Expenses**

- Indirect expense is decreasing significantly \$250K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in legal and regulatory in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

### **Other Non-Operating Expenses**

- N/A

### **Fixed Asset Additions**

- N/A

## Information Technology

### Program Scope and Functional Description

IT staff 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 staff will use a mix of services from external vendors and ERCOT ISO's IT department. 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 ERCOT ISO IT staff on day-to-day support, administration, and future requirements. For project and outsourcing agreements, IT staff will also work closely with Finance, Legal, and ERCOT ISO Procurement to provide specialized knowledge and the contractual details for the technical service to be provided.

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

IT staff will also manage the design, implement, support, and maintain 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 Regional Entity Portal and associated tools for management and tracking, the Reliability Standards tracking tool, 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

The 2010 budget assumes that Texas RE remains a division of ERCOT ISO, with the ability to purchase some key IT services (such as computers and support, email and support, phone service and support, enterprise servers, and WebEx) from ERCOT ISO.

The 2010 budget assumes that Texas RE continues to work as 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. Develop long-term strategy in response to business needs.
2. 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. Liaise with ERCOT ISO IT staff regarding IT systems and tools.
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.

## Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing (\$384K). Indirect programs allocate their costs to the direct programs.

Section A — 2010 Business Plan

**Information Technology**

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

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Information Technology</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 383,500	\$ 383,500	\$ -	\$ -	\$ (383,500)
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 383,500</b>	<b>\$ 383,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (383,500)</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 383,500</b>	<b>\$ 383,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (383,500)</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
<b>Total Personnel Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ 659	\$ 659	\$ -	\$ -
Travel	-	-	-	4,057	4,057
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ -</b>	<b>\$ 659</b>	<b>\$ 659</b>	<b>\$ 4,057</b>	<b>\$ 4,057</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 3,932	\$ -	\$ (3,932)	\$ -	\$ (3,932)
Office Rent	-	-	-	-	-
Office Costs	-	543	543	960	960
Professional Services	60,000	152,112	92,112	33,860	(26,140)
Miscellaneous	-	-	-	6,500	6,500
Depreciation	76,540	76,540	-	12,000	(64,540)
<b>Total Operating Expenses</b>	<b>\$ 140,472</b>	<b>\$ 229,195</b>	<b>\$ 88,723</b>	<b>\$ 53,320</b>	<b>\$ (87,152)</b>
<b>Total Direct Expenses</b>	<b>\$ 140,472</b>	<b>\$ 229,854</b>	<b>\$ 89,382</b>	<b>\$ 57,377</b>	<b>\$ (83,095)</b>
<b>Indirect Expenses</b>	<b>\$ (137,338)</b>	<b>\$ (229,854)</b>	<b>\$ (92,516)</b>	<b>\$ (57,377)</b>	<b>\$ 79,961</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 3,134</b>	<b>\$ -</b>	<b>\$ (3,134)</b>	<b>\$ -</b>	<b>\$ (3,134)</b>
<b>Change in Assets</b>	<b>\$ 380,366</b>	<b>\$ 383,500</b>	<b>\$ 3,134</b>	<b>\$ -</b>	<b>\$ (380,366)</b>
<b>Fixed Assets</b>					
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	\$ (12,000)	\$ 64,540
Computer & Software CapEx	322,702	354,202	31,500	32,263	(290,439)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ (246,162)</b>	<b>\$ (277,662)</b>	<b>\$ (31,500)</b>	<b>\$ (20,263)</b>	<b>\$ 225,899</b>
Allocation of Fixed Assets	\$ 246,162	\$ 246,162	\$ -	\$ 20,263	\$ (225,899)
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ (31,500)</b>	<b>\$ (31,500)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 380,366</b>	<b>\$ 352,000</b>	<b>\$ (28,366)</b>	<b>\$ -</b>	<b>\$ (380,366)</b>

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 Budget versus 2009 Budget**

### **Funding Sources**

- In 2010, Texas RE's IT function expenses are allocated entirely to the direct programs and as such do not have an ERO assessment.

### **Personnel Expenses**

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

### **Meeting Expenses**

- Travel costs are increasing approximately \$4K. This is primarily related to the need to meet with the Consortium User Group and NERC working groups.

### **Operating Expenses**

- Professional services (hosting and professional services) expenses are now budgeted where they are likely to be incurred, which is in support of the functions and direct programs \$26K less, year-over-year. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.

### **Indirect Expenses**

- Indirect expense is decreasing \$80K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in Information Technology in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

### **Other Non-Operating Expenses**

- N/A

### **Fixed Asset Additions**

- Fixed assets are now budgeted where they are likely to be incurred, which is in support of the functions and direct programs. The result is a net reduction in indirect allocations of \$290K. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.
- The allocation of fixed assets is also decreasing for the reason specified above. The amount of the decrease is expected to be, \$226K year-over-year.

## Finance and Accounting

### Program Scope and Functional Description

The Finance staff will provide a broad range of support to Texas RE management and personnel. Finance 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 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. Finance staff will liaise with ERCOT ISO Finance staff to ensure all finance and budget-related requirements are communicated, met, and adhered to.

Texas RE's monthly general ledger close activities will be managed by Texas RE financial personnel. The Finance staff is 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.

The Finance staff is 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 remain functionally separate from ERCOT ISO and will not undergo any significant governance or Delegation Agreement changes.
- The Delegation Agreement requirements will remain consistent with the current requirements.

### 2010 Goals and Key Deliverables

1. Ensure that the accounting and finance 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 NERC finance staff in coordination of 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)

- In the 2010 budget, the funding requirement is decreasing (\$39K). Indirect programs allocate their costs to the direct programs.

Section A — 2010 Business Plan

**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.

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Finance and Accounting</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 39,126	\$ 39,126	\$ -	\$ -	\$ (39,126)
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 39,126</b>	<b>\$ 39,126</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (39,126)</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 39,126</b>	<b>\$ 39,126</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (39,126)</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
<b>Total Personnel Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	2,481	1,916	(565)	2,145	(336)
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 2,481</b>	<b>\$ 1,916</b>	<b>\$ (565)</b>	<b>\$ 2,145</b>	<b>\$ (336)</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	180	180	880	880
Professional Services	36,000	41,976	5,976	45,281	9,281
Miscellaneous	645	1,915	1,270	4,095	3,450
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 36,645</b>	<b>\$ 44,071</b>	<b>\$ 7,426</b>	<b>\$ 50,256</b>	<b>\$ 13,611</b>
<b>Total Direct Expenses</b>	<b>\$ 39,126</b>	<b>\$ 45,987</b>	<b>\$ 6,861</b>	<b>\$ 52,401</b>	<b>\$ 13,275</b>
<b>Indirect Expenses</b>	<b>\$ (39,126)</b>	<b>\$ (45,987)</b>	<b>\$ (6,861)</b>	<b>\$ (52,401)</b>	<b>\$ (13,275)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in Assets</b>	<b>\$ 39,126</b>	<b>\$ 39,126</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (39,126)</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 39,126</b>	<b>\$ 39,126</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (39,126)</b>

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 Budget versus 2009 Budget

### Funding Sources

- In 2010, Texas RE's Finance and Accounting function expenses are allocated entirely to the direct programs and as such do not have an ERO assessment.

### Personnel Expenses

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

### Meeting Expenses

- Travel costs are decreasing approximately \$.3K year-over-year. The REBG has agreed to have at least one meeting via conference call or web-ex.

### Operating Expenses

- Office costs are increasing by \$.9K for check stock used for Texas RE's operating account.
- The financial statement audit fees for Texas RE are expected to increase by approximately \$9K based on actual results from the 2008 financial statement audit.
- Texas RE expects bank fees in 2010 to be approximately \$3K higher year-over-year. Additionally, there are professional dues included under miscellaneous expense, \$.5K.

### Indirect Expenses

- Increasing \$13K year-over-year due to increases in operating expenses.

### Other Non-Operating Expenses

- N/A

### Fixed Asset Additions

- N/A

## Section B — 2010 Budget

### 2009 Budget and Projection and 2010 Budget Comparisons

Table 1

<b>Statement of Activities</b>							
<b>2009 Budget &amp; Projection, and 2010 Budget</b>							
<b>STATUTORY</b>							
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Percent Variance	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)	Percent Variance
<b>Funding</b>							
<b>ERO Funding</b>							
ERO Assessments	\$ 3,430,700	\$ 3,430,700	\$ -	0.0%	\$ 7,044,529	\$ 3,613,828	105.3%
Penalty Sanctions <sup>(1)</sup>	-	-	-		-	-	
<b>Total ERO Funding</b>	<b>\$ 3,430,700</b>	<b>\$ 3,430,700</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 7,044,529</b>	<b>\$ 3,613,828</b>	<b>105.3%</b>
Membership Dues	-	-	-		-	-	
Testing Fees	-	-	-		-	-	
Services & Software	-	-	-	100.0%	-	-	100.0%
Workshops	70,000	174,029	104,029	148.6%	180,000	110,000	157.1%
Interest	-	4,125	4,125	100.0%	2,000	2,000	100.0%
Miscellaneous	-	-	-		-	-	
<b>Total Funding</b>	<b>\$ 3,500,700</b>	<b>\$ 3,608,854</b>	<b>\$ 108,154</b>	<b>3.1%</b>	<b>\$ 7,226,529</b>	<b>\$ 3,725,828</b>	<b>106.4%</b>
<b>Expenses</b>							
<b>Personnel Expenses</b>							
Salaries	\$ 2,496,968	\$ 2,479,855	\$ (17,114)	-0.7%	\$ 3,493,791	\$ 996,822	39.9%
Payroll Taxes	199,757	191,667	(8,090)	-4.1%	276,834	77,076	38.6%
Benefits	259,628	194,403	(65,225)	-25.1%	376,154	116,526	44.9%
Retirement Costs	356,523	329,741	(26,782)	-7.5%	500,489	143,966	40.4%
<b>Total Personnel Expenses</b>	<b>\$ 3,312,878</b>	<b>\$ 3,195,666</b>	<b>\$ (117,211)</b>	<b>-3.5%</b>	<b>\$ 4,647,268</b>	<b>\$ 1,334,391</b>	<b>40.3%</b>
<b>Meeting Expenses</b>							
Meetings	\$ 105,000	\$ 157,394	\$ 52,394	49.9%	\$ 228,000	\$ 123,000	117.1%
Travel	107,470	117,528	10,057	9.4%	207,015	99,545	92.6%
Conference Calls	-	-	-		-	-	
<b>Total Meeting Expenses</b>	<b>\$ 212,470</b>	<b>\$ 274,922</b>	<b>\$ 62,452</b>	<b>29.4%</b>	<b>\$ 435,015</b>	<b>\$ 222,545</b>	<b>104.7%</b>
<b>Operating Expenses</b>							
Consultants & Contracts	\$ 490,986	\$ 539,074	\$ 48,088	9.8%	\$ 698,478	\$ 207,492	42.3%
Office Rent	517,550	287,392	(230,158)	-44.5%	327,600	(189,950)	-36.7%
Office Costs	18,280	26,581	8,301	45.4%	45,122	26,842	146.8%
Professional Services	426,000	563,134	137,134	32.2%	646,625	220,625	51.8%
Miscellaneous	11,160	13,943	2,783	24.9%	36,236	25,076	224.7%
Depreciation	76,540	76,540	-	0.0%	154,143	77,603	101.4%
<b>Total Operating Expenses</b>	<b>\$ 1,540,516</b>	<b>\$ 1,506,664</b>	<b>\$ (33,852)</b>	<b>-2.2%</b>	<b>\$ 1,908,204</b>	<b>\$ 367,688</b>	<b>23.9%</b>
<b>Total Direct Expenses</b>	<b>\$ 5,065,864</b>	<b>\$ 4,977,252</b>	<b>\$ (88,612)</b>	<b>-1.7%</b>	<b>\$ 6,990,487</b>	<b>\$ 1,924,623</b>	<b>38.0%</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 855,000</b>	<b>\$ -</b>	<b>\$ (855,000)</b>	<b>-100.0%</b>	<b>\$ -</b>	<b>\$ (855,000)</b>	<b>-100.0%</b>
<b>Total Expenses</b>	<b>\$ 5,920,864</b>	<b>\$ 4,977,252</b>	<b>\$ (943,612)</b>	<b>-15.9%</b>	<b>\$ 6,990,487</b>	<b>\$ 1,069,623</b>	<b>18.1%</b>
<b>Change in Assets</b>	<b>\$ (2,420,163)</b>	<b>\$ (1,368,397)</b>	<b>\$ 1,051,766</b>	<b>-43.5%</b>	<b>\$ 236,042</b>	<b>\$ 2,656,205</b>	<b>-109.8%</b>
<b>Fixed Assets</b>							
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	0.0%	\$ (154,143)	\$ (77,603)	101.4%
Computer & Software CapEx	322,702	354,202	31,500	9.8%	306,500	(16,202)	-5.0%
Furniture & Fixtures CapEx	-	-	-		29,000	29,000	
Equipment CapEx	-	-	-		-	-	
Leasehold Improvements	-	-	-		-	-	
<b>Change in Fixed Assets</b>	<b>\$ (246,162)</b>	<b>\$ (277,662)</b>	<b>\$ (31,500)</b>	<b>12.8%</b>	<b>\$ (181,357)</b>	<b>\$ 64,805</b>	<b>-26.3%</b>
Allocation of Fixed Assets	-	-	-		-	-	100.0%
<b>Change in Fixed Assets</b>	<b>\$ (246,162)</b>	<b>\$ (277,662)</b>	<b>\$ (31,500)</b>	<b>12.8%</b>	<b>\$ (181,357)</b>	<b>\$ 64,805</b>	<b>-26.3%</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (2,666,325)</b>	<b>\$ (1,646,059)</b>	<b>\$ 1,020,266</b>	<b>-38.3%</b>	<b>\$ 54,685</b>	<b>\$ 2,721,010</b>	<b>-102.1%</b>

<sup>(1)</sup> 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**

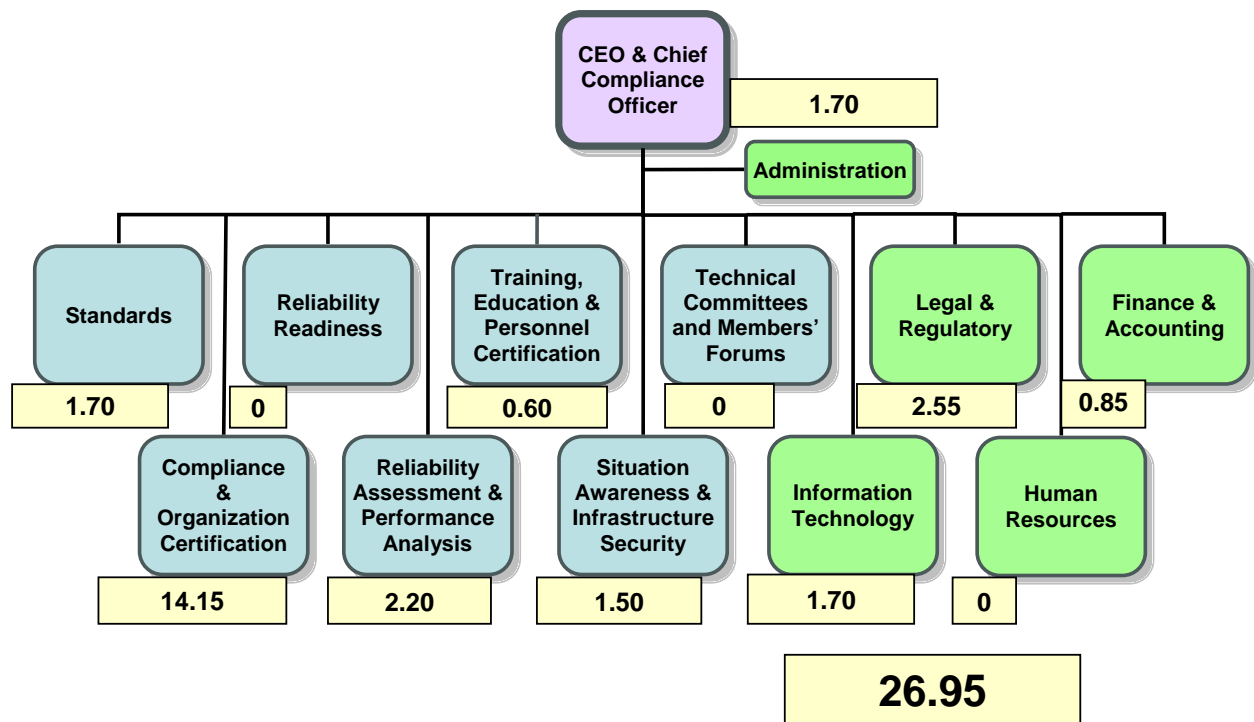
Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs <sup>1</sup> 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
<b>STATUTORY</b>						
<b>Operational Programs</b>						
Reliability Standards	1.70	1.84	0.00	2.06	2.06	0.36
Compliance and Organization Registration and Certification	14.15	15.01	0.00	22.74	22.74	8.59
Training and Education	0.60	0.84	0.00	0.97	0.97	0.37
Reliability Assessment and Performance Analysis	2.20	2.15	0.00	2.44	2.44	0.24
Situational Awareness and Infrastructure Security	1.50	1.43	0.00	3.03	3.03	1.53
<b>Total FTEs Operational Programs</b>	<b>20.15</b>	<b>21.27</b>	<b>0.00</b>	<b>31.24</b>	<b>31.24</b>	<b>11.09</b>
<b>Administrative Programs</b>						
General & Administrative	1.70	1.85	0.00	1.05	1.05	-0.65
Information Technology	1.70	1.29	0.00	0.69	0.69	-1.01
Legal and Regulatory	2.55	1.67	0.00	1.17	1.17	-1.38
Accounting	0.85	0.85	0.00	0.85	0.85	0.00
<b>Total FTEs Administrative Programs</b>	<b>6.80</b>	<b>5.66</b>	<b>0.00</b>	<b>3.76</b>	<b>3.76</b>	<b>-3.04</b>
<b>Total FTEs</b>	<b>26.95</b>	<b>26.93</b>	<b>0.00</b>	<b>35.00</b>	<b>35.00</b>	<b>8.05</b>

<sup>1</sup>A 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).

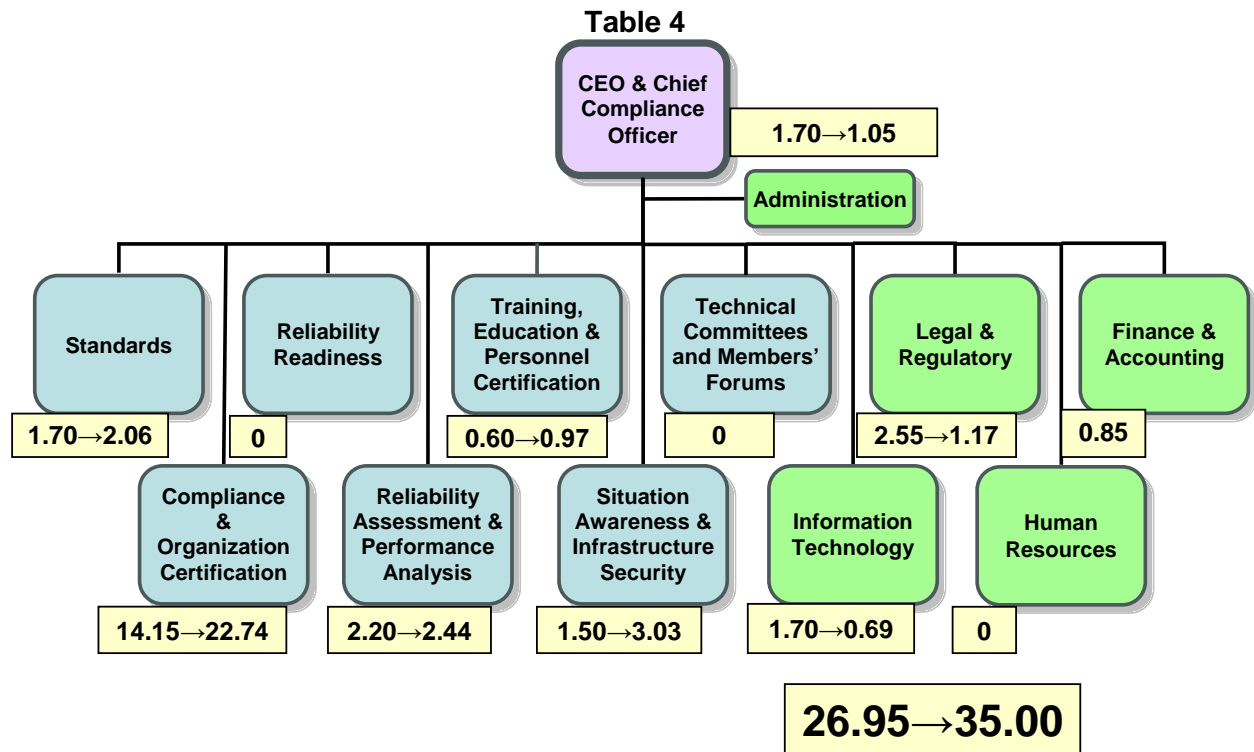
\* NOTE: The FTEs for Administration Departments are reflected as staffed in this exhibit. The salary and related expenses in the statement of activities has been consolidated to ensure salary confidentiality.

2009 Organizational Chart (Statutory)

Table 3



2010 Organizational Chart (Statutory)



Reserve Balance

Table 5

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
<b>Beginning Working Capital Reserve (Deficit), December 31, 2008</b>	2,666,325
Penalty sanctions being held to be used as offset to 2010 assessments <sup>1</sup>	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)
<b>Projected Working Capital Reserve (Deficit), December 31, 2009</b>	<b>855,000</b>
<b>Desired Working Capital Reserve, December 31, 2010</b> <sup>2</sup>	1,503,667
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
<b>Increase(decrease) in assessments to achieve desired Working Capital Reserve</b>	<b>648,667</b>
2010 Assessment for Expenses and Capital Expenditures	7,171,844
Less: Penalty Sanctions <sup>1</sup>	0
Less: Other Funding Sources	(182,000)
Less: LT Regulatory Liability Release	(593,983)
Adjustment to achieve desired Working Capital Reserve	648,667
<b>2010 Assessment</b>	<b>7,044,529</b>

<sup>1</sup> Represents collections prior to June 30, 2009.

<sup>2</sup> Represents an approximately 75-day cash reserve approved by the Texas RE Board of Directors on June 15, 2009.

## 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		
<b>Total Penalties Received</b>		\$ -

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
<b>Training and Education</b>					
Operations Training Seminar	\$ 70,000	\$ 174,029	\$ 180,000	\$ 110,000	157.14%
<b>Total</b>	<b>\$ 70,000</b>	<b>\$ 174,029</b>	<b>\$ 180,000</b>	<b>\$ 110,000</b>	<b>157.14%</b>
<b>General and Administrative</b>					
Interest Income	\$ -	\$ 4,125	\$ 2,000	\$ 2,000	0.00%
<b>Total</b>	<b>\$ -</b>	<b>\$ 4,125</b>	<b>\$ 2,000</b>	<b>\$ 2,000</b>	<b>0.00%</b>
<b>Total Outside Funding</b>	<b>\$ 70,000</b>	<b>\$ 178,154</b>	<b>\$ 182,000</b>	<b>\$ 112,000</b>	<b>160.00%</b>

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The most significant increase is resulting from the change in venue for the Operations Training Seminar to an offsite location. The 2009 budget assumed that Texas RE could use ERCOT ISO facilities for the OTS; however due to space constraints, Texas RE secured an alternate venue in 2009. Texas RE collected increased registration fees to fund the increased Operations Training Seminar expenses. In 2010, the year-over-year budget increase reflects that continuing assumption and the resulting expense increase will be funded by registration fees from attendees. The increase is expected to be \$110K.
- There is approximately \$2K of interest income budgeted in 2010. The assumption used to budget the interest income was based on Texas RE's current interest income rate applied to the budgeted cash balance for 2010.

## Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
<b>Salaries</b>					
Salary	\$ 2,496,968	\$ 2,479,855	\$ 3,493,791	\$ 996,822	39.9%
<b>Total Salaries</b>	<b>\$ 2,496,968</b>	<b>\$ 2,479,855</b>	<b>\$ 3,493,791</b>	<b>\$ 996,822</b>	<b>39.9%</b>
<b>Total Payroll Taxes</b>	<b>\$ 199,757</b>	<b>\$ 191,667</b>	<b>\$ 276,834</b>	<b>\$ 77,076</b>	<b>38.6%</b>
<b>Benefits</b>					
Life, Health, Vision, etc.	\$ 259,628	\$ 194,403	\$ 376,154	\$ 116,526	44.9%
<b>Total Benefits</b>	<b>\$ 259,628</b>	<b>\$ 194,403</b>	<b>\$ 376,154</b>	<b>\$ 116,526</b>	<b>44.9%</b>
<b>Retirement</b>					
401(k) Contr. & Employee Matching	\$ 356,523	\$ 329,741	\$ 500,489	\$ 143,966	40.4%
<b>Total Retirement</b>	<b>\$ 356,523</b>	<b>\$ 329,741</b>	<b>\$ 500,489</b>	<b>\$ 143,966</b>	<b>40.4%</b>
<b>Total Personnel Costs</b>	<b>\$ 3,312,878</b>	<b>\$ 3,195,666</b>	<b>\$ 4,647,268</b>	<b>\$ 1,334,391</b>	<b>40.3%</b>
<b>FTEs</b>	26.95	26.93	35.00	8.07	29.9%
<b>Cost per FTE</b>					
Salaries	\$ 92,652	\$ 92,085	\$ 99,817	7,165	7.7%
Payroll Taxes	7,412	7,117	7,909	497	6.7%
Benefits	9,634	7,219	10,747	1,113	11.6%
Retirement	13,229	12,244	14,299	1,070	8.1%
<b>Total Cost per FTE</b>	<b>\$ 122,927</b>	<b>\$ 118,666</b>	<b>\$ 132,771</b>	<b>\$ 9,844</b>	<b>8.0%</b>

## Explanation of Significant Variances – 2010 Budget versus 2009 Budget

The most significant increase is related to the hiring of 9 additional staff (8.05 FTEs Statutory, .95 FTEs Non-statutory) in the compliance, situational awareness and CIP areas. Additionally, there are merits, promotion and market adjustments budgeted in 2010 for existing Texas RE personnel. The budget assumed 3% merit, 1% promotion and 2% for market adjustments. Finally, with respect to the health insurance benefit, the cost per participant is expected to increase, year-over-year.

## Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
<b>Consultants</b>					
Recruitment	\$ 6,000	\$ -	\$ -	\$ (6,000)	-100.00%
<b>Consultants Total</b>	<b>\$ 6,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,000)</b>	
Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
<b>Contracts</b>					
Corporate Support Allocation	\$ 280,654	\$ 330,946	\$ 400,917	\$ 120,263	42.85%
IT Services & Other (under professional services in 2009 Forecast & 2010 Budget)	3,932	-	-	(3,932)	-100.00%
IT Administration	200,400	208,128	297,561	97,161	48.48%
<b>Contracts Total</b>	<b>\$ 484,986</b>	<b>\$ 539,075</b>	<b>\$ 698,478</b>	<b>\$ 213,492</b>	<b>44.02%</b>
<b>Total Consulting and Contracts</b>	<b>\$ 490,986</b>	<b>\$ 539,075</b>	<b>\$ 698,478</b>	<b>\$ 207,492</b>	<b>42.26%</b>

## Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The most significant increase is related to the corporate support (Memorandum of Understanding) allocation and IT administration per the MOU between Texas RE and ERCOT ISO. There is a cost adjustment year-over-year to reflect increasing prices; however the largest component of the increase is directly attributed to increasing FTEs. The costs associated with the MOU for increases to FTEs are approximately \$160K of the \$207K increase.
- All of the MOU increase reflected in table B-4 above has been offset by the savings for rent and facilities, totaling \$190K reflected under table B-5 below. The net effect of the MOU year-over-year is a reduction of \$17K.

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent & Facilities	\$ 517,550	\$ 287,392	\$ 327,600	\$ (189,950)	-36.70%
<b>Total Office Rent</b>	<b>\$ 517,550</b>	<b>\$ 287,392</b>	<b>\$ 327,600</b>	<b>\$ (189,950)</b>	<b>-36.70%</b>

## Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Office rent is decreasing year-over-year. This is the result of negotiations on the lease for the premises occupied by Texas RE to obtain a lower cost per rentable square foot rate than planned. Additionally, as a result of the lower rate, the common area maintenance is lower than expected.
- Additionally, Texas RE is reflecting a reduction of approximately \$40K for services no longer provided by ERCOT ISO's facilities department. These services have been absorbed internally.
- In February 2009, Texas RE relocated its offices to be completely separate from ERCOT ISO's location.

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Supplies	\$ 8,400	\$ 13,333	\$ 17,102	\$ 8,702	103.60%
Cellular Phones	5,080	6,137	14,040	8,960	176.38%
Postage	1,200	1,500	1,800	600	50.00%
Express Shipping	1,200	4,811	7,980	6,780	565.00%
Stationary Forms	1,200	400	3,000	1,800	150.00%
Reports - Graphics	1,200	400	1,200	-	0.00%
<b>Total Office Costs</b>	<b>\$ 18,280</b>	<b>\$ 26,581</b>	<b>\$ 45,122</b>	<b>\$ 26,842</b>	<b>146.84%</b>

### Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Texas RE is also projecting a significant increase in office supplies to accommodate new employees and additional materials for Texas RE's deliverables \$4K+ \$4K= \$8K.
- Express shipping is expected to be significantly higher in 2010 due to the need to send additional materials via FedEx \$7K.
- Texas RE is also projecting a significant increase in report printing that will require additional report printing services \$2K.
- Adding cell phones for all audit lead, senior level, managers and above, resulting in a \$9K increase year-over-year.

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Outside Legal	\$ 300,000	\$ 300,000	\$ 300,000	\$ -	0.00%
Accounting & Auditing Fees	36,000	41,976	45,281	9,281	25.78%
IT Professional Services	50,000	152,112	207,344	157,344	314.69%
RSVP Hosting	10,000	10,000	10,000	-	0.00%
Professional Engineering Services	-	23,046	-	-	0.00%
Recruitment for TFE Positions	-	-	24,000	24,000	0.00%
Other Professional Services	30,000	36,000	60,000	30,000	100.00%
<b>Total Services</b>	<b>\$ 426,000</b>	<b>\$ 563,134</b>	<b>\$ 646,625</b>	<b>\$ 220,625</b>	<b>14.83%</b>

### Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Audit fees are increasing in 2010 by \$9K related to the financial statement audit.
- IT professional services are increasing \$157K year-over-year related to web-hosting redundancy that will ensure Texas RE's web presence and portal tools remain safe, secure and operational with a full backup hosting solution.

## Section B — 2010 Regional Entity Budget

- Texas RE will be provisioning an additional \$30K for professional services under the G&A department. This will be used for any technical advice and counsel required by any program within Texas RE on an as needed basis.
- Finally, there is an increase of \$24K for 2010 to support the addition of the TFE program within Texas RE.

**Table B-8**

<b>Other Non-Operating Expenses</b>	<b>Budget 2009</b>	<b>Projection 2009</b>	<b>Budget 2010</b>	<b>Variance 2010 Budget v 2009 Budget</b>	<b>Variance %</b>
Cash Reserve	\$ 855,000	\$ -	\$ -	\$ (855,000)	-100.00%
<b>Total Non-Operating Expenses</b>	<b>\$ 855,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (855,000)</b>	<b>-100.00%</b>

### Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Due to change in budgeting from a cash-based budget to a GAAP based budget, Texas RE no longer needs to budget for a cash reserve through non-operating expenses. Texas RE will adjust cash reserves through normal profit & loss activities.

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

(in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	5.05	6.00	.95
Total Direct Expenses	\$871,997	\$1,086,772	\$214,775
Total Indirect Expenses			
Total Expenses	\$871,997	\$1,153,772	\$281,775

### Non-statutory Functional Scope

In addition to the Statutory functions, Texas RE also provides compliance support to the Public Utility Commission of Texas (PUCT). 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 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 and they follow 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 their enforcement processes, if needed; however, all enforcement is at the sole discretion of the PUCT.

In 2009 there has been a significant increase in workload related to the monitoring of ERCOT ISO committees and changes in market rules due to the upcoming transition to the Nodal market. The change in markets has required Texas RE to work closely with the PUCT to oversee the stakeholder process being used to create the new market rules. The PUCT and Texas RE have put in place a project management plan to ensure adequate regulatory oversight is in place prior to the market transition in late 2010. Significant work is expected to be needed in 2010 to create and test reports, assist with the Nodal trials, analyze the nodal protocols as they are put into use, and communicate with the stakeholders to help them understand the expectations. The workload is anticipated to increase in 2010 to prepare for the Nodal market going live.

Texas RE added one FTE to support the Non-statutory work in 2009. It is anticipated that the work related to the transition to the Nodal market will be higher in 2010 by approximately 1 FTE.

Texas RE estimates approximately (15%) 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.

## Major 2010 Assumptions and Cost Impacts

### Funding Sources

- Funding is received only through ERCOT ISO to pay for these expenses.
- Texas RE will prepare for the Nodal market conversion.

### Personnel Expenses

- Personnel expenses are increasing primarily due to adding .95 FTEs of labor to the Non-statutory function. Additionally, the budget assumes 3% merit, 1% promotion and 2% for market adjustments.

### Meeting Expenses

- Expenses are lower reflecting a reduction attributed to lower utilization in the prior year.

### Operating Expenses

- Texas RE is estimating an increase in the MOU related expenses incurred for support services and IT administration of \$84K for 2010. This is based primarily on the increased FTEs and the associated expenses.
- Rent and facilities services expenses are expected to decrease \$56K for 2010, due to a lower rentable square foot rate we obtained in 2009 for rent and facilities.
- Professional services are being budgeted to decrease \$32K.
- Finally, depreciation is being budgeted in 2010 to reflect the depreciable assets that are held by Texas RE (software).

## 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.

## 2009 Budget and Projection and 2010 Budget Comparisons

Table 1

<b>Statement of Activities</b>						
<b>2009 Budget &amp; Projection, and 2010 Budget</b>						
<b>NON-STATUTORY</b>						
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Percent Variance	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -		\$ -	\$ -
Penalty Sanctions <sup>(1)</sup>	-	-	-		-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-		-	-
Testing Fees	-	-	-		-	-
Services & Software	871,997	788,005	(83,993)	-9.6%	1,153,772	281,775
Workshops	-	-	-		-	-
Interest	-	-	-		-	-
Miscellaneous	-	-	-		-	-
<b>Total Funding</b>	<b>\$ 871,997</b>	<b>\$ 788,005</b>	<b>\$ (83,993)</b>	-9.6%	<b>\$ 1,153,772</b>	<b>\$ 281,775</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 448,080	\$ 430,398	\$ (17,682)	-3.9%	\$ 608,104	\$ 160,025
Payroll Taxes	35,846	33,612	(2,234)	-6.2%	48,059	12,212
Benefits	45,942	37,197	(8,745)	-19.0%	66,079	20,137
Retirement Costs	64,972	59,284	(5,687)	-8.8%	86,102	21,131
<b>Total Personnel Expenses</b>	<b>\$ 594,840</b>	<b>\$ 560,492</b>	<b>\$ (34,348)</b>	-5.8%	<b>\$ 808,345</b>	<b>\$ 213,505</b>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -		\$ 5,600	\$ 5,600
Travel	2,181	4,500	2,319	106.3%	624	(1,557)
Conference Calls	-	-	-		-	-
<b>Total Meeting Expenses</b>	<b>\$ 2,181</b>	<b>\$ 4,500</b>	<b>\$ 2,319</b>	106.3%	<b>\$ 6,224</b>	<b>\$ 4,043</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 36,396	\$ 97,700	\$ 61,303	168.4%	\$ 120,064	\$ 83,667
Office Rent	118,200	52,972	(65,228)	-55.2%	62,400	(55,800)
Office Costs	480	594	114	23.8%	-	(480)
Professional Services	89,900	71,497	(18,403)	-20.5%	57,875	(32,025)
Miscellaneous	-	250	250	100.0%	1,865	1,865
Depreciation	-	29,706	29,706	100.0%	30,000	30,000
<b>Total Operating Expenses</b>	<b>\$ 244,976</b>	<b>\$ 252,720</b>	<b>\$ 7,743</b>	3.2%	<b>\$ 272,203</b>	<b>\$ 27,227</b>
<b>Total Direct Expenses</b>	<b>\$ 841,997</b>	<b>\$ 817,711</b>	<b>\$ (24,286)</b>	-2.9%	<b>\$ 1,086,772</b>	<b>\$ 244,775</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 30,000</b>	<b>\$ -</b>	<b>\$ (30,000)</b>	-100.0%	<b>\$ -</b>	<b>\$ (30,000)</b>
<b>Total Expenses</b>	<b>\$ 871,997</b>	<b>\$ 817,711</b>	<b>\$ (54,286)</b>	-6.2%	<b>\$ 1,086,772</b>	<b>\$ 214,775</b>
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ (29,706)</b>	<b>\$ (29,706)</b>	100.0%	<b>\$ 67,000</b>	<b>\$ 67,000</b>
<b>Fixed Assets</b>						
Depreciation	\$ -	\$ (29,706)	\$ (29,706)	0.0%	\$ (30,000)	\$ (30,000)
Computer & Software CapEx	-	-	-		67,000	67,000
Furniture & Fixtures CapEx	-	-	-		-	-
Equipment CapEx	-	-	-		-	-
Leasehold Improvements	-	-	-		-	-
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 29,706</b>	<b>\$ 29,706</b>	100.0%	<b>\$ (37,000)</b>	<b>\$ (37,000)</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -		\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 29,706</b>	<b>\$ 29,706</b>	100.0%	<b>\$ (37,000)</b>	<b>\$ (37,000)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ (0)</b>	<b>\$ (0)</b>	0.0%	<b>\$ 30,000</b>	<b>\$ 30,000</b>

## Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or employees who worked in fewer than all four quarters of the year.

**Table 2**

Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs <sup>1</sup> 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
<b>NON-STATUTORY</b>						
<b>Operational Programs</b>						
Protocol	3.85	4.05	0.00	5.04	5.04	1.19
<b>Total FTEs Operational Programs</b>	<b>3.85</b>	<b>4.05</b>	<b>0.00</b>	<b>5.04</b>	<b>5.04</b>	<b>1.19</b>
<b>Administrative Programs</b>						
General & Administrative	1.20	1.02	0.00	0.96	0.96	-0.24
<b>Total FTEs Administrative Programs</b>	<b>1.20</b>	<b>1.02</b>	<b>0.00</b>	<b>0.96</b>	<b>0.96</b>	<b>-0.24</b>
<b>Total FTEs</b>	<b>5.05</b>	<b>5.07</b>	<b>0.00</b>	<b>6.00</b>	<b>6.00</b>	<b>0.95</b>

<sup>1</sup>A shared FTE is defined as a Texas Regional Entity employee who performs both Statutory and Non-statutory activities; however none of these FTEs perform any registered functions (e.g. Reliability Coordinator).

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**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**

	In-Balance	In-Balance	In-Balance
	<b>Unaudited 31-Dec-08</b>	<b>Projected 31-Dec-09</b>	<b>Budget 31-Dec-10</b>
<b>ASSETS</b>			
Cash	3,959,463	1,714,097	1,798,782
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	763,508
Total Assets	<b>4,527,267</b>	<b>2,259,247</b>	<b>2,562,290</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
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	<b>4,230,072</b>	<b>859,097</b>	<b>265,115</b>
Net Assets - unrestricted	297,195	1,400,150	2,297,174
Total Liabilities and Net Assets	<b>4,527,267</b>	<b>2,259,247</b>	<b>2,562,290</b>